UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-Q

**☒ Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2024**

**Commission File Number 0-26589**

## THE FIRST BANCORP, INC.

(Exact name of Registrant as specified in its charter)

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

| | | | |
|---|---|---|---|
| **223 Main Street** | **Damariscotta** | **Maine** | **04543** |
| | (Address of principal executive offices) | | (Zip code) |

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

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

| Title of Each Class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | FNLC | NASDAQ Global Select Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and 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. (Check one):

**Large accelerated filer** ☐ **Accelerated filer** ☒ **Non-accelerated filer** ☐ **Smaller reporting company** ☐
**Emerging growth company** ☐
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of November 1, 2024
**Common Stock: 11,151,844 shares**

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**Part I. Financial Information**

**Selected Financial Data (Unaudited)**

The First Bancorp, Inc. and Subsidiary

| *Dollars in thousands, except for per share amounts* | As of and for the nine months ended September 30, | | As of and for the quarter ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| ***Summary of Operations*** | | | | |
| Interest Income | **$ 109,833** | $ 93,352 | **$ 38,287** | $ 33,254 |
| Interest Expense | **63,476** | 43,998 | **21,885** | 17,300 |
| Net Interest Income | **46,357** | 49,354 | **16,402** | 15,954 |
| Credit Loss (Reduction) Expense | **(639)** | 501 | **(638)** | (200) |
| Non-Interest Income | **11,919** | 11,330 | **4,122** | 3,891 |
| Non-Interest Expense | **35,011** | 32,571 | **12,000** | 11,006 |
| Net Income | **19,763** | 22,839 | **7,571** | 7,474 |
| ***Per Common Share Data*** | | | | |
| Basic Earnings per Share | **$ 1.79** | $ 2.08 | **$ 0.69** | $ 0.68 |
| Diluted Earnings per Share | **1.78** | 2.06 | **0.68** | 0.67 |
| Cash Dividends Declared | **1.07** | 1.04 | **0.36** | 0.35 |
| Book Value per Common Share | **23.03** | 20.44 | **23.03** | 20.44 |
| Tangible Book Value per Common Share [2] | **20.27** | 17.66 | **20.27** | 17.66 |
| Market Value | **26.32** | 23.50 | **26.32** | 23.50 |
| ***Financial Ratios*** | | | | |
| Return on Average Equity[1] | **10.67 %** | 13.00 % | **11.86 %** | 12.67 % |
| Return on Average Tangible Common Equity[1,2] | **12.19 %** | 14.97 % | **13.50 %** | 14.59 % |
| Return on Average Assets[1] | **0.87 %** | 1.08 % | **0.98 %** | 1.02 % |
| Average Equity to Average Assets | **8.20 %** | 8.27 % | **8.24 %** | 8.07 % |
| Average Tangible Equity to Average Assets[2] | **7.18 %** | 7.18 % | **7.24 %** | 7.01 % |
| Net Interest Margin Tax-Equivalent[1,2] | **2.25 %** | 2.54 % | **2.32 %** | 2.40 % |
| Dividend Payout Ratio | **59.81 %** | 50.00 % | **52.55 %** | 51.47 % |
| Allowance for Credit Losses/Total Loans | **1.04 %** | 1.12 % | **1.04 %** | 1.12 % |
| Non-Performing Loans to Total Loans | **0.11 %** | 0.12 % | **0.11 %** | 0.12 % |
| Non-Performing Assets to Total Assets | **0.08 %** | 0.09 % | **0.08 %** | 0.09 % |
| Efficiency Ratio[2] | **57.88 %** | 51.88 % | **56.37 %** | 53.49 % |
| ***At Period End*** | | | | |
| Total Assets | **$ 3,142,563** | $ 2,944,139 | **$ 3,142,563** | $ 2,944,139 |
| Total Loans | **2,307,253** | 2,079,860 | **2,307,253** | 2,079,860 |
| Total Investment Securities | **669,076** | 676,206 | **669,076** | 676,206 |
| Total Deposits | **2,702,718** | 2,599,937 | **2,702,718** | 2,599,937 |
| Total Shareholders' Equity | **256,783** | 226,665 | **256,783** | 226,665 |

[1]*Annualized using a 366-day basis in 2024 and a 365-day basis in 2023.*

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

**Item 1 – Financial Statements**

***Report of Independent Registered Public Accounting Firm***

The Board of Directors and Shareholders
The First Bancorp, Inc.

**Results of Review of Interim Financial Information**

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of September 30, 2024 and 2023 and for the three-month and nine-month periods then ended, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

**Basis for Review Results**

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

/s/ Berry Dunn McNeil & Parker, LLC
Portland, Maine
November 8, 2024

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

| | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | **$ 35,136,000** | $ 31,942,000 | $ 29,894,000 |
| Interest bearing deposits in other banks | **17,199,000** | 3,488,000 | 38,366,000 |
| Securities available for sale | **285,021,000** | 282,053,000 | 284,972,000 |
| Securities held-to-maturity (net of ACL), fair value of $333,575,000 at September 30, 2024, $338,570,000 at December 31, 2023 and $311,864,000 at September 30, 2023 | **377,635,000** | 385,235,000 | 387,374,000 |
| Restricted equity securities, at cost | **6,420,000** | 3,385,000 | 3,860,000 |
| Loans held for sale | **—** | — | 268,000 |
| Loans | **2,307,253,000** | 2,129,454,000 | 2,079,860,000 |
| Less allowance for credit losses | **23,999,000** | 24,030,000 | 23,322,000 |
| Net loans | **2,283,254,000** | 2,105,424,000 | 2,056,538,000 |
| Accrued interest receivable | **14,600,000** | 11,894,000 | 12,038,000 |
| Premises and equipment, net | **27,449,000** | 28,684,000 | 28,868,000 |
| Other real estate owned | **173,000** | — | — |
| Goodwill | **30,646,000** | 30,646,000 | 30,646,000 |
| Other assets | **65,030,000** | 63,947,000 | 71,315,000 |
| **Total assets** | **$ 3,142,563,000** | $ 2,946,698,000 | $ 2,944,139,000 |
| **Liabilities** | | | |
| Demand deposits | **$ 312,956,000** | $ 289,104,000 | $ 323,375,000 |
| NOW deposits | **651,242,000** | 634,543,000 | 683,180,000 |
| Money market deposits | **344,102,000** | 305,931,000 | 271,056,000 |
| Savings deposits | **269,092,000** | 299,837,000 | 313,160,000 |
| Certificates of deposit | **1,125,326,000** | 1,070,247,000 | 1,009,166,000 |
| Total deposits | **2,702,718,000** | 2,599,662,000 | 2,599,937,000 |
| Borrowed funds – short term | **56,027,000** | 69,652,000 | 82,993,000 |
| Borrowed funds – long term | **95,000,000** | — | — |
| Other liabilities | **32,035,000** | 34,305,000 | 34,544,000 |
| **Total liabilities** | **2,885,780,000** | 2,703,619,000 | 2,717,474,000 |
| **Shareholders' equity** | | | |
| Common stock, one cent par value per share | **111,000** | 111,000 | 111,000 |
| Additional paid-in capital | **71,389,000** | 70,071,000 | 69,649,000 |
| Retained earnings | **219,559,000** | 211,925,000 | 209,132,000 |
| Accumulated other comprehensive income (loss) | | | |
| Net unrealized loss on securities available-for-sale | **(34,394,000)** | (39,575,000) | (53,852,000) |
| Net unrealized loss on securities transferred from available-for-sale to held-to-maturity | **(49,000)** | (56,000) | (58,000) |
| Net unrealized (loss) gain on cash flow hedging derivative instruments | **(136,000)** | 300,000 | 1,410,000 |
| Net unrealized gain on postretirement costs | **303,000** | 303,000 | 273,000 |
| **Total shareholders' equity** | **256,783,000** | 243,079,000 | 226,665,000 |
| **Total liabilities & shareholders' equity** | **$ 3,142,563,000** | $ 2,946,698,000 | $ 2,944,139,000 |
| **Common Stock** | | | |
| Number of shares authorized | **18,000,000** | 18,000,000 | 18,000,000 |
| Number of shares issued and outstanding | **11,148,066** | 11,098,057 | 11,089,290 |
| Book value per common share | **$ 23.03** | $ 21.90 | $ 20.44 |
| Tangible book value per common share | **$ 20.27** | $ 19.12 | $ 17.66 |

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

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

The First Bancorp, Inc. and Subsidiary

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **Interest income** | | | | |
| Interest and fees on loans (includes YTD tax-exempt income of $1,824,000 for September 30, 2024 and $1,362,000 for September 30, 2023) | **$ 95,541,000** | $ 78,860,000 | **$ 33,498,000** | $ 28,329,000 |
| Interest on deposits with other banks | **190,000** | 300,000 | **56,000** | 211,000 |
| Interest and dividends on investments (includes YTD tax-exempt income of $5,971,000 for September 30, 2024 and $6,030,000 for September 30, 2023) | **14,102,000** | 14,192,000 | **4,733,000** | 4,714,000 |
| Total interest income | **109,833,000** | 93,352,000 | **38,287,000** | 33,254,000 |
| **Interest expense** | | | | |
| Interest on deposits | **59,111,000** | 42,384,000 | **20,118,000** | 16,992,000 |
| Interest on borrowed funds | **4,365,000** | 1,614,000 | **1,767,000** | 308,000 |
| Total interest expense | **63,476,000** | 43,998,000 | **21,885,000** | 17,300,000 |
| Net interest income | **46,357,000** | 49,354,000 | **16,402,000** | 15,954,000 |
| Credit loss (reduction) expense - loans | **58,000** | 419,000 | **(580,000)** | (161,000) |
| Credit loss (reduction) expense - debt securities HTM | **(210,000)** | (7,000) | 76,000 | 3,000 |
| Credit loss (reduction) expense - off-balance sheet credit exposures | **(487,000)** | 89,000 | (134,000) | (42,000) |
| Total credit loss (reduction) expense | **(639,000)** | 501,000 | **(638,000)** | (200,000) |
| Net interest income after provision for credit losses | **46,996,000** | 48,853,000 | **17,040,000** | 16,154,000 |
| **Non-interest income** | | | | |
| Investment management and fiduciary income | **3,689,000** | 3,515,000 | **1,232,000** | 1,160,000 |
| Service charges on deposit accounts | **1,552,000** | 1,399,000 | **511,000** | 465,000 |
| Mortgage origination and servicing income, net of amortization | **512,000** | 611,000 | **193,000** | 224,000 |
| Debit card income | **3,884,000** | 3,843,000 | **1,365,000** | 1,367,000 |
| Other operating income | **2,282,000** | 1,962,000 | **821,000** | 675,000 |
| Total non-interest income | **11,919,000** | 11,330,000 | **4,122,000** | 3,891,000 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **17,768,000** | 16,420,000 | **6,126,000** | 5,523,000 |
| Occupancy expense | **2,532,000** | 2,494,000 | **823,000** | 784,000 |
| Furniture and equipment expense | **4,182,000** | 4,009,000 | **1,416,000** | 1,403,000 |
| FDIC insurance premiums | **1,762,000** | 1,429,000 | **636,000** | 551,000 |
| Amortization of identified intangibles | **20,000** | 20,000 | **7,000** | 7,000 |
| Other operating expense | **8,747,000** | 8,199,000 | **2,992,000** | 2,738,000 |
| Total non-interest expense | **35,011,000** | 32,571,000 | **12,000,000** | 11,006,000 |
| Income before income taxes | **23,904,000** | 27,612,000 | **9,162,000** | 9,039,000 |
| Income tax expense | **4,141,000** | 4,773,000 | **1,591,000** | 1,565,000 |
| **NET INCOME** | **$ 19,763,000** | $ 22,839,000 | **$ 7,571,000** | $ 7,474,000 |
| Basic earnings per common share | **$ 1.79** | $ 2.08 | **$ 0.69** | $ 0.68 |
| Diluted earnings per common share | **$ 1.78** | $ 2.06 | **$ 0.68** | $ 0.67 |
| **Other comprehensive income (loss) net of tax** | | | | |
| Net unrealized gain (loss) on securities available for sale, net of taxes | **$ 5,181,000** | $ (9,134,000) | **$ 8,975,000** | $ (10,071,000) |
| Net unrealized gain on transferred securities, net of taxes | **7,000** | 6,000 | **2,000** | 1,000 |
| Net unrealized (loss) gain on hedging derivative instruments | **(436,000)** | 866,000 | **(869,000)** | 730,000 |
| Other comprehensive gain (loss) | **4,752,000** | (8,262,000) | **8,108,000** | (9,340,000) |
| Comprehensive income (loss) | **$ 24,515,000** | $ 14,577,000 | **$ 15,679,000** | $ (1,866,000) |

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

***Consolidated Statements of Changes in Shareholders' Equity (Unaudited)***

The First Bancorp, Inc. and Subsidiary

**Nine Month Period Ended September 30, 2024 and 2023**

| | Common stock and additional paid-in capital | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| **Balance at December 31, 2022** | **11,045,186** | **$ 68,545,000** | **$ 204,343,000** | **$ (43,965,000)** | **$ 228,923,000** |
| Net income | — | — | 22,839,000 | — | 22,839,000 |
| Net unrealized loss on securities available for sale, net of tax | — | — | — | (9,134,000) | (9,134,000) |
| Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax | — | — | — | 6,000 | 6,000 |
| Net unrealized gain on hedging derivative instruments, net of tax | — | — | — | 866,000 | 866,000 |
| Comprehensive income (loss) | — | — | 22,839,000 | (8,262,000) | 14,577,000 |
| Cash dividends declared ($1.04 per share) | — | — | (11,525,000) | — | (11,525,000) |
| Equity compensation expense | — | 607,000 | — | — | 607,000 |
| Payment to repurchase common stock | (12,629) | — | (248,000) | — | (248,000) |
| Issuance of restricted stock | 33,610 | — | — | — | — |
| Proceeds from sale of common stock | 23,123 | 608,000 | — | — | 608,000 |
| Adoption of ASU No. 2016-13 | | | (6,277,000) | | (6,277,000) |
| **Balance at September 30, 2023** | **11,089,290** | **$ 69,760,000** | **$ 209,132,000** | **$ (52,227,000)** | **$ 226,665,000** |
| **Balance at December 31, 2023** | **11,098,057** | **$ 70,182,000** | **$ 211,925,000** | **$ (39,028,000)** | **$ 243,079,000** |
| Net income | — | — | 19,763,000 | — | 19,763,000 |
| Net unrealized gain on securities available for sale, net of tax | — | — | — | 5,181,000 | 5,181,000 |
| Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax | — | — | — | 7,000 | 7,000 |
| Net unrealized loss on hedging derivative instruments, net of tax | — | — | — | (436,000) | (436,000) |
| Comprehensive income | — | — | 19,763,000 | 4,752,000 | 24,515,000 |
| Cash dividends declared ($1.07 per share) | — | — | (11,917,000) | — | (11,917,000) |
| Equity compensation expense | — | 680,000 | — | — | 680,000 |
| Payment to repurchase common stock | (9,081) | — | (212,000) | — | (212,000) |
| Issuance of restricted stock | 32,859 | — | — | — | — |
| Proceeds from sale of common stock | 26,231 | 638,000 | — | — | 638,000 |
| **Balance at September 30, 2024** | **11,148,066** | **$ 71,500,000** | **$ 219,559,000** | **$ (34,276,000)** | **$ 256,783,000** |

| Three Month Period Ended September 30, 2024 and 2023 | | | | | |
|---|---|---|---|---|---|
| | Common stock and additional paid-in capital | | | | |
| | Shares | Amount | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| **Balance at June 30, 2023** | **11,081,800** | **$ 69,351,000** | **$ 205,539,000** | **$ (42,887,000)** | **$ 232,003,000** |
| Net income | — | — | 7,474,000 | — | 7,474,000 |
| Net unrealized loss on securities available for sale, net of tax | — | — | — | (10,071,000) | (10,071,000) |
| Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax | — | — | — | 1,000 | 1,000 |
| Net unrealized gain on cash flow hedging derivative instruments, net of tax | — | — | — | 730,000 | 730,000 |
| Comprehensive income (loss) | — | — | 7,474,000 | (9,340,000) | (1,866,000) |
| Cash dividends declared ($0.35 per share) | — | — | (3,881,000) | — | (3,881,000) |
| Equity compensation expense | — | 210,000 | — | — | 210,000 |
| Issuance of restricted stock | (250) | — | — | — | — |
| Proceeds from sale of common stock | 7,740 | 199,000 | — | — | 199,000 |
| **Balance at September 30, 2023** | **11,089,290** | **$ 69,760,000** | **$ 209,132,000** | **$ (52,227,000)** | **$ 226,665,000** |
| | | | | | |
| **Balance at June 30, 2024** | **11,139,639** | **$ 71,053,000** | **$ 215,999,000** | **$ (42,384,000)** | **$ 244,668,000** |
| Net income | — | — | 7,571,000 | — | 7,571,000 |
| Net unrealized gain on securities available for sale, net of tax | — | — | — | 8,975,000 | 8,975,000 |
| Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax | — | — | — | 2,000 | 2,000 |
| Net unrealized loss on hedging derivative instruments, net of tax | — | — | — | (869,000) | (869,000) |
| Comprehensive income (loss) | — | — | 7,571,000 | 8,108,000 | 15,679,000 |
| Cash dividends declared ($0.36 per share) | — | — | (4,011,000) | — | (4,011,000) |
| Equity compensation expense | — | 230,000 | — | — | 230,000 |
| Payment to repurchase common stock | (200) | — | — | — | — |
| Proceeds from sale of common stock | 8,627 | 217,000 | — | — | 217,000 |
| **Balance at September 30, 2024** | **11,148,066** | **$ 71,500,000** | **$ 219,559,000** | **$ (34,276,000)** | **$ 256,783,000** |

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

***Consolidated Statements of Cash Flows (Unaudited)***

The First Bancorp, Inc. and Subsidiary

| | For the nine months ended September 30, | |
|---|---|---|
| | **2024** | 2023 |
| **Cash flows from operating activities** | | |
| Net income | **$ 19,763,000** | $ 22,839,000 |
| **Adjustments to reconcile net income to net cash provided by operating activities** | | |
| Depreciation | **1,657,000** | 1,563,000 |
| Change in deferred taxes | **111,000** | (1,283,000) |
| Credit loss (reduction) expense | **(639,000)** | 501,000 |
| Loans originated for resale | **(3,146,000)** | (3,082,000) |
| Proceeds from sales and transfers of loans | **3,231,000** | 3,157,000 |
| Net gain on sales of loans | **(85,000)** | (68,000) |
| Net amortization of premiums on investments | **444,000** | 423,000 |
| Net gain on sale of other real estate owned | **—** | (42,000) |
| Provision for losses on other real estate owned | **35,000** | — |
| Equity compensation expense | **680,000** | 607,000 |
| Net increase in other assets and accrued interest | **(6,297,000)** | (6,858,000) |
| Net (decrease) increase in other liabilities | **(1,649,000)** | 8,156,000 |
| Net loss on disposal of premises and equipment | **9,000** | 33,000 |
| Amortization of investment in limited partnership | **504,000** | 227,000 |
| Net acquisition amortization | **20,000** | 20,000 |
| Net cash provided by operating activities | **14,638,000** | 26,193,000 |
| **Cash flows from investing activities** | | |
| Increase in interest-bearing deposits in other banks | **(13,711,000)** | (34,673,000) |
| Proceeds from maturities, payments and calls of securities available for sale | **20,982,000** | 17,037,000 |
| Proceeds from maturities, payments, calls and sales of securities to be held to maturity | **10,495,000** | 6,023,000 |
| Proceeds from sales of other real estate owned | **—** | 106,000 |
| Purchases of securities available for sale | **(17,762,000)** | (29,409,000) |
| Purchases of securities to be held to maturity | **(2,750,000)** | — |
| Change in restricted equity securities | **(3,035,000)** | — |
| Redemption of restricted equity securities | **—** | 23,000 |
| Net increase in loans | **(178,096,000)** | (165,280,000) |
| Capital expenditures | **(496,000)** | (2,253,000) |
| Proceeds from disposal of premises and equipment | **—** | 3,000 |
| Net cash used by investing activities | **(184,373,000)** | (208,423,000) |
| **Cash flows from financing activities** | | |
| Net increase in demand, savings, and money market accounts | **47,977,000** | 79,565,000 |
| Net increase in certificates of deposit | **55,079,000** | 141,495,000 |
| Net decrease in short-term borrowings | **(13,625,000)** | (20,490,000) |
| Advances on long-term borrowings | **95,000,000** | — |
| Payment to repurchase common stock | **(212,000)** | (248,000) |
| Proceeds from sale of common stock | **638,000** | 608,000 |
| Dividends paid | **(11,928,000)** | (11,534,000) |
| Net cash provided by financing activities | **172,929,000** | 189,396,000 |
| Net increase in cash and cash equivalents | **3,194,000** | 7,166,000 |
| Cash and cash equivalents at beginning of period | **31,942,000** | 22,728,000 |
| **Cash and cash equivalents at end of period** | **$ 35,136,000** | $ 29,894,000 |

| | For the nine months ended September 30, | |
|---|---|---|
| | **2024** | 2023 |
| Interest paid | **$ 63,260,000** | $ 43,643,000 |
| Income taxes paid | **3,577,000** | 4,500,000 |
| **Non-cash transactions** | | |
| Change in net unrealized loss on available for sale securities, net of tax | **$ (5,181,000)** | $ 9,134,000 |
| Net transfer from loans to other real estate owned | **208,000** | — |

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

**Notes to Consolidated Financial Statements**

The First Bancorp, Inc. and Subsidiary

***Note 1 – Basis of Presentation***

The Company is a financial holding company that owns all of the common stock of the Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2024 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2024. For further information, refer to the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2023.

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

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

**Risks and Uncertainties**

Ongoing conflicts between Russia and Ukraine, and Israel, Hamas and Hezbollah, continue to contribute to economic uncertainty and geopolitical instability. Geopolitical tensions could also result in increased threat from cyberattacks or other disruptive activity. Concern about the national commercial real estate market and the impact a downturn in this sector could have on the banking industry continues to be expressed, as does concern about the potential for a slowing economy. Any or all could have negative downstream effects on the Company's operating results, the extent of which is indeterminable at this time.

**Subsequent Events**

Events occurring subsequent to September 30, 2024, have been evaluated as to their potential impact to the financial statements.

***Note 2 – Investment Securities***

The following table summarizes the amortized cost and estimated fair value of investment securities at September 30, 2024:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value (Estimated) |
|---|---|---|---|---|
| **Securities available for sale** | | | | |
| U.S. Treasury & Agency securities | $ 26,040,000 | $ — | $ (5,305,000) | $ 20,735,000 |
| Mortgage-backed securities | 259,979,000 | 438,000 | (33,043,000) | 227,374,000 |
| State and political subdivisions | 40,254,000 | 42,000 | (5,688,000) | 34,608,000 |
| Asset-backed securities | 2,285,000 | 19,000 | — | 2,304,000 |
| | $ 328,558,000 | $ 499,000 | $ (44,036,000) | $ 285,021,000 |
| **Securities to be held to maturity** | | | | |
| U.S. Treasury & Agency securities | $ 38,100,000 | $ — | $ (8,371,000) | $ 29,729,000 |
| Mortgage-backed securities | 53,373,000 | 103,000 | (9,378,000) | 44,098,000 |
| State and political subdivisions | 252,636,000 | 267,000 | (24,669,000) | 228,234,000 |
| Corporate securities | 33,750,000 | — | (2,236,000) | 31,514,000 |
| | $ 377,859,000 | $ 370,000 | $ (44,654,000) | $ 333,575,000 |
| Less allowance for credit losses | (224,000) | — | — | — |
| Net securities to be held to maturity | $ 377,635,000 | $ 370,000 | $ (44,654,000) | $ 333,575,000 |
| **Restricted equity securities** | | | | |
| Federal Home Loan Bank Stock | $ 5,383,000 | $ — | $ — | $ 5,383,000 |
| Federal Reserve Bank Stock | 1,037,000 | — | — | 1,037,000 |
| | $ 6,420,000 | $ — | $ — | $ 6,420,000 |

The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2023:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value (Estimated) |
|---|---|---|---|---|
| **Securities available for sale** | | | | |
| U.S. Treasury & Agency securities | $ 26,033,000 | $ — | $ (6,203,000) | $ 19,830,000 |
| Mortgage-backed securities | 262,823,000 | 265,000 | (38,491,000) | 224,597,000 |
| State and political subdivisions | 40,306,000 | 41,000 | (5,702,000) | 34,645,000 |
| Asset-backed securities | 2,986,000 | 4,000 | (9,000) | 2,981,000 |
| | $ 332,148,000 | $ 310,000 | $ (50,405,000) | $ 282,053,000 |
| **Securities to be held to maturity** | | | | |
| U.S. Treasury & Agency securities | $ 40,100,000 | $ — | $ (9,601,000) | $ 30,499,000 |
| Mortgage-backed securities | 56,401,000 | 70,000 | (10,398,000) | 46,073,000 |
| State and political subdivisions | 254,418,000 | 313,000 | (24,213,000) | 230,518,000 |
| Corporate securities | 34,750,000 | — | (3,270,000) | 31,480,000 |
| | $ 385,669,000 | $ 383,000 | $ (47,482,000) | $ 338,570,000 |
| Less allowance for credit losses | (434,000) | — | — | — |
| Net securities to be held to maturity | $ 385,235,000 | $ 383,000 | $ (47,482,000) | $ 338,570,000 |
| **Restricted equity securities** | | | | |
| Federal Home Loan Bank Stock | $ 2,348,000 | $ — | $ — | $ 2,348,000 |
| Federal Reserve Bank Stock | 1,037,000 | — | — | 1,037,000 |
| | $ 3,385,000 | $ — | $ — | $ 3,385,000 |

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

| | | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value (Estimated) |
|---|---|---|---|---|---|
| **Securities available for sale** | | | | | |
| U.S. Treasury & Agency securities | $ | 45,851,000 | $ — | $ (7,599,000) | $ 38,252,000 |
| Mortgage-backed securities | | 263,775,000 | 1,000 | (50,930,000) | 212,846,000 |
| State and political subdivisions | | 40,417,000 | — | (9,637,000) | 30,780,000 |
| Asset-backed securities | | 3,097,000 | 1,000 | (4,000) | 3,094,000 |
| | $ | 353,140,000 | $ 2,000 | $ (68,170,000) | $ 284,972,000 |
| **Securities to be held to maturity** | | | | | |
| U.S. Treasury & Agency securities | $ | 40,100,000 | $ — | $ (11,996,000) | $ 28,104,000 |
| Mortgage-backed securities | | 57,224,000 | 4,000 | (13,336,000) | 43,892,000 |
| State and political subdivisions | | 255,732,000 | 16,000 | (46,807,000) | 208,941,000 |
| Corporate securities | | 34,750,000 | — | (3,823,000) | 30,927,000 |
| | $ | 387,806,000 | $ 20,000 | $ (75,962,000) | $ 311,864,000 |
| Less allowance for credit losses | | (432,000) | — | — | — |
| Net securities to be held to maturity | $ | 387,374,000 | $ 20,000 | $ (75,962,000) | $ 311,864,000 |
| **Restricted equity securities** | | | | | |
| Federal Home Loan Bank Stock | $ | 2,823,000 | $ — | $ — | $ 2,823,000 |
| Federal Reserve Bank Stock | | 1,037,000 | — | — | 1,037,000 |
| | $ | 3,860,000 | $ — | $ — | $ 3,860,000 |

**Allowance for Credit Losses:**

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

Similarly, the agency and mortgage-backed securities in the HTM portfolio have been determined to all be investment grade with no ACL required. Municipal securities within HTM include two private activity bonds issued by well-known customers of the Bank with total balances of $ 19,146,000 as of September 30, 2024. Corporate securities in HTM consist of 14 individual companies in the banking industry. Management reviewed the collectability of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, and other performance factors. Aggregate credit risk of the private activity bonds and corporate securities is considered very low and an immaterial ACL has been established. As of September 30, 2024 and 2023, and December 31, 2023, the total ACL for HTM securities was $224,000, $432,000 and $434,000, respectively.

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

The following table summarizes the contractual maturities of investment securities at September 30, 2024:

| | Securities available for sale | | Securities to be held to maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value (Estimated) | Amortized Cost | Fair Value (Estimated) |
| Due in 1 year or less | $ 2,995,000 | $ 2,949,000 | $ 2,342,000 | $ 2,371,000 |
| Due in 1 to 5 years | 403,000 | 402,000 | 20,079,000 | 19,573,000 |
| Due in 5 to 10 years | 28,275,000 | 25,251,000 | 103,834,000 | 98,349,000 |
| Due after 10 years | 296,885,000 | 256,419,000 | 251,604,000 | 213,282,000 |
| | $ 328,558,000 | $ 285,021,000 | $ 377,859,000 | $ 333,575,000 |

The following table summarizes the contractual maturities of investment securities at December 31, 2023:

| | Securities available for sale | | Securities to be held to maturity | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value (Estimated)** | **Amortized Cost** | **Fair Value (Estimated)** |
| Due in 1 year or less | $ — | $ — | $ 1,674,000 | $ 1,672,000 |
| Due in 1 to 5 years | 3,489,000 | 3,373,000 | 16,387,000 | 15,814,000 |
| Due in 5 to 10 years | 28,551,000 | 25,089,000 | 99,942,000 | 93,894,000 |
| Due after 10 years | 300,108,000 | 253,591,000 | 267,666,000 | 227,190,000 |
| | $ 332,148,000 | $ 282,053,000 | $ 385,669,000 | $ 338,570,000 |

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

| | Securities available for sale | | Securities to be held to maturity | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value (Estimated)** | **Amortized Cost** | **Fair Value (Estimated)** |
| Due in 1 year or less | $ 19,819,000 | $ 19,819,000 | $ 2,158,000 | $ 2,151,000 |
| Due in 1 to 5 years | 3,640,000 | 3,468,000 | 15,780,000 | 14,771,000 |
| Due in 5 to 10 years | 28,082,000 | 23,360,000 | 92,565,000 | 81,812,000 |
| Due after 10 years | 301,599,000 | 238,325,000 | 277,303,000 | 213,130,000 |
| | $ 353,140,000 | $ 284,972,000 | $ 387,806,000 | $ 311,864,000 |

At September 30, 2024, securities with a carrying value of $ 344,261,000 were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a carrying value of $340,623,000 as of December 31, 2023 and $ 383,946,000 at September 30, 2023, pledged for the same purposes.

Gains and losses on the sale of securities are computed by subtracting the amortized cost at the time of sale from the security's selling price, net of accrued interest to be received. There were no gains or losses on the sale of securities for the nine months ended September 30, 2024 and 2023.

As of September 30, 2024, there were 226 AFS securities with unrealized losses held in the Company's portfolio. The Company has the ability and intent to hold its securities which are in an unrealized loss position until a recovery of their amortized cost, which may be at maturity.

The following table summarizes AFS debt securities in an unrealized loss position for which an ACL has not been recorded at September 30, 2024, aggregated by major security type and length of time in a continuous unrealized loss position:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses |
| U.S. Treasury & Agency securities | $ — | $ — | $ 20,735,000 | $ (5,305,000) | $ 20,735,000 | $ (5,305,000) |
| Mortgage-backed securities | 4,762,000 | (43,000) | 199,001,000 | (33,000,000) | 203,763,000 | (33,043,000) |
| State and political subdivisions | — | — | 29,256,000 | (5,688,000) | 29,256,000 | (5,688,000) |
| | $ 4,762,000 | $ (43,000) | $ 248,992,000 | $ (43,993,000) | $ 253,754,000 | $ (44,036,000) |

As of December 31, 2023, there were 226 AFS securities with unrealized losses held in the Company's portfolio. The Company has the ability and intent to hold its securities which are in an unrealized loss position until a recovery of their amortized cost, which may be at maturity.

The following table summarizes AFS debt securities in an unrealized loss position for which an ACL has not been recorded at December 31, 2023 aggregated by major security type and length of time in a continuous unrealized loss position:

| | **Less than 12 months** | | **12 months or more** | | **Total** | |
|---|---|---|---|---|---|---|
| | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses |
| U.S. Treasury & Agency securities | $ — | $ — | $ 19,830,000 | $ (6,203,000) | $ 19,830,000 | $ (6,203,000) |
| Mortgage-backed securities | 1,712,000 | (14,000) | 208,717,000 | (38,477,000) | 210,429,000 | (38,491,000) |
| State and political subdivisions | 2,082,000 | (49,000) | 27,700,000 | (5,653,000) | 29,782,000 | (5,702,000) |
| Asset-backed securities | — | — | 1,464,000 | (9,000) | 1,464,000 | (9,000) |
| | $ 3,794,000 | $ (63,000) | $ 257,711,000 | $ (50,342,000) | $ 261,505,000 | $ (50,405,000) |

As of September 30, 2023, there were 239 AFS securities with unrealized losses held in the Company's portfolio. The Company has the ability and intent to hold its securities which are in an unrealized loss position until a recovery of their amortized cost, which may be at maturity.

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

| | **Less than 12 months** | | **12 months or more** | | **Total** | |
|---|---|---|---|---|---|---|
| | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses |
| U.S. Treasury & Agency securities | $ 9,882,000 | $ (1,000) | $ 18,433,000 | $ (7,598,000) | $ 28,315,000 | $ (7,599,000) |
| Mortgage-backed securities | 12,550,000 | (304,000) | 200,166,000 | (50,626,000) | 212,716,000 | (50,930,000) |
| State and political subdivisions | 4,771,000 | (626,000) | 25,643,000 | (9,011,000) | 30,414,000 | (9,637,000) |
| Asset-backed securities | — | — | 1,510,000 | (4,000) | 1,510,000 | (4,000) |
| | $ 27,203,000 | $ (931,000) | $ 245,752,000 | $ (67,239,000) | $ 272,955,000 | $ (68,170,000) |

**Credit Quality Indicators:** Agency-backed and government-sponsored enterprise securities have a long history with no credit losses, including during times of severe stress. The principal and interest payments on agency-guaranteed debt is backed by the U.S. Government. Government-sponsored enterprises similarly guarantee principal and interest payments and carry an implicit guarantee from the U.S. Department of the Treasury. Additionally, government-sponsored enterprise securities are exceptionally liquid, readily marketable, and provide a substantial amount of price transparency and price parity, indicating a perception of zero credit losses. HTM municipal debt holdings are comprised primarily of high credit quality (rated A- or higher) state and municipal obligations. High credit quality state and municipal obligations have a history of zero to near-zero credit loss. All of the Mortgage-backed securities owned were issued either by a U.S. Government Agency (GNMA) or a Government Sponsored Enterprise (FNMA or FHLMC). HTM municipal debt holdings also include two unrated private activity bonds issued by well known customers of the Bank. These securities are regularly monitored as part of an overall credit relationship with the issuers; both issuers were in good standing as of September 30, 2024. HTM corporate debt holdings consist of 14 individual companies in the banking industry. Management conducts periodic reviews of the collectability of these securities taking into consideration such factors as the financial condition of the issuers; each were in good standing as of September 30, 2024.

The following table presents the activity in the ACL for HTM debt securities by major security type for the periods ended September 30, 2024 and 2023:

| | **For the nine months ended September 30, 2024** | | | For the nine months ended September 30, 2023 | | |
|---|---|---|---|---|---|---|
| | State and Political Subdivisions | Corporate Securities | Total | State and Political Subdivisions | Corporate Securities | Total |
| Allowance for credit losses: | | | | | | |
| Beginning balance | **$ 222,000** | **$ 212,000** | **$ 434,000** | $ — | $ — | $ — |
| Impact of adopting ASC 326 | **—** | **—** | **—** | 229,000 | 209,000 | 438,000 |
| Credit loss (reduction)[1] expense | **(84,000)** | **(126,000)** | **(210,000)** | (17,000) | 11,000 | (6,000) |
| Securities charged-off | **—** | **—** | **—** | — | — | — |
| Recoveries | **—** | **—** | **—** | — | — | — |
| Total ending allowance balance | **$ 138,000** | **$ 86,000** | **$ 224,000** | $ 212,000 | $ 220,000 | $ 432,000 |

[1]*September 30, 2023 total of (6,000) will not tie to Consolidated Statement of Income Credit loss (reduction) expense - debt securities HTM due to rounding.*

There was no ACL on U.S. Government-sponsored enterprise, agency securities, or mortgage-backed securities as of September 30, 2024 .

A security is considered to be past due once it is 30 days contractually past due under the terms of the agreement. As of September 30, 2024, none of the Company’s HTM debt securities were past due or on non-accrual status.

**Re-Classified Securities:** During the third quarter of 2014, the Company transferred securities with a total amortized cost of $ 89,780,000 with a corresponding fair value of $89,757,000 from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in AOCI, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in AOCI will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from available for sale to held to maturity was $49,000, net of taxes, at September 30, 2024. This compares to $ 56,000 and $58,000, net of taxes, at December 31, 2023 and September 30, 2023, respectively. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

**Restricted Equity Securities:** The Bank is a member of the FHLBB, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank uses the FHLBB for a portion of its wholesale funding needs. As of September 30, 2024 and 2023, and December 31, 2023, the Bank's investment in FHLBB stock totaled $5,383,000, $2,823,000 and $2,348,000, respectively. FHLBB stock is a non-marketable equity security and therefore is reported at cost, which equals par value.

The Bank is also a member of the FRBB. As a requirement for membership in the FRBB, the Bank must own a minimum required amount of FRBB stock. The Bank uses FRBB for certain correspondent banking services and maintains borrowing capacity at its discount window. The Bank's investment in FRBB stock totaled $1,037,000 at September 30, 2024 and 2023, and December 31, 2023.

The Company periodically evaluates its investment in FHLBB and FRBB stock for impairment based on, among other factors, the capital adequacy of the Banks and their overall financial condition. No impairment losses have been recorded through September 30, 2024. The Bank will continue to monitor its investment in these restricted equity securities.

***Note 3 – Loans***

The Company periodically reviews and updates the segmentation of its loan portfolio. Updates performed in conjunction with adoption of ASC 326 in 2023 consisted of reporting what had been a single class, commercial real estate loans, as three classes - commercial real estate owner occupied, commercial real estate non-owner occupied, and commercial multi-family. In addition home equity installment loans which had previously been included in the residential term class were included in the home equity revolving and term class. In the first quarter of 2024, a new segment was established for Agriculture loans; certain prior period information of these loans continues to be included in the C&I and CRE non-owner occupied segments.

**Loan Portfolio by Class:** The following table shows the composition of the Company's loan portfolio by class of financing receivable as of September 30, 2024 and 2023 and at December 31, 2023:

| | **September 30, 2024** | | December 31, 2023 | | September 30, 2023 | |
|---|---|---|---|---|---|---|
| Commercial | | | | | | |
| Real estate owner occupied | **$ 348,287,000** | **15.1 %** | $ 314,819,000 | 14.8 % | $ 299,943,000 | 14.4 % |
| Real estate non-owner occupied | **408,361,000** | **17.7 %** | 390,167,000 | 18.3 % | 393,531,000 | 18.9 % |
| Construction | **87,992,000** | **3.8 %** | 88,673,000 | 4.2 % | 72,424,000 | 3.5 % |
| C&I | **368,415,000** | **16.0 %** | 315,026,000 | 14.8 % | 306,583,000 | 14.7 % |
| Multifamily | **110,472,000** | **4.8 %** | 93,476,000 | 4.4 % | 91,041,000 | 4.4 % |
| Agriculture | **51,274,000** | **2.2 %** | 45,230,000 | 2.1 % | 47,506,000 | 2.3 % |
| Municipal | **62,944,000** | **2.7 %** | 51,423,000 | 2.4 % | 58,447,000 | 2.8 % |
| Residential | | | | | | |
| Term | **698,068,000** | **30.2 %** | 674,855,000 | 31.7 % | 660,049,000 | 31.8 % |
| Construction | **34,628,000** | **1.5 %** | 32,358,000 | 1.5 % | 28,986,000 | 1.4 % |
| Home Equity | | | | | | |
| Revolving and term | **117,028,000** | **5.1 %** | 104,026,000 | 4.9 % | 101,980,000 | 4.9 % |
| Consumer | **19,784,000** | **0.9 %** | 19,401,000 | 0.9 % | 19,370,000 | 0.9 % |
| Total | **$ 2,307,253,000** | **100.0 %** | $ 2,129,454,000 | 100.0 % | $ 2,079,860,000 | 100.0 % |

Loan balances include net deferred loan costs of $ 12,266,000 as of September 30, 2024, $ 11,479,000 as of December 31, 2023, and $ 11,213,000 as of September 30, 2023. Net deferred loan costs have increased from a year ago and year-to-date based upon loan origination unit volume over the periods, prepayments, and normal repayment activity. Loan balances in the Residential Term segment also include a valuation adjustment for fair value swaps hedged by certain loans in the portfolio. This adjustment added $2,462,000 to the loan balances as of September 30, 2024, added $2,149,000 to the loan balances as of December 31, 2023 and subtracted $705,000 from the loan balances as of September 30, 2023.

Pursuant to collateral agreements, qualifying first mortgage loans and commercial real estate loans, which totaled $ 622,370,000 at September 30, 2024, were used to collateralize borrowings from the FHLBB. This compares to qualifying loans which totaled $561,574,000 at December 31, 2023, and $ 525,904,000 at September 30, 2023. In addition, commercial, residential construction and home equity loans totaling $364,068,000 at September 30, 2024, $320,083,000 at December 31, 2023, and $ 332,657,000 at September 30, 2023, were used to collateralize a standby line of credit at the FRBB.

**Past Due Loans:** For all loan classes, loans over 30 days past due are considered delinquent. Information on the past-due status of loans by class of financing receivable as of September 30, 2024, is presented in the following table:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | All Past Due | Current | Total | 90+ Days & Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | |
| Real estate owner occupied | $ — | $ 64,000 | $ 98,000 | $ 162,000 | $ 348,125,000 | $ 348,287,000 | $ — |
| Real estate non-owner occupied | — | — | — | — | 408,361,000 | 408,361,000 | — |
| Construction | — | — | — | — | 87,992,000 | 87,992,000 | — |
| C&I | 318,000 | 708,000 | 44,000 | 1,070,000 | 367,345,000 | 368,415,000 | — |
| Multifamily | — | — | — | — | 110,472,000 | 110,472,000 | — |
| Agriculture | 210,000 | — | — | 210,000 | 51,064,000 | 51,274,000 | — |
| Municipal | — | — | — | — | 62,944,000 | 62,944,000 | — |
| Residential | | | | | | | |
| Term | 70,000 | 166,000 | 500,000 | 736,000 | 697,332,000 | 698,068,000 | 144,000 |
| Construction | — | — | — | — | 34,628,000 | 34,628,000 | — |
| Home equity | | | | | | | |
| Revolving and term | 508,000 | — | 4,000 | 512,000 | 116,516,000 | 117,028,000 | — |
| Consumer | 343,000 | 13,000 | 261,000 | 617,000 | 19,167,000 | 19,784,000 | 261,000 |
| Total | $ 1,449,000 | $ 951,000 | $ 907,000 | $ 3,307,000 | $ 2,303,946,000 | $ 2,307,253,000 | $ 405,000 |

Information on the past-due status of loans by class of financing receivable as of December 31, 2023, is presented in the following table:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | All Past Due | Current | Total | 90+ Days & Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | |
| Real estate owner occupied | $ — | $ — | $ — | $ — | $ 314,819,000 | $ 314,819,000 | $ — |
| Real estate non-owner occupied | — | — | — | — | 393,636,000 | 393,636,000 | — |
| Construction | — | 9,000 | 8,000 | 17,000 | 88,656,000 | 88,673,000 | — |
| C&I | 714,000 | 35,000 | 120,000 | 869,000 | 355,918,000 | 356,787,000 | 10,000 |
| Multifamily | — | — | — | — | 93,476,000 | 93,476,000 | — |
| Municipal | 31,000 | — | — | 31,000 | 51,392,000 | 51,423,000 | — |
| Residential | | | | | | | |
| Term | 254,000 | 818,000 | 728,000 | 1,800,000 | 673,055,000 | 674,855,000 | 360,000 |
| Construction | — | — | — | — | 32,358,000 | 32,358,000 | — |
| Home equity | | | | | | | |
| Revolving and term | 495,000 | 95,000 | 26,000 | 616,000 | 103,410,000 | 104,026,000 | — |
| Consumer | 475,000 | 22,000 | 58,000 | 555,000 | 18,846,000 | 19,401,000 | 59,000 |
| Total | $ 1,969,000 | $ 979,000 | $ 940,000 | $ 3,888,000 | $ 2,125,566,000 | $ 2,129,454,000 | $ 429,000 |

Information on the past-due status of loans by class of financing receivable as of September 30, 2023, is presented in the following table:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due | All Past Due | Current | Total | 90+ Days & Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | |
| Real estate owner occupied | $ — | $ — | $ — | $ — | $ 299,943,000 | $ 299,943,000 | $ — |
| Real estate non-owner occupied | — | — | — | — | 397,024,000 | 397,024,000 | — |
| Construction | — | 7,000 | 8,000 | 15,000 | 72,409,000 | 72,424,000 | — |
| C&I | 349,000 | 100,000 | 221,000 | 670,000 | 349,926,000 | 350,596,000 | — |
| Multifamily | — | — | — | — | 91,041,000 | 91,041,000 | — |
| Municipal | — | — | — | — | 58,447,000 | 58,447,000 | — |
| Residential | | | | | | | |
| Term | 39,000 | 106,000 | 578,000 | 723,000 | 659,326,000 | 660,049,000 | — |
| Construction | — | 62,000 | — | 62,000 | 28,924,000 | 28,986,000 | — |
| Home equity | | | | | | | |
| Revolving and term | 79,000 | — | 179,000 | 258,000 | 101,722,000 | 101,980,000 | — |
| Consumer | 210,000 | 39,000 | 11,000 | 260,000 | 19,110,000 | 19,370,000 | 11,000 |
| Total | $ 677,000 | $ 314,000 | $ 997,000 | $ 1,988,000 | $ 2,077,872,000 | $ 2,079,860,000 | $ 11,000 |

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

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

The following table presents the amortized costs basis of loans on nonaccrual status as of September 30, 2024, December 31, 2023 and September 30, 2023:

| | **September 30, 2024** | | | December 31, 2023 | | | September 30, 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nonaccrual with Allowance for Credit Loss | Nonaccrual with no Allowance for Credit Loss | Total Nonaccrual | Nonaccrual with Allowance for Credit Loss | Nonaccrual with no Allowance for Credit Loss | Total Nonaccrual | Nonaccrual with Allowance for Credit Loss | Nonaccrual with no Allowance for Credit Loss | Total Nonaccrual |
| Commercial | | | | | | | | | |
| Real estate owner occupied | **$ —** | **$ 367,000** | **$ 367,000** | $ — | $ — | $ — | $ — | $ — | $ — |
| Real estate non-owner occupied | **—** | **—** | **—** | — | — | — | — | — | — |
| Construction | **—** | **19,000** | **19,000** | — | 29,000 | 29,000 | — | 29,000 | 29,000 |
| C&I | **—** | **129,000** | **129,000** | 354,000 | 184,000 | 538,000 | 363,000 | 351,000 | 714,000 |
| Multifamily | **—** | **—** | **—** | — | — | — | — | — | — |
| Agriculture | **—** | **31,000** | **31,000** | — | — | — | — | — | — |
| Municipal | **—** | **—** | **—** | — | — | — | — | — | — |
| Residential | | | | | | | | | |
| Term | **—** | **1,686,000** | **1,686,000** | 304,000 | 1,011,000 | 1,315,000 | 304,000 | 1,016,000 | 1,320,000 |
| Construction | **—** | **—** | **—** | — | — | — | — | — | — |
| Home equity | | | | | | | | | |
| Revolving and term | **—** | **265,000** | **265,000** | — | 296,000 | 296,000 | — | 490,000 | 490,000 |
| Consumer | **—** | **—** | **—** | — | — | — | — | — | — |
| Total | **$ —** | **$ 2,497,000** | **$ 2,497,000** | $ 658,000 | $ 1,520,000 | $ 2,178,000 | $ 667,000 | $ 1,886,000 | $ 2,553,000 |

**Individually Analyzed Loans:** IAL include loans with balances of $250,000 or more that have either been placed into non-accrual or are loans identified by management as having characteristics that may impact ultimate collectibility and therefore merit individual analysis. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. If the measure of an IAL loan is lower than the recorded investment in the loan and estimated selling costs, a specific reserve is established for the difference, or, in certain situations, if the measure of an IAL loan is lower than the recorded investment in the loan and estimated selling costs, the difference is written off.

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

| | **September 30, 2024** | | | December 31, 2023 | | | September 30, 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Collateral Type | | | Collateral Type | | | Collateral Type | | |
| *Dollars in thousands* | Commercial Real Estate | Residential Real Estate | Total | Commercial Real Estate | Residential Real Estate | Total | Commercial Real Estate | Residential Real Estate | Total |
| Commercial | | | | | | | | | |
| Real estate owner occupied | **$ 270,000** | **$ —** | **$ 270,000** | $ — | $ — | $ — | $ — | $ — | $ — |
| Real estate non-owner occupied | **—** | **—** | **—** | — | — | — | — | — | — |
| Construction | **—** | **—** | **—** | — | — | — | — | — | — |
| C&I | **—** | **—** | **—** | — | — | — | — | — | — |
| Multifamily | **—** | **—** | **—** | — | — | — | — | — | — |
| Agriculture | **—** | **—** | **—** | — | — | — | — | — | — |
| Municipal | **—** | **—** | **—** | — | — | — | — | — | — |
| Residential | | | | | | | | | |
| Term | **—** | **566,000** | **566,000** | — | 685,000 | 685,000 | — | 687,000 | 687,000 |
| Construction | **—** | **—** | **—** | — | — | — | — | — | — |
| Home equity | | | | | | | | | |
| Revolving and term | **—** | **—** | **—** | — | — | — | — | — | — |
| Consumer | **—** | **—** | **—** | — | — | — | — | — | — |
| Total | **$ 270,000** | **$ 566,000** | **$ 836,000** | $ — | $ 685,000 | $ 685,000 | $ — | $ 687,000 | $ 687,000 |

**Loan Modifications to Borrowers Experiencing Financial Difficulty:** Loan modifications to borrowers experiencing financial difficulty may include interest rate reduction, term extension, payment deferral, principle forgiveness or a combination thereof. It is the intent to minimize future losses while providing borrowers with financial relief.

The following table represents loan modifications made to borrowers experiencing financial difficulty by modification type and class of financing receivable, during the three months ended September 30, 2024:

| | Amortized Cost Basis | | | | | |
|---|---|---|---|---|---|---|
| | Payment Deferral | Term Extension | Interest Rate Reduction | Principal Forgiveness | Combination Payment Deferral and Term Extension | % of Total Class of Financing Receivable |
| Commercial | | | | | | |
| Real estate owner occupied | $ — | $ — | $ — | $ — | $ — | — % |
| Real estate non-owner occupied | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| C&I | — | — | — | — | 55,000 | 0.01 % |
| Multifamily | — | — | — | — | — | — % |
| Agriculture | — | — | — | — | — | — % |
| Municipal | — | — | — | — | — | — % |
| Residential | | | | | | |
| Term | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| Home Equity | | | | | | |
| Revolving and term | — | — | — | — | — | — % |
| Consumer | — | — | — | — | — | — % |
| Total | $ — | $ — | $ — | $ — | $ 55,000 | 0.002 % |

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the three months ended September 30, 2024:

| | Payment Deferral & Term Extension |
|---|---|
| | Financial Effect |
| Commercial | |
| C&I | Temporary payment accommodation, extended term 90 days. |

The following table represents loan modifications made to borrowers experiencing financial difficulty by modification type and class of financing receivable, during the nine months ended September 30, 2024:

| | Amortized Cost Basis | | | | | |
|---|---|---|---|---|---|---|
| | Payment Deferral | Term Extension | Interest Rate Reduction | Principal Forgiveness | Combination Payment Deferral and Term Extension | % of Total Class of Financing Receivable |
| Commercial | | | | | | |
| Real estate owner occupied | $ 635,000 | $ — | $ — | $ — | $ — | 0.18 % |
| Real estate non-owner occupied | — | — | — | — | — | — % |
| Construction | 69,000 | — | — | — | — | 0.08 % |
| C&I | 175,000 | — | — | — | 225,000 | 0.11 % |
| Multifamily | 1,932,000 | — | — | — | — | 1.75 % |
| Agriculture | — | — | — | — | — | — % |
| Municipal | — | — | — | — | — | — % |
| Residential | | | | | | |
| Term | 1,020,000 | — | — | — | — | 0.15 % |
| Construction | — | — | — | — | — | — % |
| Home Equity | | | | | | |
| Revolving and term | — | — | — | — | 68,000 | 0.06 % |
| Consumer | — | — | — | — | — | — % |
| Total | $ 3,831,000 | $ — | $ — | $ — | $ 293,000 | 0.18 % |

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty for the nine months ended September 30, 2024:

| | Payment Deferral |
|---|---|
| | Financial Effect |
| Commercial | |
| Real estate owner occupied | Temporary payment accommodation, payments deferred to end of loan. |
| Construction | Temporary payment accommodation, payments deferred to end of loan. |
| C&I | Temporary payment accommodation, payments deferred to end of loan. |
| Multifamily | Temporary payment accommodation, payments deferred to end of loan. |
| Residential | |
| Term | Temporary payment accommodation, payments deferred to end of loan. |

| | Payment Deferral & Term Extension |
|---|---|
| | Financial Effect |
| Commercial | |
| C&I | Temporary payment accommodation, extended term 90 days. |
| Home Equity | |
| Revolving and term | Temporary payment accommodation, extended term 60 days. |

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

| | Amortized Cost Basis | | | | | |
|---|---|---|---|---|---|---|
| | Payment Deferral | Term Extension | Interest Rate Reduction | Principal Forgiveness | Combination Payment Deferral and Term Extension | % of Total Class of Financing Receivable |
| Commercial | | | | | | |
| Real estate owner occupied | $ 504,000 | $ — | $ — | $ — | $ — | 0.17 % |
| Real estate non-owner occupied | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| C&I | 19,000 | — | — | — | — | 0.01 % |
| Multifamily | — | — | — | — | — | — % |
| Agriculture | — | — | — | — | — | — % |
| Municipal | — | — | — | — | — | — % |
| Residential | | | | | | |
| Term | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| Home Equity | | | | | | |
| Revolving and term | — | — | — | — | — | — % |
| Consumer | — | — | — | — | — | — % |
| Total | $ 523,000 | $ — | $ — | $ — | $ — | 0.03 % |

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

| | Payment Deferral |
|---|---|
| | Financial Effect |
| Commercial | |
| Real estate owner occupied | Temporary payment accommodation, payments deferred to end of loan. |
| C&I | Temporary payment accommodation, payments deferred to end of loan. |

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

| | Amortized Cost Basis | | | | | |
|---|---|---|---|---|---|---|
| | Payment Deferral | Term Extension | Interest Rate Reduction | Principal Forgiveness | Combination Payment Deferral and Term Extension | % of Total Class of Financing Receivable |
| Commercial | | | | | | |
| Real estate owner occupied | $ 504,000 | $ — | $ — | $ — | $ — | 0.17 % |
| Real estate non-owner occupied | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| C&I | 239,000 | 20,000 | — | — | — | 0.08 % |
| Multifamily | — | — | — | — | — | — % |
| Agriculture | — | — | — | — | — | — % |
| Municipal | — | — | — | — | — | — % |
| Residential | | | | | | |
| Term | — | — | — | — | — | — % |
| Construction | — | — | — | — | — | — % |
| Home Equity | | | | | | |
| Revolving and term | — | — | — | — | — | — % |
| Consumer | — | — | — | — | — | — % |
| Total | $ 743,000 | $ 20,000 | $ — | $ — | $ — | 0.04 % |

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty for the nine months ended September 30, 2023:

| | Payment Deferral |
|---|---|
| | Financial Effect |
| Commercial | |
| Real estate owner occupied | Temporary payment accommodation, payments deferred to end of loan. |
| C&I | Temporary payment accommodation, payments deferred to end of loan. |

| | Term Extension |
|---|---|
| | Financial Effect |
| Commercial | |
| C&I | Extended Term 12 months |

The Company monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the previous 12 months as of September 30, 2024:

| | Payment Status (Amortized Cost Basis) | | | |
|---|---|---|---|---|
| | Current | 30-59 Days Past Due | 60-89 Days Past Due | 90+ Days Past Due |
| Commercial | | | | |
| Real estate owner occupied | $ 903,000 | $ — | $ — | $ — |
| Construction | 69,000 | — | — | — |
| C&I | 230,000 | — | 205,000 | — |
| Multifamily | 1,932,000 | — | — | — |
| Residential | | | | |
| Term | 1,020,000 | — | — | — |
| Home Equity | | | | |
| Revolving and term | 68,000 | — | — | — |
| Consumer | 18,000 | — | — | — |
| Total | $ 4,240,000 | $ — | $ 205,000 | $ — |

The following table depicts the performance of loans that have been modified during the nine months ended September 30, 2023:

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

*Residential Mortgage Loans in Process of Foreclosure*

As of September 30, 2024, there were two mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $ 127,000. This compares to five mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $400,000 as of December 31, 2023, and four mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $459,000 as of September 30, 2023.

***Note 4. Allowance for Credit Losses***

The ACL is a valuation amount that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. The ACL consists of three elements: (1) specific reserves for loans individually analyzed; (2) general reserves for each portfolio segment; and, (3) qualitative reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance. Loans are segmented by common risk characteristics as delineated in the paragraph below. The Company provides for loan losses through the ACL which represents an estimated reserve for losses in the loan portfolio. To determine an appropriate level for general reserves, a discounted cash flow approach is applied to each portfolio segment implementing a probability of default and loss given default estimate based upon a number of factors including historical losses over an economic cycle, economic forecasts, loan prepayment speeds and curtailment rates. To determine an appropriate level for qualitative reserves, various factors are considered including underwriting policies, credit administration practices, experience, ability and depth of lending management, and economic factors not captured in the general reserve calculation.

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

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

*Commercial Real Estate Non-Owner Occupied* - commercial real estate loans non-owner occupied share many of the purpose, loan structure and risk characteristics of owner-occupied commercial real estate. The primary differentiating factor from Owner Occupied is that repayment is generally reliant upon cash flow generated from tenants rather than an operating entity. Risk factors are also influenced by vacancy rates, cap rates, lease renewals, and underlying financial health of lessees.

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

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

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

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

*Agriculture* - agriculture loans consist mostly of amortizing term loans and revolving lines of credit made to borrowers in agriculture related industries. For the Company, this includes loans made to land based agricultural production and to participants in the fishing industry. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Loans are primarily paid by the cash flow generated from the agricultural property or operation of equipment. Risk factors typically include competitive market forces, overall economic demand for the product, and may be further influenced by weather conditions which impact growing and/or harvesting, or other factors such as changes in government regulation(s).

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

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

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

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

**Construction, land, and land development**: CLLD loans, both commercial and residential, represented 43.2% of total Bank capital as of September 30, 2024 and remain below the regulatory guidance of 100.0% of total Bank capital. Construction loans and non-owner-occupied commercial real estate loans represented 225.9% of total Bank capital at September 30, 2024, below the regulatory guidance of 300.0% of total Bank capital.

**Composition of the ACL:** A breakdown of the ACL as of September 30, 2024, by class of financing receivable and allowance element, is presented in the following table:

| *As of September 30, 2024* | Specific Reserves on Loans Evaluated Individually | General Reserves on Loans Based on Historical Loss Experience | Reserves for Qualitative Factors | Total Reserves |
|---|---|---|---|---|
| Commercial | | | | |
| Real estate owner occupied | $ — | $ 4,484,000 | $ 635,000 | $ 5,119,000 |
| Real estate non-owner occupied | — | 4,387,000 | 584,000 | 4,971,000 |
| Construction | — | 762,000 | 45,000 | 807,000 |
| C&I | 223,000 | 3,872,000 | 567,000 | 4,662,000 |
| Multifamily | — | 1,129,000 | 133,000 | 1,262,000 |
| Agriculture | — | 462,000 | 151,000 | 613,000 |
| Municipal | — | 35,000 | 231,000 | 266,000 |
| Residential | | | | |
| Term | 22,000 | 4,593,000 | 436,000 | 5,051,000 |
| Construction | — | 411,000 | 14,000 | 425,000 |
| Home Equity | | | | |
| Revolving and term | — | 584,000 | 79,000 | 663,000 |
| Consumer | — | 151,000 | 9,000 | 160,000 |
| | $ 245,000 | $ 20,870,000 | $ 2,884,000 | $ 23,999,000 |

A breakdown of the ACL as of December 31, 2023, by class of financing receivable and allowance element, is presented in the following table:

| *As of December 31, 2023* | Specific Reserves on Loans Evaluated Individually | General Reserves on Loans Based on Historical Loss Experience | Reserves for Qualitative Factors | Total Reserves |
|---|---|---|---|---|
| Commercial | | | | |
| Real estate owner occupied | $ — | $ 3,891,000 | $ 742,000 | $ 4,633,000 |
| Real estate non-owner occupied | — | 3,759,000 | 526,000 | 4,285,000 |
| Construction | — | 1,849,000 | 129,000 | 1,978,000 |
| C&I | 223,000 | 4,238,000 | 540,000 | 5,001,000 |
| Multifamily | — | 1,237,000 | 81,000 | 1,318,000 |
| Municipal | — | 307,000 | 27,000 | 334,000 |
| Residential | | | | |
| Term | 41,000 | 4,224,000 | 726,000 | 4,991,000 |
| Construction | — | 642,000 | (24,000) | 618,000 |
| Home Equity | | | | |
| Revolving and term | — | 469,000 | 157,000 | 626,000 |
| Consumer | — | 217,000 | 29,000 | 246,000 |
| | $ 264,000 | $ 20,833,000 | $ 2,933,000 | $ 24,030,000 |

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

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

The ACL as a percent of total loans stood at 1.04% as of September 30, 2024, 1.13% at December 31, 2023 and 1.12% as of September 30, 2023.

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

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

The following table presents the activity in the ACL for off-balance sheet credit exposures for the nine months and quarters ended September 30, 2024 and 2023:

| | **For the nine months ended September 30,** | | **For the quarter ended September 30,** | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Allowance for credit losses: | | | | |
| Beginning balance | **$ 1,255,000** | $ 100,000 | $ 902,000 | $ 1,528,000 |
| Impact of adopting ASC 326 | **—** | 1,297,000 | — | — |
| Credit loss (reduction) expense | **(487,000)** | 89,000 | (134,000) | (42,000) |
| Total ending allowance balance | **$ 768,000** | $ 1,486,000 | $ 768,000 | $ 1,486,000 |

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

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

***1 Strong***

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

***2 Above Average***

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

***3 Satisfactory***

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

***4 Average***

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

***5 Watch***

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

***6 Other Assets Especially Mentioned***

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

***7 Substandard***

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

***8 Doubtful***

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

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

The following table summarizes the credit quality for the Company's portfolio by risk category of loans and by class by vintage as of September 30, 2024:

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Revolving Loans Amortized Cost Basis** | **Revolving Loans Converted to Term** | **Total** |
| ***As of September 30, 2024*** | | | | | | | | | |
| **Commercial** | | | | | | | | | |
| **Real estate owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | $ 29,267 | $ 67,088 | $ 84,626 | $ 39,744 | $ 27,003 | $ 79,134 | $ 11,246 | $ 960 | $ 339,068 |
| Special Mention (risk rating 6) | — | 1,903 | — | — | — | 6,276 | 50 | — | 8,229 |
| Substandard (risk rating 7) | 41 | 268 | — | — | 162 | 519 | — | — | 990 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Owner Occupied** | 29,308 | 69,259 | 84,626 | 39,744 | 27,165 | 85,929 | 11,296 | 960 | 348,287 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Real estate non-owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | 24,631 | 30,610 | 74,749 | 115,687 | 46,646 | 104,014 | 10,197 | 1,520 | 408,054 |
| Special Mention (risk rating 6) | — | — | — | 46 | — | 261 | — | — | 307 |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Non-Owner Occupied** | 24,631 | 30,610 | 74,749 | 115,733 | 46,646 | 104,275 | 10,197 | 1,520 | 408,361 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Construction** | | | | | | | | | |
| Pass (risk rating 1-5) | 24,354 | 22,535 | 29,047 | 7,921 | 1,398 | 2,523 | — | — | 87,778 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | 145 | — | — | 69 | — | — | — | — | 214 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Construction** | 24,499 | 22,535 | 29,047 | 7,990 | 1,398 | 2,523 | — | — | 87,992 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **C&I** | | | | | | | | | |
| Pass (risk rating 1-5) | 56,398 | 28,644 | 48,523 | 41,554 | 16,016 | 24,307 | 114,851 | 4,446 | 334,739 |
| Special Mention (risk rating 6) | 25 | 24,308 | 502 | 495 | 470 | 2,857 | 4,399 | — | 33,056 |
| Substandard (risk rating 7) | — | 13 | 348 | 84 | 16 | 22 | 137 | — | 620 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total C&I** | 56,423 | 52,965 | 49,373 | 42,133 | 16,502 | 27,186 | 119,387 | 4,446 | 368,415 |
| Current period gross write-offs | — | — | — | (19) | (24) | (45) | — | — | (88) |
| **Multifamily** | | | | | | | | | |
| Pass (risk rating 1-5) | 14,874 | 12,392 | 34,069 | 17,458 | 14,657 | 13,028 | 721 | — | 107,199 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | 1,020 | 1,341 | 912 | — | — | — | 3,273 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Multifamily** | 14,874 | 12,392 | 35,089 | 18,799 | 15,569 | 13,028 | 721 | — | 110,472 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Agriculture** | | | | | | | | | |
| Pass (risk rating 1-5) | 9,413 | 2,845 | 6,068 | 4,054 | 15,121 | 6,532 | 4,183 | 224 | 48,440 |
| Special Mention (risk rating 6) | — | 500 | 706 | 85 | — | 587 | 600 | — | 2,478 |
| Substandard (risk rating 7) | — | 87 | — | 31 | — | 238 | — | — | 356 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Agriculture** | 9,413 | 3,432 | 6,774 | 4,170 | 15,121 | 7,357 | 4,783 | 224 | 51,274 |
| Current period gross | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| write-offs | — | — | — | — | — | — | — | — | — |

| Dollars in thousands | Term Loans Amortized Cost Basis by Origination Year 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
|---|---|---|---|---|---|---|---|---|---|
| ***As of September 30, 2024*** | | | | | | | | | |
| **Municipal** | | | | | | | | | |
| Pass (risk rating 1-5) | 9,355 | 19,626 | 4,344 | 3,985 | 9,026 | 16,608 | — | — | 62,94 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | |
| **Total Municipal** | 9,355 | 19,626 | 4,344 | 3,985 | 9,026 | 16,608 | — | — | 62,94 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | |
| **Residential** | | | | | | | | | |
| **Term** | | | | | | | | | |
| Performing | 37,770 | 85,791 | 151,882 | 132,413 | 87,730 | 198,196 | 2,479 | 121 | 696,38 |
| Non-performing | — | — | 300 | 262 | 399 | 725 | — | — | 1,68 |
| **Total Term** | 37,770 | 85,791 | 152,182 | 132,675 | 88,129 | 198,921 | 2,479 | 121 | 698,06 |
| Current period gross write-offs | — | — | — | — | — | (36) | — | — | (3 |
| **Construction** | | | | | | | | | |
| Performing | 15,512 | 17,342 | 1,091 | — | 683 | — | — | — | 34,62 |
| Non-performing | — | — | — | — | — | — | — | — | |
| **Total Construction** | 15,512 | 17,342 | 1,091 | — | 683 | — | — | — | 34,62 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | |
| **Home Equity Revolving and Term** | | | | | | | | | |
| Performing | 7,515 | 9,459 | 8,516 | 1,940 | 1,140 | 1,985 | 76,231 | 9,977 | 116,76 |
| Non-performing | — | — | — | — | — | 98 | 16 | 151 | 26 |
| **Total Home Equity Revolving and Term** | 7,515 | 9,459 | 8,516 | 1,940 | 1,140 | 2,083 | 76,247 | 10,128 | 117,02 |
| Current period gross write-offs | — | — | — | — | — | (7) | — | — | |
| **Consumer** | | | | | | | | | |
| Performing | 2,771 | 2,714 | 1,377 | 817 | 1,275 | 4,913 | 5,917 | — | 19,78 |
| Non-performing | — | — | — | — | — | — | — | — | |
| **Total Consumer** | 2,771 | 2,714 | 1,377 | 817 | 1,275 | 4,913 | 5,917 | — | 19,78 |
| Current period gross write-offs | (6) | (46) | (62) | (37) | (19) | (40) | — | — | (21 |
| **Total loans** | $ 232,071 | $ 326,125 | $ 447,168 | $ 367,986 | $ 222,654 | $ 462,823 | $ 231,027 | $ 17,399 | $ 2,307,25 |

The following table summarizes the credit quality for the Company's portfolio by risk category of loans and by class by vintage as of December 31, 2023:

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior** | **Revolving Loans Amortized Cost Basis** | **Revolving Loans Converted to Term** | **Total** |
| ***As of December 31, 2023*** | | | | | | | | | |
| **Commercial** | | | | | | | | | |
| **Real estate owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | $ 64,693 | $ 73,920 | $ 40,782 | $ 28,716 | $ 29,856 | $ 59,236 | $ 8,993 | $ — | $ 306,196 |
| Special Mention (risk rating 6) | 1,903 | — | — | — | 5,605 | 313 | — | — | 7,821 |
| Substandard (risk rating 7) | 283 | — | — | — | 503 | 16 | — | — | 802 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Owner Occupied** | 66,879 | 73,920 | 40,782 | 28,716 | 35,964 | 59,565 | 8,993 | — | 314,819 |
| Current period gross write-offs | — | — | — | — | — | (40) | — | — | (40) |
| **Real estate non-owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | 30,666 | 70,442 | 129,299 | 47,959 | 27,159 | 83,820 | 4,230 | — | 393,575 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | — | — | — | 61 | — | — | 61 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Non-Owner Occupied** | 30,666 | 70,442 | 129,299 | 47,959 | 27,159 | 83,881 | 4,230 | — | 393,636 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Construction** | | | | | | | | | |
| Pass (risk rating 1-5) | 29,781 | 45,130 | 8,705 | 1,581 | 1,034 | 2,373 | — | — | 88,604 |
| Special Mention (risk rating 6) | — | — | 69 | — | — | — | — | — | 69 |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Construction** | 29,781 | 45,130 | 8,774 | 1,581 | 1,034 | 2,373 | — | — | 88,673 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **C&I** | | | | | | | | | |
| Pass (risk rating 1-5) | 49,147 | 61,628 | 51,848 | 33,955 | 6,103 | 32,032 | 87,949 | 973 | 323,635 |
| Special Mention (risk rating 6) | 23,970 | 3,414 | 267 | 546 | — | 3,373 | 330 | — | 31,900 |
| Substandard (risk rating 7) | 126 | 354 | 35 | — | 180 | 455 | 102 | — | 1,252 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total C&I** | 73,243 | 65,396 | 52,150 | 34,501 | 6,283 | 35,860 | 88,381 | 973 | 356,787 |
| Current period gross write-offs | — | (114) | — | — | (16) | (23) | — | — | (153) |
| **Multifamily** | | | | | | | | | |
| Pass (risk rating 1-5) | 12,046 | 30,565 | 18,053 | 15,033 | 5,540 | 8,527 | 416 | — | 90,180 |
| Special Mention (risk rating 6) | — | 1,020 | — | 912 | — | — | — | — | 1,932 |
| Substandard (risk rating 7) | — | — | 1,364 | — | — | — | — | — | 1,364 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Multifamily** | 12,046 | 31,585 | 19,417 | 15,945 | 5,540 | 8,527 | 416 | — | 93,476 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Municipal** | | | | | | | | | |
| Pass (risk rating 1-5) | 20,210 | 4,741 | 3,982 | 9,775 | 5,156 | 7,559 | — | — | 51,423 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Municipal** | 20,210 | 4,741 | 3,982 | 9,775 | 5,156 | 7,559 | — | — | 51,423 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior** | **Revolving Loans Amortized Cost Basis** | **Revolving Loans Converted to Term** | **Total** |
| ***As of December 31, 2023*** | | | | | | | | | |
| **Residential** | | | | | | | | | |
| **Term** | | | | | | | | | |
| Performing | 65,605 | 156,495 | 140,254 | 93,774 | 39,896 | 174,341 | 3,046 | 129 | 673,540 |
| Non-performing | — | 304 | — | 40 | 300 | 671 | — | — | 1,315 |
| **Total Term** | 65,605 | 156,799 | 140,254 | 93,814 | 40,196 | 175,012 | 3,046 | 129 | 674,855 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Construction** | | | | | | | | | |
| Performing | 25,007 | 6,012 | — | 1,339 | — | — | — | — | 32,358 |
| Non-performing | — | — | — | — | — | — | — | — | — |
| **Total Construction** | 25,007 | 6,012 | — | 1,339 | — | — | — | — | 32,358 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Home Equity Revolving and Term** | | | | | | | | | |
| Performing | 10,519 | 9,319 | 2,031 | 1,197 | 584 | 1,655 | 68,006 | 10,419 | 103,730 |
| Non-performing | — | — | — | — | — | 112 | 19 | 165 | 296 |
| **Total Home Equity Revolving and Term** | 10,519 | 9,319 | 2,031 | 1,197 | 584 | 1,767 | 68,025 | 10,584 | 104,026 |
| Current period gross write-offs | — | (50) | — | — | — | — | — | — | (50) |
| **Consumer** | | | | | | | | | |
| Performing | 3,664 | 2,042 | 1,175 | 1,794 | 455 | 4,564 | 5,707 | — | 19,401 |
| Non-performing | — | — | — | — | — | — | — | — | — |
| **Total Consumer** | 3,664 | 2,042 | 1,175 | 1,794 | 455 | 4,564 | 5,707 | — | 19,401 |
| Current period gross write-offs | (5) | (46) | (31) | (30) | (7) | (75) | — | — | (194) |
| **Total loans** | $ 337,620 | $ 465,386 | $ 397,864 | $ 236,621 | $ 122,371 | $ 379,108 | $ 178,798 | $ 11,686 | $ 2,129,454 |

The following table summarizes the credit quality for the Company's portfolio by risk category of loans and by class by vintage as of September 30, 2023:

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior** | **Revolving Loans Amortized Cost Basis** | **Revolving Loans Converted to Term** | **Total** |
| ***As of September 30, 2023*** | | | | | | | | | |
| **Commercial** | | | | | | | | | |
| **Real estate owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | $ 43,022 | $ 75,590 | $ 41,851 | $ 28,387 | $ 35,696 | $ 65,064 | $ 9,355 | $ 175 | $ 299,140 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | 283 | — | — | — | 503 | 17 | — | — | 803 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Owner Occupied** | 43,305 | 75,590 | 41,851 | 28,387 | 36,199 | 65,081 | 9,355 | 175 | 299,943 |
| Current period gross write-offs | — | — | — | — | — | (40) | — | — | (40) |
| **Real estate non-owner occupied** | | | | | | | | | |
| Pass (risk rating 1-5) | 27,875 | 71,474 | 130,132 | 49,160 | 27,670 | 85,559 | 5,092 | — | 396,962 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | — | — | — | 62 | — | — | 62 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Real Estate Non-Owner Occupied** | 27,875 | 71,474 | 130,132 | 49,160 | 27,670 | 85,621 | 5,092 | — | 397,024 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Construction** | | | | | | | | | |
| Pass (risk rating 1-5) | 16,892 | 41,852 | 8,506 | 1,665 | 1,039 | 2,470 | — | — | 72,424 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Construction** | 16,892 | 41,852 | 8,506 | 1,665 | 1,039 | 2,470 | — | — | 72,424 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **C&I** | | | | | | | | | |
| Pass (risk rating 1-5) | 43,648 | 66,873 | 53,712 | 37,052 | 6,526 | 38,003 | 90,748 | 11,937 | 348,499 |
| Special Mention (risk rating 6) | — | 129 | 268 | — | — | 8 | 400 | — | 805 |
| Substandard (risk rating 7) | 94 | 363 | 35 | — | 188 | 545 | 67 | — | 1,292 |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total C&I** | 43,742 | 67,365 | 54,015 | 37,052 | 6,714 | 38,556 | 91,215 | 11,937 | 350,596 |
| Current period gross write-offs | — | — | — | — | (16) | — | — | — | (16) |
| **Multifamily** | | | | | | | | | |
| Pass (risk rating 1-5) | 8,435 | 32,082 | 18,172 | 16,103 | 5,553 | 8,796 | 329 | 207 | 89,677 |
| Special Mention (risk rating 6) | — | — | 1,364 | — | — | — | — | — | 1,364 |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Multifamily** | 8,435 | 32,082 | 19,536 | 16,103 | 5,553 | 8,796 | 329 | 207 | 91,041 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Municipal** | | | | | | | | | |
| Pass (risk rating 1-5) | 24,527 | 6,239 | 4,121 | 10,226 | 5,270 | 8,064 | — | — | 58,447 |
| Special Mention (risk rating 6) | — | — | — | — | — | — | — | — | — |
| Substandard (risk rating 7) | — | — | — | — | — | — | — | — | — |
| Doubtful (risk rating 8) | — | — | — | — | — | — | — | — | — |
| **Total Municipal** | 24,527 | 6,239 | 4,121 | 10,226 | 5,270 | 8,064 | — | — | 58,447 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |

| | Term Loans Amortized Cost Basis by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total |
| ***As of September 30, 2023*** | | | | | | | | | |
| **Residential** | | | | | | | | | |
| **Term** | | | | | | | | | |
| Performing | 47,019 | 149,470 | 143,048 | 97,350 | 40,621 | 179,788 | 1,301 | 132 | 658,729 |
| Non-performing | — | 304 | — | 81 | 340 | 595 | — | — | 1,320 |
| **Total Term** | 47,019 | 149,774 | 143,048 | 97,431 | 40,961 | 180,383 | 1,301 | 132 | 660,049 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Construction** | | | | | | | | | |
| Performing | 15,966 | 11,715 | — | 1,305 | — | — | — | — | 28,986 |
| Non-performing | — | — | — | — | — | — | — | — | — |
| **Total Construction** | 15,966 | 11,715 | — | 1,305 | — | — | — | — | 28,986 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Home Equity Revolving and Term** | | | | | | | | | |
| Performing | 8,154 | 9,472 | 2,073 | 1,214 | 609 | 1,754 | 67,639 | 10,575 | 101,490 |
| Non-performing | — | — | — | — | — | 115 | 198 | 177 | 490 |
| **Total Home Equity Revolving and Term** | 8,154 | 9,472 | 2,073 | 1,214 | 609 | 1,869 | 67,837 | 10,752 | 101,980 |
| Current period gross write-offs | — | — | — | — | — | — | — | — | — |
| **Consumer** | | | | | | | | | |
| Performing | 3,072 | 2,338 | 1,296 | 1,951 | 538 | 4,404 | 5,771 | — | 19,370 |
| Non-performing | — | — | — | — | — | — | — | — | — |
| **Total Consumer** | 3,072 | 2,338 | 1,296 | 1,951 | 538 | 4,404 | 5,771 | — | 19,370 |
| Current period gross write-offs | (5) | (41) | (30) | (30) | (7) | (39) | — | — | (152) |
| **Total loans** | $ 238,987 | $ 467,901 | $ 404,578 | $ 244,494 | $ 124,553 | $ 395,244 | $ 180,900 | $ 23,203 | $ 2,079,860 |

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

The following table presents ACL activity by class for the nine months and quarter ended September 30, 2024:

| | **Commercial** | | | | | | **Municipal** | **Residential** | | **Home Equity** | **Consumer** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | Real Estate Owner Occupied | Real Estate Non-Owner Occupied | Construction | C&I | Multifamily | Agriculture | | Term | Construction | Revolving and term | | |
| **For the nine months ended September 30, 2024** | | | | | | | | | | | | |
| Beginning balance | $ 4,633 | $ 4,285 | $ 1,978 | $ 5,001 | $ 1,318 | $ — | $ 334 | $ 4,991 | $ 618 | $ 626 | $ 246 | $ 24,030 |
| Charge offs | — | — | — | (88) | — | — | — | (36) | — | (7) | (210) | (341) |
| Recoveries | 100 | — | — | 24 | — | — | — | 30 | — | 21 | 77 | 252 |
| Credit loss (reduction) expense | 386 | 686 | (1,171) | (275) | (56) | 613 | (68) | 66 | (193) | 23 | 47 | 58 |
| Ending balance | $ 5,119 | $ 4,971 | $ 807 | $ 4,662 | $ 1,262 | $ 613 | $ 266 | $ 5,051 | $ 425 | $ 663 | $ 160 | $ 23,999 |
| **For the three months ended September 30, 2024** | | | | | | | | | | | | |
| Beginning balance | $ 5,253 | $ 4,248 | $ 922 | $ 5,021 | $ 1,567 | $ 428 | $ 180 | $ 5,560 | $ 587 | $ 744 | $ 183 | $ 24,693 |
| Charge offs | — | — | — | (88) | — | — | — | — | — | — | (62) | (150) |
| Recoveries | — | — | — | 1 | — | — | — | 1 | — | 3 | 31 | 36 |
| Credit loss (reduction) expense | (134) | 723 | (115) | (272) | (305) | 185 | 86 | (510) | (162) | (84) | 8 | (580) |
| Ending balance | $ 5,119 | $ 4,971 | $ 807 | $ 4,662 | $ 1,262 | $ 613 | $ 266 | $ 5,051 | $ 425 | $ 663 | $ 160 | $ 23,999 |

The following table presents ACL activity by class for the year ended December 31, 2023:

| | **Commercial** | | | | | **Municipal** | **Residential** | | **Home Equity** | **Consumer** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | Real Estate Owner Occupied | Real Estate Non-Owner Occupied | Construction | C&I | Multifamily | | Term | Construction | Revolving and term | | | |
| **For the year ended December 31, 2023** | | | | | | | | | | | | |
| Beginning balance prior to adoption of ASC 326 | $ 6,116 | $ — | $ 821 | $ 3,097 | $ — | $ 162 | $ 2,559 | $ 199 | $ 1,029 | $ 1,062 | $ 1,678 | $ 16,723 |
| Charge offs | (40) | — | — | (153) | — | — | — | — | (50) | (194) | — | (437) |
| Recoveries | 2 | 75 | — | 3 | — | — | 14 | — | 13 | 97 | — | 204 |
| Credit loss (reduction) expense | 241 | (105) | 214 | 409 | 134 | 40 | 540 | (316) | 90 | 83 | — | 1,330 |
| Impact of adopting ASC 326 | (1,686) | 4,315 | 943 | 1,645 | 1,184 | 132 | 1,878 | 735 | (456) | (802) | (1,678) | 6,210 |
| Ending balance | $ 4,633 | $ 4,285 | $ 1,978 | $ 5,001 | $ 1,318 | $ 334 | $ 4,991 | $ 618 | $ 626 | $ 246 | $ — | $ 24,030 |

The following table presents ACL activity by class for the nine months and quarter ended September 30, 2023:

| | **Commercial** | | | | | **Municipal** | **Residential** | | **Home Equity** | **Consumer** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | Real Estate Owner Occupied | Real Estate Non-Owner Occupied | Construction | C&I | Multifamily | | Term | Construction | Revolving and term | | | |
| **For the nine months ended September 30, 2023** | | | | | | | | | | | | |
| Beginning balance prior to adoption of ASC 326 | $ 6,116 | $ — | $ 821 | $ 3,097 | $ — | $ 162 | $ 2,559 | $ 199 | $ 1,029 | $ 1,062 | $ 1,678 | $ 16,723 |
| Charge offs | (40) | — | — | (16) | — | — | — | — | — | (152) | — | (208) |
| Recoveries | 2 | 75 | — | 3 | — | — | 10 | — | 10 | 78 | — | 178 |
| Credit loss (reduction) expense | 119 | 39 | (162) | 68 | 93 | 82 | 439 | (358) | 34 | 65 | — | 419 |
| Impact of adopting ASC 326 | (1,686) | 4,315 | 943 | 1,645 | 1,184 | 132 | 1,878 | 735 | (456) | (802) | (1,678) | 6,210 |
| Ending balance | $ 4,511 | $ 4,429 | $ 1,602 | $ 4,797 | $ 1,277 | $ 376 | $ 4,886 | $ 576 | $ 617 | $ 251 | $ — | $ 23,322 |
| **For the three months ended September 30, 2023** | | | | | | | | | | | | |
| Beginning balance | $ 4,719 | $ 4,492 | $ 1,469 | $ 4,721 | $ 1,312 | $ 399 | $ 4,831 | $ 609 | $ 635 | $ 278 | $ — | $ 23,465 |
| Charge offs | (1) | — | — | (16) | — | — | — | — | — | (69) | — | (86) |
| Recoveries | 2 | 75 | — | — | — | — | 4 | — | 3 | 20 | — | 104 |
| Credit loss (reduction) expense | (209) | (138) | 133 | 92 | (35) | (23) | 51 | (33) | (21) | 22 | — | (161) |
| Ending balance | $ 4,511 | $ 4,429 | $ 1,602 | $ 4,797 | $ 1,277 | $ 376 | $ 4,886 | $ 576 | $ 617 | $ 251 | $ — | $ 23,322 |

As of September 30, 2024, the significant model inputs and assumptions used within the discounted cash flow model for purposes of estimating the ACL on loans were:

Macroeconomic loss drivers: The following loss drivers for each loan segment were used to calculate the expected probability of default over the forecast and reversion period:

- Commercial Real Estate Owner Occupied: FOMC median forecast of national unemployment
- Commercial Real Estate Non-Owner Occupied: FOMC median forecast of national unemployment
- Commercial Construction: FOMC median forecasts of national unemployment and change in national real GDP
- Commercial & Industrial: FOMC median forecasts of national unemployment and change in national real GDP
- Commercial Multifamily: FOMC median forecast of national unemployment
- Commercial Agriculture: FOMC median forecasts of national unemployment and change in national real GDP
- Municipal: Probability of default is measured based upon an index supplied by a nationally recognized ratings agency
- Residential Real Estate Term: FOMC median forecast of national unemployment
- Residential Real Estate Construction: FOMC median forecast of national unemployment and change in national real GDP
- Home Equity Revolving & Term: FOMC median forecast of national unemployment
- Consumer: FOMC median forecasts of national unemployment and change in national real GDP

Reasonable and supportable forecast period: The ACL on loans estimate used a reasonable and supportable forecast period of one year.
Reversion period: The ACL on loans estimate used a reversion period of one year.
Prepayment speeds: The estimate of prepayment speed for each loan segment was derived using internally sourced prepayment data.

Qualitative factors: The ACL on loans estimate incorporated various qualitative factors into the calculation such as changes in lending policies, changes in the nature and volume and terms of loans, changes in the experience, depth and ability of lending management, and economic factors not captured in the quantitative model.

***Note 5 – Stock-Based Compensation***

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

As of September 30, 2024, 131,419 shares of restricted stock had been granted under the 2020 Plan, of which 87,218 shares remain restricted as of September 30, 2024 as detailed in the following table:

| Year Granted | Vesting Term (In Years) | Shares | Remaining Term (In Years) |
|---|---|---|---|
| 2022 | 3.0 | 23,404 | 0.3 |
| 2022 | 2.5 | 1,250 | 0.3 |
| 2023 | 3.0 | 26,859 | 1.3 |
| 2023 | 2.0 | 3,196 | 0.3 |
| 2024 | 3.0 | 27,987 | 2.3 |
| 2024 | 2.0 | 1,869 | 1.3 |
| 2024 | 1.0 | 2,653 | 0.3 |
| | | 87,218 | 1.3 |

The compensation cost related to these non-vested restricted stock grants is $ 2,538,000 and is recognized over the vesting terms of each grant. In the nine months ended September 30, 2024, $680,000 of expense was recognized for these restricted shares, leaving $ 1,006,000 in unrecognized expense as of September 30, 2024. In the nine months ended September 30, 2023, $607,000 of expense was recognized for restricted shares, leaving $ 1,069,000 in unrecognized expense as of September 30, 2023.

***Note 6 – Common Stock***

Proceeds from sale of common stock totaled $ 638,000 and $608,000 for the nine months ended September 30, 2024 and 2023, respectively.

***Note 7 – Earnings Per Share***

The following table sets forth the computation of basic and diluted EPS for the nine months ended September 30, 2024 and 2023:

| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **For the nine months ended September 30, 2024** | | | |
| Net income as reported | $ 19,763,000 | | |
| Basic EPS: Income available to common shareholders | 19,763,000 | 11,046,986 | $ 1.79 |
| Effect of dilutive securities: restricted stock | | 87,102 | |
| Diluted EPS: Income available to common shareholders plus assumed conversions | $ 19,763,000 | 11,134,088 | $ 1.78 |
| **For the nine months ended September 30, 2023** | | | |
| Net income as reported | $ 22,839,000 | | |
| Basic EPS: Income available to common shareholders | 22,839,000 | 10,993,406 | $ 2.08 |
| Effect of dilutive securities: restricted stock | | 84,089 | |
| Diluted EPS: Income available to common shareholders plus assumed conversions | $ 22,839,000 | 11,077,495 | $ 2.06 |

The following table sets forth the computation of basic and diluted EPS for the quarters ended September 30, 2024 and 2023:

| | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **For the quarter ended September 30, 2024** | | | |
| Net income as reported | $ 7,571,000 | | |
| Basic EPS: Income available to common shareholders | 7,571,000 | 11,057,872 | $ 0.69 |
| Effect of dilutive securities: restricted stock | | 87,259 | |
| Diluted EPS: Income available to common shareholders plus assumed conversions | $ 7,571,000 | 11,145,131 | $ 0.68 |
| **For the quarter ended September 30, 2023** | | | |
| Net income as reported | $ 7,474,000 | | |
| Basic EPS: Income available to common shareholders | 7,474,000 | 11,003,987 | $ 0.68 |
| Effect of dilutive securities: restricted stock | | 83,146 | |
| Diluted EPS: Income available to common shareholders plus assumed conversions | $ 7,474,000 | 11,087,133 | $ 0.67 |

***Note 8 – Employee Benefit Plans***

**401(k) Plan**

The Bank has a defined contribution plan available to substantially all employees who have completed three months of service. Employees may contribute up to IRS determined limits and the Bank may match employee contributions not to exceed 3.0% of compensation depending on contribution level. The Plan is a safe harbor plan whereby the Bank also contributes a minimum 3.0% of annual compensation to the plan for all eligible employees. The expense related to the 401(k) plan was $ 829,000 and $826,000 for the nine months ended September 30, 2024 and 2023, respectively.

**Deferred Compensation and Supplemental Retirement Benefits**

The Bank also provides unfunded supplemental retirement benefits for certain officers, payable in installments over 20 years upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a postretirement plan. There are no active officers eligible for these benefits. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental retirement benefits was $137,000 and $57,000 for the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, the associated accrued liability included in other liabilities in the balance sheet was $2,586,000 compared to $2,664,000 and $2,735,000 at December 31, 2023 and September 30, 2023, respectively.

**Postretirement Benefit Plans**

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

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

| | At or for the nine months ended September 30, | | | |
|---|---|---|---|---|
| | | **2024** | | 2023 |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of year | **$** | **1,091,000** | $ | 1,050,000 |
| Interest cost | | **—** | | 14,000 |
| Benefits paid | | **(63,000)** | | (66,000) |
| Benefit obligation at end of period | **$** | **1,028,000** | $ | 998,000 |
| **Funded status** | | | | |
| Benefit obligation at end of period | **$** | **(1,028,000)** | $ | (998,000) |
| Unamortized gain | | **(384,000)** | | (345,000) |
| Accrued benefit cost at end of period | **$** | **(1,412,000)** | $ | (1,343,000) |

The following table sets forth the net periodic pension cost:

| | For the nine months ended September 30, | | | | For the quarter ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2024** | | 2023 | | **2024** | | 2023 |
| **Components of net periodic benefit cost** | | | | | | | | |
| Interest cost | **$** | **—** | $ | 14,000 | **$** | **—** | $ | 4,000 |
| Net periodic benefit cost | **$** | **—** | $ | 14,000 | **$** | **—** | $ | 4,000 |

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

| | | **September 30, 2024** | | December 31, 2023 | | September 30, 2023 |
|---|---|---|---|---|---|---|
| Unamortized net actuarial gain | **$** | **384,000** | $ | 384,000 | $ | 345,000 |
| Deferred tax expense | | **(81,000)** | | (81,000) | | (72,000) |
| Net unrecognized postretirement benefits included in AOCI | **$** | **303,000** | $ | 303,000 | $ | 273,000 |

A weighted average discount rate of 4.67% was used in determining the accumulated benefit obligation and the net periodic benefit cost. The assumed health care cost trend rate is 7.00%. The measurement date for benefit obligations was as of year-end for prior years presented. The expected benefit payments for all of 2024 are $ 84,000. Plan expense for 2024 is estimated to be $0. A 1.00% change in trend assumptions would create an approximate change in the same direction of $ 100,000 in the accumulated benefit obligation, $7,000 in the interest cost, and $1,000 in the service cost.

***Note 9 - Other Comprehensive Income (Loss)***

The following table summarizes activity in the unrealized gain or loss on available for sale securities included in OCI for the nine months and quarters ended September 30, 2024 and 2023.

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Balance at beginning of period | **$ (39,575,000)** | $ (44,718,000) | **$ (42,816,000)** | $ (43,781,000) |
| Unrealized (losses) gains arising during the period | **6,558,000** | (11,562,000) | **10,660,000** | (12,748,000) |
| Related deferred taxes | **(1,377,000)** | 2,428,000 | **(2,238,000)** | 2,677,000 |
| Net change | **5,181,000** | (9,134,000) | **8,422,000** | (10,071,000) |
| Balance at end of period | **$ (34,394,000)** | $ (53,852,000) | **$ (34,394,000)** | $ (53,852,000) |

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

The following table summarizes activity in the unrealized loss on securities transferred from available for sale to held to maturity included in OCI for the nine months and quarters ended September 30, 2024 and 2023.

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Balance at beginning of period | **$ (56,000)** | $ (64,000) | **$ (54,000)** | $ (59,000) |
| Amortization of net unrealized gains | **9,000** | 7,000 | **6,000** | 1,000 |
| Related deferred taxes | **(2,000)** | (1,000) | **(1,000)** | — |
| Net change | **7,000** | 6,000 | **5,000** | 1,000 |
| Balance at end of period | **$ (49,000)** | $ (58,000) | **$ (49,000)** | $ (58,000) |

The following table presents the effect of the Company's derivative financial instruments included in OCI for the nine months and quarters ended September 30, 2024 and 2023.

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Balance at beginning of period | **$ 300,000** | $ 544,000 | **$ 733,000** | $ 680,000 |
| Unrealized gains (losses) on cash flow hedging derivatives arising during the period | **(552,000)** | 1,096,000 | **(1,100,000)** | 924,000 |
| Related deferred taxes | **116,000** | (230,000) | **231,000** | (194,000) |
| Net change | **(436,000)** | 866,000 | **(869,000)** | 730,000 |
| Balance at end of period | **$ (136,000)** | $ 1,410,000 | **$ (136,000)** | $ 1,410,000 |

There was no activity in the unrealized gain or loss on postretirement benefits included in OCI for the nine months and quarters ended September 30, 2024 and 2023.

***Note 10 - Financial Derivative Instruments***

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

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

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

| | | | | | **September 30, 2024** | | December 31, 2023 | | September 30, 2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Effective Date | Maturity Date | Variable Index Received | Fixed Rate Paid | Presentation on Consolidated Balance Sheets | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value |
| **Cash Flow Hedges** | | | | | | | | | | |
| 04/27/2022 | 10/27/2023 | USD-SOFR-COMPOUND | 2.498% | Other Assets | **$ —** | **$ —** | $ — | $ — | $ 10,000,000 | $ 20,000 |
| 04/27/2022 | 01/27/2024 | USD-SOFR-COMPOUND | 2.576% | Other Assets | **—** | **—** | 10,000,000 | 22,000 | 10,000,000 | 92,000 |
| 04/27/2022 | 04/27/2024 | USD-SOFR-COMPOUND | 2.619% | Other Assets | **—** | **—** | 10,000,000 | 86,000 | 10,000,000 | 159,000 |
| 01/10/2023 | 01/01/2026 | USD-SOFR-OIS COMPOUND | 3.836% | Other (Liabilities) Assets | **75,000,000** | **(172,000)** | 75,000,000 | 272,000 | 75,000,000 | 1,513,000 |
| | | | | | **$ 75,000,000** | **$ (172,000)** | $ 95,000,000 | $ 380,000 | $ 105,000,000 | $ 1,784,000 |
| **Fair Value Hedges** | | | | | | | | | | |
| 03/08/2023 | 03/01/2026 | USD-SOFR-OIS COMPOUND | 4.712% | Other (Liabilities) Assets | **$ 40,000,000** | **$ (601,000)** | $ 40,000,000 | $ (581,000) | $ 40,000,000 | $ 63,000 |
| 03/08/2023 | 03/01/2027 | USD-SOFR-OIS COMPOUND | 4.402% | Other (Liabilities) Assets | **30,000,000** | **(710,000)** | 30,000,000 | (598,000) | 30,000,000 | 120,000 |
| 03/08/2023 | 03/01/2028 | USD-SOFR-OIS COMPOUND | 4.189% | Other (Liabilities) Assets | **30,000,000** | **(858,000)** | 30,000,000 | (678,000) | 30,000,000 | 250,000 |
| 07/12/2023 | 08/01/2025 | USD-SOFR-OIS COMPOUND | 4.703% | Other (Liabilities) Assets | **50,000,000** | **(293,000)** | 50,000,000 | (292,000) | 50,000,000 | 272,000 |
| | | | | | **$ 150,000,000** | **$ (2,462,000)** | $ 150,000,000 | $ (2,149,000) | $ 150,000,000 | $ 705,000 |
| **Total swap agreements** | | | | | **$ 225,000,000** | **$ (2,634,000)** | $ 245,000,000 | $ (1,769,000) | $ 255,000,000 | $ 2,489,000 |

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

***Customer loan derivatives***

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

At September 30, 2024 there were eight customer loan swap arrangements in place. This compares to seven customer loan swap arrangements in place at December 31, 2023 and six customer loan swap arrangements in place at September 30, 2023. The details of the Bank's customer loan swap arrangements are detailed below:

| | | **September 30, 2024** | | | December 31, 2023 | | | September 30, 2023 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Presentation on Consolidated Balance Sheet | Number of Positions | Notional Amount | Fair Value | Number of Positions | Notional Amount | Fair Value | Number of Positions | Notional Amount | Fair Value |
| Pay Fixed, Receive Variable | Other Assets | **6** | **$ 34,988,000** | **$ 3,478,000** | 6 | $ 36,286,000 | $ 4,259,000 | 6 | $ 36,572,000 | $ 6,031,000 |
| Pay Fixed, Receive Variable | Other Liabilities | **2** | **7,647,000** | **(274,000)** | 1 | 5,048,000 | (89,000) | — | — | — |
| | | **8** | **42,635,000** | **3,204,000** | 7 | 41,334,000 | 4,170,000 | 6 | 36,572,000 | 6,031,000 |
| Receive Fixed, Pay Variable | Other Assets | **2** | **7,647,000** | **274,000** | 1 | 5,048,000 | 89,000 | — | — | — |
| Receive Fixed, Pay Variable | Other Liabilities | **6** | **34,988,000** | **(3,478,000)** | 6 | 36,286,000 | (4,259,000) | 6 | 36,572,000 | (6,031,000) |
| | | **8** | **42,635,000** | **(3,204,000)** | 7 | 41,334,000 | (4,170,000) | 6 | 36,572,000 | (6,031,000) |
| Total | | **16** | **$ 85,270,000** | **$ —** | 14 | $ 82,668,000 | $ — | 12 | $ 73,144,000 | $ — |

***Derivative collateral***

The Bank has entered into a master netting arrangement with its counterparty and settles payments with the counterparty as necessary. The Bank's arrangement with its institutional counterparty requires it to post cash or other assets as collateral for its various loan swap contracts in a net liability position based on their fair values and the Bank's credit rating or receive cash collateral for contracts in a net asset position as requested. At September 30, 2024, there was no collateral posted on its swap contracts or required amount to be pledged.

***Note 11 – Mortgage Servicing Rights***

FASB ASC Topic 860 "Transfers and Servicing", requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company's servicing assets and servicing liabilities are reported using the amortization method and carried at the lower of amortized cost or fair value by strata. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type, and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-months moving average of weekly prepayment data published by the PSA and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of September 30, 2024, the prepayment assumption using the PSA model was 127, which translates into an anticipated prepayment rate of 6.10%. The discount rate is 9.13%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

For the nine months ended September 30, 2024 and 2023, servicing rights capitalized totaled $ 13,000 and $34,000, respectively. Servicing rights amortized for the nine-month periods ended September 30, 2024 and 2023 were $244,000 and $280,000, respectively. The fair value of servicing rights was $ 3,074,000, $3,583,000, and $3,673,000 at September 30, 2024, December 31, 2023 and September 30, 2023, respectively. The Bank serviced loans for others totaling $302,430,000, $321,178,000, and $327,428,000 at September 30, 2024, December 31, 2023, and September 30, 2023, respectively.

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

| | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Mortgage servicing rights | **$ 8,715,000** | $ 8,702,000 | $ 8,687,000 |
| Accumulated amortization | **(6,770,000)** | (6,525,000) | (6,441,000) |
| Amortized cost | **1,945,000** | 2,177,000 | 2,246,000 |
| Impairment reserve | **(5,000)** | — | — |
| Carrying value | **$ 1,940,000** | $ 2,177,000 | $ 2,246,000 |

***Note 12 – Income Taxes***

FASB ASC Topic 740 "Income Taxes" defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2020 through 2023.

***Note 13 - Certificates of Deposit***

The following table represents the breakdown of certificates of deposit at September 30, 2024 and 2023, and at December 31, 2023:

| | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Certificates of deposit < $100,000 | **$ 693,948,000** | $ 646,818,000 | $ 641,429,000 |
| Certificates $100,000 to $250,000 | **251,910,000** | 251,192,000 | 234,962,000 |
| Certificates $250,000 and over | **179,468,000** | 172,237,000 | 132,775,000 |
| | **$ 1,125,326,000** | $ 1,070,247,000 | $ 1,009,166,000 |

***Note 14 – Reclassifications***

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

***Note 15 – Fair Value***

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

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

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

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

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

***Investment Securities***

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

***Loans***

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

***Other Real Estate Owned***

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

***Mortgage Servicing Rights***

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

***Time Deposits***

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

***Borrowed Funds***

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

***Derivatives***

The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of September 30, 2024 and 2023, and December 31, 2023, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.

***Customer Loan Derivatives***

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

***Limitations***

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

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

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

| | At September 30, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Securities available for sale** | | | | |
| U.S. Government-sponsored agencies | $ — | $ 20,735,000 | $ — | $ 20,735,000 |
| Mortgage-backed securities | — | 227,374,000 | — | 227,374,000 |
| State and political subdivisions | — | 34,608,000 | — | 34,608,000 |
| Asset-backed securities | — | 2,304,000 | — | 2,304,000 |
| **Total securities available for sale** | — | 285,021,000 | — | 285,021,000 |
| Customer loan interest swap agreements | — | 3,752,000 | — | 3,752,000 |
| **Total interest rate swap agreements** | — | 3,752,000 | — | 3,752,000 |
| **Total assets** | $ — | $ 288,773,000 | $ — | $ 288,773,000 |

| | At September 30, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Interest rate swap agreements | $ — | $ 2,634,000 | $ — | $ 2,634,000 |
| Customer loan interest swap agreements | — | 3,752,000 | — | 3,752,000 |
| **Total liabilities** | $ — | $ 6,386,000 | $ — | $ 6,386,000 |

| | At December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Securities available for sale** | | | | |
| U.S. Government-sponsored agencies | $ — | $ 19,830,000 | $ — | $ 19,830,000 |
| Mortgage-backed securities | — | 224,597,000 | — | 224,597,000 |
| State and political subdivisions | — | 34,645,000 | — | 34,645,000 |
| Asset-backed securities | — | 2,981,000 | — | 2,981,000 |
| **Total securities available for sale** | — | 282,053,000 | — | 282,053,000 |
| Interest rate swap agreements | — | 380,000 | — | 380,000 |
| Customer loan interest swap agreements | — | 4,348,000 | — | 4,348,000 |
| **Total interest rate swap agreements** | — | 4,728,000 | — | 4,728,000 |
| **Total assets** | $ — | $ 286,781,000 | $ — | $ 286,781,000 |

| | At December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Interest rate swap agreements | $ — | $ 2,149,000 | $ — | $ 2,149,000 |
| Customer loan interest swap agreements | — | 4,348,000 | — | 4,348,000 |
| **Total liabilities** | $ — | $ 6,497,000 | $ — | $ 6,497,000 |

| | At September 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Securities available for sale** | | | | |
| U.S. Government-sponsored agencies | $ — | $ 38,252,000 | $ — | $ 38,252,000 |
| Mortgage-backed securities | — | 212,846,000 | — | 212,846,000 |
| State and political subdivisions | — | 30,780,000 | — | 30,780,000 |
| Asset-backed securities | — | 3,094,000 | — | 3,094,000 |
| **Total securities available for sale** | — | 284,972,000 | — | 284,972,000 |
| Interest rate swap agreements | — | 2,489,000 | — | 2,489,000 |
| Customer loan interest swap agreements | — | 6,031,000 | — | 6,031,000 |
| **Total interest swap agreements** | — | 8,520,000 | — | 8,520,000 |
| **Total assets** | $ — | $ 293,492,000 | $ — | $ 293,492,000 |

| | At September 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Customer loan interest swap agreements | $ — | $ 6,031,000 | $ — | $ 6,031,000 |
| **Total liabilities** | $ — | $ 6,031,000 | $ — | $ 6,031,000 |

**Assets Recorded at Fair Value on a Non-Recurring Basis**

The following tables include assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Mortgage servicing rights are presented at fair value with a $5,000 impairment reserve at September 30, 2024. There was no impairment reserve at December 31, 2023 and September 30, 2023. OREO is presented net of an allowance of $35,000 at September 30, 2024. There was no OREO or related allowance at December 31, 2023 and September 30, 2023. Only collateral-dependent IAL with a related specific ACL or a partial charge off are included in IAL for purposes of fair value disclosures. There were no collateral-dependent IAL with a related specific ACL or a partial charge off at September 30, 2024. IAL below are presented net of specific allowances of $19,000 at December 31, 2023, and September 30, 2023.

| | At September 30, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Mortgage servicing rights | $ — | $ 3,074,000 | $ — | $ 3,074,000 |
| OREO | — | 173,000 | — | 173,000 |
| **Total assets** | $ — | $ 3,247,000 | $ — | $ 3,247,000 |

| | At December 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Mortgage servicing rights | $ — | $ 3,583,000 | $ — | $ 3,583,000 |
| Individually analyzed loans | — | 285,000 | — | 285,000 |
| **Total assets** | $ — | $ 3,868,000 | $ — | $ 3,868,000 |

| | At September 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Mortgage servicing rights | $ — | $ 3,673,000 | $ — | $ 3,673,000 |
| Individually analyzed loans | — | 285,000 | — | 285,000 |
| **Total assets** | $ — | $ 3,958,000 | $ — | $ 3,958,000 |

**Fair Value of Financial Instruments**

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

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

The carrying amount and estimated fair values for financial instruments as of September 30, 2024 were as follows:

| | Carrying value | Estimated fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Securities to be held to maturity (net of allowance for credit losses) | $ 377,635,000 | $ 333,575,000 | $ — | $ 333,575,000 | $ — |
| Loans (net of allowance for credit losses) | | | | | |
| Commercial | | | | | |
| Real estate | 746,558,000 | 714,398,000 | — | — | 714,398,000 |
| Construction | 87,185,000 | 83,429,000 | — | — | 83,429,000 |
| Other | 523,624,000 | 516,977,000 | — | — | 516,977,000 |
| Municipal | 62,678,000 | 57,578,000 | — | — | 57,578,000 |
| Residential | | | | | |
| Term | 693,017,000 | 633,247,000 | — | — | 633,247,000 |
| Construction | 34,203,000 | 33,869,000 | — | — | 33,869,000 |
| Home equity line of credit | 116,365,000 | 116,058,000 | — | — | 116,058,000 |
| Consumer | 19,624,000 | 17,375,000 | — | — | 17,375,000 |
| Total loans | 2,283,254,000 | 2,172,931,000 | — | — | 2,172,931,000 |
| Mortgage servicing rights | 1,940,000 | 3,074,000 | — | 3,074,000 | — |
| **Financial liabilities** | | | | | |
| Local certificates of deposit | $ 377,750,000 | $ 360,988,000 | $ — | $ 360,988,000 | $ — |
| National certificates of deposit | 747,576,000 | 768,270,000 | — | 768,270,000 | — |
| Total certificates of deposit | 1,125,326,000 | 1,129,258,000 | — | 1,129,258,000 | — |
| Repurchase agreements | 56,027,000 | 55,910,000 | — | 55,910,000 | — |
| Federal Home Loan Bank advances | 95,000,000 | 94,914,000 | — | 94,914,000 | — |
| Total borrowed funds | 151,027,000 | 150,824,000 | — | 150,824,000 | — |

The carrying amounts and estimated fair values for financial instruments as of December 31, 2023 were as follows:

| | Carrying value | Estimated fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Securities to be held to maturity (net of allowance for credit losses) | $ 385,235,000 | $ 338,570,000 | $ — | $ 338,570,000 | $ — |
| Loans (net of allowance for credit losses) | | | | | |
| Commercial | | | | | |
| Real estate | 699,537,000 | 658,732,000 | — | — | 658,732,000 |
| Construction | 86,695,000 | 81,638,000 | — | — | 81,638,000 |
| Other | 443,944,000 | 431,067,000 | — | — | 431,067,000 |
| Municipal | 51,089,000 | 46,806,000 | — | — | 46,806,000 |
| Residential | | | | | |
| Term | 669,864,000 | 595,033,000 | — | 285,000 | 594,748,000 |
| Construction | 31,740,000 | 31,131,000 | — | — | 31,131,000 |
| Home equity line of credit | 103,400,000 | 102,858,000 | — | — | 102,858,000 |
| Consumer | 19,155,000 | 16,963,000 | — | — | 16,963,000 |
| Total loans | 2,105,424,000 | 1,964,228,000 | — | 285,000 | 1,963,943,000 |
| Mortgage servicing rights | 2,177,000 | 3,583,000 | — | 3,583,000 | — |
| **Financial liabilities** | | | | | |
| Local certificates of deposit | $ 293,466,000 | $ 362,555,000 | $ — | $ 362,555,000 | $ — |
| National certificates of deposit | 776,781,000 | 699,919,000 | — | 699,919,000 | — |
| Total certificates of deposit | 1,070,247,000 | 1,062,474,000 | — | 1,062,474,000 | — |
| Repurchase agreements | 49,576,000 | 49,462,000 | — | 49,462,000 | — |
| Federal Home Loan Bank advances | 20,076,000 | 20,074,000 | — | 20,074,000 | — |
| Total borrowed funds | 69,652,000 | 69,536,000 | — | 69,536,000 | — |

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

| | Carrying value | Estimated fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Securities to be held to maturity (net of allowance for credit losses) | $ 387,374,000 | $ 311,864,000 | $ — | $ 311,864,000 | $ — |
| Loans (net of allowance for credit losses) | | | | | |
| Commercial | | | | | |
| Real estate | 688,027,000 | 652,297,000 | — | — | 652,297,000 |
| Construction | 70,822,000 | 67,144,000 | — | — | 67,144,000 |
| Other | 435,563,000 | 423,464,000 | — | — | 423,464,000 |
| Municipal | 58,071,000 | 52,196,000 | — | — | 52,196,000 |
| Residential | | | | | |
| Term | 655,431,000 | 577,982,000 | — | 285,000 | 577,697,000 |
| Construction | 28,410,000 | 27,972,000 | — | — | 27,972,000 |
| Home equity line of credit | 101,363,000 | 102,124,000 | — | — | 102,124,000 |
| Consumer | 19,119,000 | 16,978,000 | — | — | 16,978,000 |
| Total loans | 2,056,806,000 | 1,920,157,000 | — | 285,000 | 1,919,872,000 |
| Mortgage servicing rights | 2,246,000 | 3,673,000 | — | 3,673,000 | — |
| **Financial liabilities** | | | | | |
| Local certificates of deposit | $ 338,280,000 | $ 319,218,000 | $ — | $ 319,218,000 | $ — |
| National certificates of deposit | 670,886,000 | 672,654,000 | — | 672,654,000 | — |
| Total certificates of deposit | 1,009,166,000 | 991,872,000 | — | 991,872,000 | — |
| Repurchase agreements | 52,915,000 | 52,793,000 | — | 52,793,000 | — |
| Federal Home Loan Bank advances | 30,078,000 | 30,074,000 | — | 30,074,000 | — |
| Total borrowed funds | 82,993,000 | 82,867,000 | — | 82,867,000 | — |

***Note 16 – Impact of Recently Issued Accounting Standards***

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

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures.
This ASU requires public business entities, such as the Company, to provide enhanced disclosures on the amount of income taxes paid disaggregated by type and jurisdiction. Adoption is required for annual periods beginning after December 15, 2024 and is not expected to have a material impact on the Company's consolidated financial statements.

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

The First Bancorp, Inc. and Subsidiary

***Forward-Looking Statements***

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

Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectability, default and charge-off rates, changes in the size and nature of the Company's competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the SEC, may result in these differences, as well as the "Risk Factors" in Part II, Item 1A listed below. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this quarterly report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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

***Critical Accounting Policies***

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

**Allowance for Credit Losses.** Management believes the ACL requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The ACL is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio, off-balance sheet commitments, and investment portfolio.

Management regularly evaluates the allowance, typically monthly, to determine the appropriate level by taking into consideration factors such as the size and growth trajectory of the portfolio, quality trends as measured by key indicators, prior loan loss experience in major portfolio segments, local and national business conditions, economic forecasts, the results of any stress testing undertaken during the period, and Management's estimation of potential losses. Period-to-period changes to any or all of these of these factors could change the level of ACL required, in turn impacting our level of provision expense and ultimately our net income. Similarly, the use of different estimates or assumptions could produce different provisions for credit losses which would likely result in changes to the Company's net income.

In the nine months ended September 30, 2024 the ACL-Loans decreased by $31,000, the ACL-Off-Balance Commitments decreased by $487,000 and the ACL-HTM Securities decreased by $210,000. Further discussion of the ACL may be found in Note 2, "Investment Securities", Note 3, "Loans", and Note 4, "Allowance for Credit Losses", to the consolidated financial statements contained in Item 1 of the Form 10-Q.

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

**Fair Value of Securities.** Determining a market price for securities carried at fair value is a critical accounting estimate in the Company's financial statements. Pricing of individual securities is subject to a number of factors including changes in market interest rates, changes in prepayment speeds and assumptions, changes in market tolerance for risk, and any changes in the risk profile of the security. The Company subscribes to a widely recognized, independent pricing service and updates carrying values no less frequently than monthly. It also validates the values provided by the pricing service no less frequently than quarterly by measuring against security prices provided by a secondary source. Results of the validation are reported to the ALCO each quarter and any variances between the two sources above defined thresholds are investigated by management. A finding that the Company's methodology for valuation of its investment securities is materially incorrect could result in changes to the carrying value of securities on its balance sheet and corresponding changes in shareholders equity position. As of September 30, 2024 the fair value of AFS securities increased by $3.0 million and the fair value of HTM securities decreased by $5.0 million from that of December 31, 2023. These changes are due to a combination of rate-driven market price adjustments for the underlying securities and reinvestment of incoming cash flow to other segments of the balance sheet. Further discussion of the fair value of securities may be found in Note 2, "Investment Securities", to the consolidated financial statements contained in Item 1 of the Form 10-Q.

**Credit Loss Recognition on Securities.** Another significant estimate related to investment securities is the evaluation of potential credit losses on investment securities. The evaluation of securities for potential credit losses is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized as a charge to the ACL. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if recognition of a loss is required. The primary factors considered in this evaluation (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities' market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant, including the expectation of receipt of all principal and interest when due. The Bank invests only in investment grade securities and no credit losses have been recognized on securities currently held. Further discussion of credit loss recognition on securities may be found in Note 2, "Investment Securities", to the consolidated financial statements contained in Item 1 of the Form 10-Q.

**Derivative Financial Instruments Designated as Hedges.** The Company recognizes all derivatives in the consolidated balance sheets at fair value. On the date a derivative contract is entered into, the derivative is designated as a hedge of either a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), or a held for trading instrument (“trading instrument”). The relationships between hedging instruments and hedged items is formally documented, as is the risk management objective and strategy for undertaking various hedge transactions. Both at the hedge’s inception and on an ongoing basis, determination is made as to whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in OCI and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is effective. Those derivatives that are classified as trading instruments, including customer loan swaps, are recorded at fair value with changes in fair value recorded in earnings. Hedge accounting is discontinued when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate. Among the factors that may influence the fair value of a derivative instrument are changes in market interest rates, changes in the time remaining to maturity of the instrument, or credit quality of the counter-party. Further information, including period-to-period changes in the fair value of derivatives, may be found in Note 10, "Financial Derivative Instruments", to the consolidated financial statements contained in Item 1 of the Form 10-Q.

**Risks and Uncertainties.** The nation's economy continues to demonstrate areas of strength and areas of weakness. The high inflation experienced post-pandemic has moderated, yet continues to run above the FOMC's 2% target. The labor market remains resilient with continued low but rising rates of unemployment and continued strong but slowing job creation; wage pressures which had contributed to to inflationary pressure appear to be softening. To address the inflation problem, FOMC aggressively increased short-term interest rates throughout 2022 and into 2023, then paused. Rate reductions were signaled, beginning later in 2024 and the FOMC acted with a 1/2% rate cut in September. The timing and depth of further rate action is uncertain. If the FOMC has not increased rates enough or begins rate cuts too early, it risks an ongoing inflation problem; an overshoot on maintaining elevated interest rates risks entering the economy into a recession.

Concern continues to be expressed nationally on the commercial real estate market given high vacancy numbers and lower property valuation in some metro locations. The ongoing conflicts between Russia and Ukraine, and Israel, Hamas and Hezbollah, continue to contribute to geopolitical instability and add to economic uncertainty. Geopolitical tensions could also result in increased threat from cyberattacks or other disruptive activity.

Any or all of these factors could have negative downstream effects on the Company's operating results, the extent of which is indeterminable at this time.

***Use of Non-GAAP Financial Measures***

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

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

The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements prepared in accordance with GAAP. A Federal Income Tax rate of 21.0% was used in 2024 and 2023.

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| *Dollars in thousands* | **2024** | 2023 | **2024** | 2023 |
| Net interest income as presented | **$ 46,357** | $ 49,354 | **$ 16,402** | $ 15,954 |
| Effect of tax-exempt income | **2,072** | 1,965 | **717** | 685 |
| Net interest income, tax equivalent | **$ 48,429** | $ 51,319 | **$ 17,119** | $ 16,639 |

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

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

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| *Dollars in thousands* | **2024** | 2023 | **2024** | 2023 |
| Non-interest expense, as presented | **$ 35,011** | $ 32,571 | **$ 12,000** | $ 11,006 |
| Net interest income, as presented | **46,357** | 49,354 | **16,402** | 15,954 |
| Effect of tax-exempt interest income | **2,072** | 1,965 | **717** | 685 |
| Non-interest income, as presented | **11,919** | 11,330 | **4,122** | 3,891 |
| Effect of non-interest tax-exempt income | **136** | 131 | **45** | 44 |
| Adjusted net interest income plus non-interest income | **$ 60,484** | $ 62,780 | **$ 21,286** | $ 20,574 |
| Non-GAAP efficiency ratio | **57.88 %** | 51.88 % | **56.37 %** | 53.49 % |
| GAAP efficiency ratio | **60.08 %** | 53.67 % | **58.47 %** | 55.46 % |

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

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

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| *Dollars in thousands* | **2024** | 2023 | **2024** | 2023 |
| Average shareholders' equity as presented | **$ 247,463** | $ 234,832 | **$ 253,911** | $ 234,024 |
| Less average intangible assets | **(30,820)** | (30,847) | **(30,827)** | (30,853) |
| Average tangible shareholders' common equity | **$ 216,643** | $ 203,985 | **$ 223,084** | $ 203,171 |

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

| | For the nine months ended September 30, | | For the quarter ended September 30, | |
|---|---|---|---|---|
| *Dollars in thousands* | **2024** | 2023 | **2024** | 2023 |
| Net Income, as presented | **$ 19,763** | $ 22,839 | **$ 7,571** | $ 7,474 |
| Add: credit loss (reduction) expense | **(639)** | 501 | **(638)** | (200) |
| Add: income taxes expense | **4,141** | 4,773 | **1,591** | 1,565 |
| Pre-tax, pre-provision net income | **$ 23,265** | $ 28,113 | **$ 8,524** | $ 8,839 |

***Executive Summary***

Net income for the nine months ended September 30, 2024 was $19.8 million, down $3.1 million or 13.5% from the same period in 2023 due primarily to a decrease in net interest income resulting from higher funding costs. Earnings per common share on a fully diluted basis were $1.78 for the nine months ended September 30, 2024, down $0.29 or 13.9% from the $2.06 posted for the same period in 2023. Dividends totaling $1.07 per share have been declared year-to-date, representing a payout to our shareholders of 59.8% of basic earnings per share for the period. For the quarter ended September 30, 2024, net income was $7.6 million, up $97,000 or 1.3% from the same period in 2023. Earnings per common share on a fully diluted basis were $0.68 for the quarter ended September 30, 2024, up $0.01 or 0.7% from the $0.67 posted for the same period in 2023.

Net interest income on a tax-equivalent basis was down $2.9 million or 5.6% in the nine months ended September 30, 2024 compared to the same period in 2023. The tax equivalent net interest margin for the nine months ended September 30, 2024, was 2.25%, down from 2.54% for the same period in 2023. The period-to-period change in net interest income and net interest margin is primarily attributable to increased funding costs, mitigated by earning asset growth. For the quarter ended

September 30, 2024, net interest income on a tax- equivalent basis increased $480,000 or 2.9% compared to the same period in 2023 as volume effects from earning asset growth outpaced rate effects from a contracted margin. Net interest margin for the quarter was 2.32% compared to 2.40% for the same period in 2023.

Non-interest income for the nine months ended September 30, 2024 was $11.9 million, up $589,000 or 5.2%, from the nine months ended September 30, 2023. As compared to the prior year, service charges on deposit accounts were up $153,000, or 10.9%, and debit card revenue increased $41,000, or 1.1%. Revenue at First National Wealth Management increased $174,000 or 5.0% over the same period. Mortgage banking revenue decreased $99,000 or 16.2% on lower volume of mortgage sales and negative marks taken against mortgage servicing rights valuation.

Non-interest expense for the nine months ended September 30, 2024 was $35.0 million, up $2.4 million or 7.5% from the nine months ended September 30, 2023. FDIC insurance premiums increased $333,000 from the same period in 2023, salaries and employee benefits increased 8.2% and other operating expense increased 6.7% over the same period.

Asset quality continues to be strong and stable. Non-performing assets stood at 0.08% of total assets as of September 30, 2024, up slightly from 0.07% of total assets as of December 31, 2023 and down slightly from 0.09% of total assets as of September 30, 2023. Total past-due loans remain low and were 0.14% of total loans as of September 30, 2024, down from 0.18% and up from 0.10% of total loans as of December 31, 2023 and September 30, 2023, respectively.

The provision for credit losses on loans for the first nine months of 2024 was $58,000, down from the $419,000 provisioned in the same period in 2023. A reverse provision for credit losses on loans of $580,000 was recorded in the third quarter of 2024. Models implemented in the third quarter introduced post-pandemic experience into the Bank's discounted cash flow based estimates, a period of strong asset quality for the Bank. This change, coupled with a refresh of peer groups used in our analysis, led to the modest reversal for the period. Net charge-offs for the nine months ended September 30, 2024 were $89,000 or 0.005% of average loans on an annualized basis, compared to net charge-offs of $30,000 or 0.002% as of the nine months ended September 30, 2023. The ACL for loans decreased $31,000 between December 31, 2023 and September 30, 2024, and now stands at 1.04% of loans outstanding as of September 30, 2024, as compared to 1.13% at December 31, 2023 and 1.12% at September 30, 2023.

The Company's balance sheet continued to expand in the first nine months of 2024 as total assets increased $195.9 million or 6.6% year-to-date. The loan portfolio increased $177.8 million or 8.3% in the nine months ended September 30, 2024 and $227.4 million or 10.9% from a year ago. Loan growth in the first nine months of 2024 was centered in the commercial and residential portfolios. Commercial loans increased by $127.4 million during the period, led by increases in owner-occupied commercial real estate of $33.5 million, non-owner occupied commercial real estate of $18.2 million, commercial & industrial loans of $53.4 million and multifamily of $17.0 million. Residential term loans increased by $23.2 million in the first nine months of 2024 and residential construction loans increased by $2.3 million during the same period. The investment portfolio decreased $1.6 million year-to-date and decreased $7.1 million from a year ago based upon cash flow of amortizing securities, limited reinvestment or new purchases, and changes in the carrying value of AFS securities.

On the liability side of the balance sheet, total deposits increased $103.1 million, or 4.0%, year-to-date to $2.70 billion. Low-cost deposits (Demand, NOW, Savings) have increased $9.8 million, and money market balances have increased $38.2 million year-to-date, while local CDs have decreased $2.8 million. To balance this activity and to support earning asset growth, wholesale CDs have increased $57.9 year-to-date and borrowings have increased by $81.4 million.

Remaining well capitalized is a top priority for The Company. The Company's total risk-based capital ratio was 13.11% as of September 30, 2024, solidly above the well-capitalized threshold of 10.0% set by the FDIC, the FRBB, and the OCC.

Among the Company's operating ratios, the return on average assets was 0.87% and return on average tangible common equity of 12.19% for the nine months ended September 30, 2024 compared to 1.08% and 14.97%, respectively, for the same period in 2023. Our non-GAAP efficiency ratio continues to be an important component in the Company's overall performance and stood at 57.88% for the nine months ended September 30, 2024 compared to 51.88% for the same period in 2023, the change being attributable primarily to lower levels of net interest income.

***Net Interest Income***

Total interest income of $109.8 million for the nine months ended September 30, 2024 was an increase of $16.5 million or 17.7% compared to total interest income of $93.4 million for the same period of 2023. Growth in earning assets coupled with higher interest rates resulted in the period-to-period increase. Higher market interest rates resulting from FOMC actions coupled with changing customer product preferences to higher cost money market and CD products led to total interest expense of $63.5 million for the nine months ended September 30, 2024, an increase of $19.5 million or 44.3% compared to total interest expense for the nine months ended September 30, 2023. As a result, net interest income of $46.4 million for the nine months ended September 30, 2024 was a decrease of $3.0 million or 6.1% compared to net interest income of $49.4 million for the same period ended September 30, 2023. The Company's net interest margin on a tax-equivalent basis for the nine months ended September 30, 2024 was 2.25%, down from 2.54% for the first nine months of 2023. Tax-exempt interest income amounted to $7.8 million for the nine months ended September 30, 2024 compared to $7.4 million for the nine months ended September 30, 2023.

The following tables present the amount of interest earned or paid, as well as the average yield or rate on an annualized basis, for each major category of assets or liabilities for the nine months and quarters ended September 30, 2024 and 2023. Tax-exempt income is calculated on a tax-equivalent basis, using a 21.0% Federal Income Tax rate.

| | For the nine months ended | | | |
|---|---|---|---|---|
| | **September 30, 2024** | | September 30, 2023 | |
| *Dollars in thousands* | **Amount of interest** | **Average Yield/Rate** | Amount of interest | Average Yield/Rate |
| **Interest on earning assets** | | | | |
| Interest-bearing deposits | **$ 190** | **4.97 %** | $ 300 | 5.30 % |
| Investments | **15,689** | **3.17 %** | 15,795 | 3.12 % |
| Loans | **96,027** | **5.80 %** | 79,222 | 5.26 % |
| Total interest income | **111,906** | **5.19 %** | 95,317 | 4.72 % |
| **Interest expense** | | | | |
| Deposits[1] | **59,112** | **3.43 %** | 42,384 | 2.62 % |
| Other borrowings | **4,365** | **3.48 %** | 1,614 | 1.93 % |
| Total interest expense | **63,477** | **3.44 %** | 43,998 | 2.58 % |
| **Net interest income** | **$ 48,429** | | $ 51,319 | |
| Interest rate spread | | **1.75 %** | | 2.14 % |
| Net interest margin | | **2.25 %** | | 2.54 % |

[1]*Amount of interest of 59,112 will not tie to Interest on deposits in the Consolidated Statements of Income and Comprehensive Income due to rounding.*

| | For the quarters ended | | | |
|---|---|---|---|---|
| | **September 30, 2024** | | September 30, 2023 | |
| *Dollars in thousands* | **Amount of interest** | **Average Yield/Rate** | Amount of interest | Average Yield/Rate |
| **Interest on earning assets** | | | | |
| Interest-bearing deposits | **$ 56** | **4.00 %** | $ 211 | 5.49 % |
| Investments | **5,261** | **3.16 %** | 5,249 | 3.12 % |
| Loans held for sale | **—** | **0.00 %** | — | 0.00 % |
| Loans | **33,687** | **5.90 %** | 28,479 | 5.45 % |
| Total interest-earning assets | **39,004** | **5.28 %** | 33,939 | 4.89 % |
| **Interest expense** | | | | |
| Deposits | **20,118** | **3.46 %** | 16,992 | 3.02 % |
| Other borrowings | **1,767** | **3.71 %** | 308 | 1.32 % |
| Total interest expense | **21,885** | **3.48 %** | 17,300 | 2.96 % |
| **Net interest income** | **$ 17,119** | | $ 16,639 | |
| Interest rate spread | | **1.80 %** | | 1.93 % |
| Net interest margin | | **2.32 %** | | 2.40 % |

The following tables present changes in interest income and expense attributable to changes in interest rates and volume for interest-earning assets and liabilities for the nine months and quarters ended September 30, 2024 compared to 2023. Tax-exempt income is calculated on a tax-equivalent basis, using a 21% Federal Income Tax rate.

| **For the nine months ended September 30, 2024 compared to 2023** | | | | |
|---|---|---|---|---|
| *Dollars in thousands* | Volume | Rate | Rate/Volume[1] | Total |
| **Interest on earning assets** | | | | |
| Interest-bearing deposits | $ (98) | $ (18) | $ 6 | $ (110) |
| Investment securities | (399) | 301 | (8) | (106) |
| Loans held for sale | — | — | — | — |
| Loans | 7,742 | 8,256 | 807 | 16,805 |
| Change in interest income | 7,245 | 8,539 | 805 | 16,589 |
| **Interest expense** | | | | |
| Deposits | 2,606 | 13,304 | 818 | 16,728 |
| Other borrowings | 800 | 1,304 | 647 | 2,751 |
| Change in interest expense | 3,406 | 14,608 | 1,465 | 19,479 |
| Change in net interest income | $ 3,839 | $ (6,069) | $ (660) | $ (2,890) |

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

| **For the quarter ended September 30, 2024 compared to 2023** | | | | |
|---|---|---|---|---|
| *Dollars in thousands* | Volume | Rate | Rate/Volume[1] | Total |
| **Interest on earning assets** | | | | |
| Interest-bearing deposits | $ (134) | $ (58) | $ 37 | $ (155) |
| Investment securities | (32) | 44 | — | 12 |
| Loans held for sale | — | — | — | — |
| Loans | 2,725 | 2,266 | 217 | 5,208 |
| Change in interest income | 2,559 | 2,252 | 254 | 5,065 |
| **Interest expense** | | | | |
| Deposits | 645 | 2,390 | 91 | 3,126 |
| Other borrowings | 323 | 555 | 581 | 1,459 |
| Change in interest expense | 968 | 2,945 | 672 | 4,585 |
| Change in net interest income | $ 1,591 | $ (693) | $ (418) | $ 480 |

***Average Daily Balance Sheets***

The following table shows the Company's average daily balance sheets for the nine months and quarters ended September 30, 2024 and 2023:

| | For the nine months ended | | For the quarters ended | |
|---|---|---|---|---|
| *Dollars in thousands* | **September 30, 2024** | September 30, 2023 | **September 30, 2024** | September 30, 2023 |
| **Assets** | | | | |
| Cash and cash equivalents | **$ 24,797** | $ 25,355 | **$ 26,371** | $ 29,993 |
| Interest-bearing deposits in other banks | **5,102** | 7,567 | **5,568** | 15,241 |
| Securities available for sale (includes tax exempt securities of $36,473 and $36,623 at September 30, 2024 and 2023, respectively) | **274,732** | 281,935 | **278,609** | 273,930 |
| Securities to be held to maturity, net of ACL (included tax exempt securities of $252,516 and $256,464 at September 30, 2024 and 2023, respectively) | **379,438** | 390,828 | **377,361** | 388,623 |
| Restricted equity securities, at cost | **6,221** | 4,778 | **6,829** | 4,243 |
| Loans held for sale | **26** | 45 | **37** | 65 |
| Loans | **2,212,019** | 2,015,081 | **2,271,637** | 2,073,265 |
| Allowance for credit losses | **(24,458)** | (21,478) | **(24,808)** | (23,688) |
| Net loans | **2,187,561** | 1,993,603 | **2,246,829** | 2,049,577 |
| Accrued interest receivable | **15,588** | 13,223 | **15,864** | 13,419 |
| Premises and equipment | **28,245** | 28,109 | **27,795** | 28,004 |
| Other real estate owned | **71** | 8 | **200** | 19 |
| Goodwill | **30,646** | 30,646 | **30,646** | 30,646 |
| Other assets | **64,618** | 63,811 | **63,827** | 65,982 |
| **Total Assets** | **$ 3,017,045** | $ 2,839,908 | **$ 3,079,936** | $ 2,899,742 |
| **Liabilities & Shareholders' Equity** | | | | |
| Demand deposits | **$ 274,854** | $ 301,738 | **$ 294,424** | $ 316,488 |
| NOW deposits | **617,644** | 618,445 | **610,394** | 620,135 |
| Money market deposits | **317,397** | 208,697 | **325,757** | 240,874 |
| Savings deposits | **277,247** | 339,078 | **269,561** | 324,384 |
| Certificates of deposit | **1,087,513** | 1,000,370 | **1,109,018** | 1,044,609 |
| Total deposits | **2,574,655** | 2,468,328 | **2,609,154** | 2,546,490 |
| Borrowed funds – short term | **72,679** | 112,080 | **94,274** | 92,461 |
| Borrowed funds – long term | **95,000** | — | **95,000** | — |
| Dividends payable | **922** | 892 | **959** | 928 |
| Other liabilities | **26,326** | 23,776 | **26,638** | 25,839 |
| Total Liabilities | **2,769,582** | 2,605,076 | **2,826,025** | 2,665,718 |
| Shareholders' Equity: | | | | |
| Common stock | **111** | 111 | **111** | 111 |
| Additional paid-in capital | **70,656** | 68,975 | **71,088** | 69,381 |
| Retained earnings | **217,930** | 208,884 | **220,379** | 210,148 |
| Net unrealized loss on securities available for sale | **(42,077)** | (43,293) | **(38,330)** | (46,732) |
| Net unrealized loss on securities transferred from available for sale to held to maturity | **(52)** | (60) | **(50)** | (58) |
| Net unrealized gain (loss) on cash flow hedging derivative instruments | **592** | (58) | **410** | 901 |
| Net unrealized gain on postretirement benefit costs | **303** | 273 | **303** | 273 |
| Total Shareholders' Equity | **247,463** | 234,832 | **253,911** | 234,024 |
| **Total Liabilities & Shareholders' Equity** | **$ 3,017,045** | $ 2,839,908 | **$ 3,079,936** | $ 2,899,742 |

***Non-Interest Income***

Non-interest income of $11.9 million for the nine months ended September 30, 2024 is an increase of $589,000 compared to the same period in 2023. Service charges on deposit accounts were up $153,000, or 10.9%, debit card revenue was up $41,000, or 1.1%, and revenue at First National Wealth Management increased $174,000 or 5.0%. Over the same period, Mortgage banking revenue was down $99,000, or 16.2%; the decrease is attributable to a year-to-year decrease in mortgage origination activity and marks against mortgage servicing rights. Non-interest income of $4.1 million for the quarter ended September 30, 2024 is an increase of $231,000 compared to the same period in 2023, due primarily to a 21.6% increase in other operating income, coupled with increases in investment management fees and service charges consistent with year-to-date performance.

***Non-Interest Expense***

Non-interest expense of $35.0 million for the nine months ended September 30, 2024 is an increase of 7.5% or $2.4 million compared to non-interest expense of $32.6 million for the same period in 2023. Salaries and employee benefits increased $1.3 million or 8.2%, furniture and equipment expense was up $173,000 or 4.3% on higher software costs, and and other operating expense increased $548,000 or 6.7%. FDIC insurance premiums increased by $333,000 due to a change in base assessment rate which became effective in the second quarter of 2023 and balance sheet expansion. Non-interest expense of $12.0 million for the quarter ended September 30, 2024 is increase of 9.0% compared to non-interest expense of $11.0 million for the same period in 2023 due to the reasons mentioned.

***Income Taxes***

Income taxes on operating earnings were $4.1 million for the nine months ended September 30, 2024, down $632,000 from the same period in 2023.

***Investments***

The carrying value of the Company's investment portfolio decreased by $1.6 million between December 31, 2023 and September 30, 2024 from $670.7 million to $669.1 million. The change in value of the portfolio is attributable to a combination of incoming cash flow from amortizing investments, limited re-investment or new purchases, and the effects of interest rate movement on the fair value of AFS holdings. As of September 30, 2024, mortgage-backed securities had a carrying value of $280.7 million and a fair value of $271.5 million. Of this total, securities with a fair value of $74.8 million or 28.7% of the mortgage-backed portfolio were issued by GNMA and securities with a fair value of $185.7 million or 71.3% of the mortgage-backed portfolio were issued by FHLMC and FNMA.

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

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

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 and a corresponding fair value of $89,757,000 from AFS to HTM. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in AOCI, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in AOCI will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from AFS to HTM was $49,000 at September 30, 2024. This compares to $56,000 and $58,000, net of taxes, at December 31, 2023 and September 30, 2023, respectively. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

The following table sets forth the Company's investment securities at their carrying amounts as of September 30, 2024 and 2023 and December 31, 2023.

| *Dollars in thousands* | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| **Securities available for sale** | | | |
| U.S. Treasury & Agency securities | **$ 20,735** | $ 19,830 | $ 38,252 |
| Mortgage-backed securities | **227,374** | 224,597 | 212,846 |
| State and political subdivisions | **34,608** | 34,645 | 30,780 |
| Asset-backed securities | **2,304** | 2,981 | 3,094 |
| | **$ 285,021** | $ 282,053 | $ 284,972 |
| **Securities to be held to maturity** | | | |
| U.S. Treasury & Agency securities | **$ 38,100** | $ 40,100 | $ 40,100 |
| Mortgage-backed securities | **53,373** | 56,401 | 57,224 |
| State and political subdivisions | **252,636** | 254,418 | 255,732 |
| Corporate securities | **33,750** | 34,750 | 34,750 |
| | **$ 377,859** | $ 385,669 | $ 387,806 |
| Less allowance for credit losses | **(224)** | (434) | (432) |
| Net securities to be held to maturity | **$ 377,635** | $ 385,235 | $ 387,374 |
| **Restricted equity securities** | | | |
| Federal Home Loan Bank Stock | **$ 5,383** | $ 2,348 | $ 2,823 |
| Federal Reserve Bank Stock | **1,037** | 1,037 | 1,037 |
| | **$ 6,420** | $ 3,385 | $ 3,860 |
| Total securities | **$ 669,076** | $ 670,673 | $ 676,206 |

The Company adopted ASC 326, the CECL standard in 2023. In conjunction with adoption, holdings of AFS Securities and HTM securities were evaluated to determine the need to establish an ACL, if any. The total ACL for HTM securities was $224,000 as of September 30, 2024, $434,000 as of December 31, 2023 and $432,000 September 30, 2023. Further details are included in Note 2 of the accompanying financial statements.

The following table sets forth yields and contractual maturities of the Company's investment securities as of September 30, 2024. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax rate of 21%. Mortgage-backed securities are presented according to their final contractual maturity date, while the calculated yield takes into effect the intermediate cash flows from repayment of principal which results in a much shorter average life.

| | Available For Sale | | Held to Maturity | |
|---|---|---|---|---|
| *Dollars in thousands* | Fair Value | Yield to maturity | Amortized Cost | Yield to maturity |
| **U.S. Treasury & Agency Securities** | | | | |
| Due in 1 year or less | $ 2,949 | 1.83 % | $ — | 0.00 % |
| Due in 1 to 5 years | — | 0.00 % | — | 0.00 % |
| Due in 5 to 10 years | 8,445 | 1.17 % | 11,500 | 1.11 % |
| Due after 10 years | 9,341 | 2.00 % | 26,600 | 1.67 % |
| Total | 20,735 | 1.64 % | 38,100 | 1.50 % |
| **Mortgage-Backed Securities** | | | | |
| Due in 1 year or less | — | 0.00 % | — | 0.00 % |
| Due in 1 to 5 years | 132 | 3.25 % | 7 | 6.87 % |
| Due in 5 to 10 years | 9,400 | 3.49 % | 3,838 | 4.75 % |
| Due after 10 years | 217,842 | 2.56 % | 49,528 | 1.57 % |
| Total | 227,374 | 2.60 % | 53,373 | 1.80 % |
| **State & Political Subdivisions** | | | | |
| Due in 1 year or less | — | 0.00 % | 2,342 | 5.48 % |
| Due in 1 to 5 years | 270 | 5.06 % | 12,822 | 3.53 % |
| Due in 5 to 10 years | 7,406 | 2.49 % | 61,996 | 3.43 % |
| Due after 10 years | 26,932 | 3.35 % | 175,476 | 2.49 % |
| Total | 34,608 | 3.18 % | 252,636 | 2.80 % |
| **Asset-Backed Securities** | | | | |
| Due in 1 year or less | — | 0.00 % | — | 0.00 % |
| Due in 1 to 5 years | — | 0.00 % | — | 0.00 % |
| Due in 5 to 10 years | — | 0.00 % | — | 0.00 % |
| Due after 10 years | 2,304 | 6.65 % | — | 0.00 % |
| Total | 2,304 | 6.65 % | — | 0.00 % |
| **Corporate Securities** | | | | |
| Due in 1 year or less | — | 0.00 % | — | 0.00 % |
| Due in 1 to 5 years | — | 0.00 % | 7,250 | 4.52 % |
| Due in 5 to 10 years | — | 0.00 % | 26,500 | 5.06 % |
| Due after 10 years | — | 0.00 % | — | 0.00 % |
| Total | — | 0.00 % | 33,750 | 4.95 % |
| | $ 285,021 | 2.63 % | $ 377,859 | 2.72 % |

***AFS Debt Securities in an Unrealized Loss Position***

The securities portfolio contains certain AFS securities where the amortized cost of which exceeds fair value, which at September 30, 2024 amounted to $44.0 million, or 13.40% of the amortized cost of the total securities portfolio. At December 31, 2023, this amount was $50.4 million, or 15.18% of the amortized cost of total securities portfolio.

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

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

As of September 30, 2024, the Company had AFS debt securities in an unrealized loss position with a fair value of $253.8 million and unrealized losses of $44.0 million, as identified in the table below. AFS Securities in a continuous unrealized loss position more than twelve months amounted to a fair value of $249.0 million as of September 30, 2024, compared with $257.7 million at December 31, 2023. The Company has concluded that these securities are fully collectible and that no charge against the allowance is required. This conclusion was based on the issuer's continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that the issuer will continue to do so, Management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value which may be at maturity, the expectation that the Company will receive 100% of future contractual cash flows, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence. The following table summarizes AFS debt securities in an unrealized loss position for which an ACL has not been recorded at September 30, 2024:

| | **Less than 12 months** | | **12 months or more** | | **Total** | |
|---|---|---|---|---|---|---|
| *Dollars in thousands* | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses | Fair Value (Estimated) | Unrealized Losses |
| U.S. Treasury & Agency securities | $ — | $ — | $ 20,735 | $ (5,305) | $ 20,735 | $ (5,305) |
| Mortgage-backed securities | 4,762 | (43) | 199,001 | (33,000) | 203,763 | (33,043) |
| State and political subdivisions | — | — | 29,256 | (5,688) | 29,256 | (5,688) |
| | $ 4,762 | $ (43) | $ 248,992 | $ (43,993) | $ 253,754 | $ (44,036) |

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

**AFS Securities issued by the U.S. Treasury and U.S. Government-sponsored agencies & enterprises.** As of September 30, 2024, there were $5.3 million of unrealized losses on these securities compared to $6.2 million at December 31, 2023. All of these securities were credit rated "AAA" or "AA+" by the major credit rating agencies. Management believes that securities issued by the U.S. Treasury and U.S. Government-sponsored agencies and enterprises carry zero or near-zero credit risk, and that 100% of the amounts contractually due will be collected.

**AFS Mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises.** As of September 30, 2024, there were $33.0 million of unrealized losses on these securities compared with $38.5 million at December 31, 2023. All of these securities were credit rated "AAA" or "AA+" by the major credit rating agencies. Management believes that securities issued by U.S. Government agencies bear no credit risk because they are backed by the full faith and credit of the United States and that securities issued by U.S. Government-sponsored enterprises have minimal credit risk, as these agencies and enterprises play a vital role in the nation's financial markets. Management believes that the unrealized losses at September 30, 2024 were attributable to changes in current market yields and spreads since the date the underlying securities were purchased, and that 100% of the amounts contractually due will be realized. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

**AFS Obligations of state and political subdivisions.** As of September 30, 2024, there were $5.7 million of unrealized losses on these securities compared to $5.7 million at December 31, 2023. Municipal securities are supported by the general taxing authority of the municipality or a dedicated revenue stream, and, in the case of school districts, are generally supported by state aid. At September 30, 2024, all municipal bond issuers were current on contractually obligated interest and principal payments. The Company attributes the unrealized losses at September 30, 2024 to changes in prevailing market yields and pricing spreads since the date the underlying securities were purchased, combined with general market conditions. The Company has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity, and believes that 100% of the amounts contractually due will be realized.

**AFS Asset-backed securities.** As of September 30, 2024, there was no unrealized loss on these securities compared to $9,000 at December 31, 2023. These securities consist of U.S. Government backed student loans along with other credit enhancements.

***FHLBB and FRBB Stock***

The Bank is a member of the FHLBB, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank uses the FHLBB for a portion of its wholesale funding needs. As of September 30, 2024, the Bank's investment in FHLBB stock totaled $5.4 million. This compares to $2.3 million as of December 31, 2023 and $2.8 million as of September 30, 2023. FHLBB stock is a non-marketable equity security and therefore is reported at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee. No impairment losses have been recorded through September 30, 2024.

The Bank is also a member of the FRBB. As a requirement for membership in the FRBB, the Bank must own a minimum required amount of FRBB stock. The Bank uses FRBB for certain correspondent banking services and maintains borrowing capacity at its discount window. The Bank's investment in FRBB stock totaled $1.0 million at September 30, 2024 and 2023, and December 31, 2023.

The Company periodically evaluates its investment in FHLBB and FRBB stock for impairment based on, among other factors, the capital adequacy of the Banks and their overall financial condition. No impairment losses have been recorded through September 30, 2024. The Bank will continue to monitor its investment in these restricted equity securities.

***Loans Held for Sale***

Loans held for sale are carried at the lower of cost or market value. There were no loans held for sale as of September 30, 2024 and 2023 and December 31, 2023.

***Loans***

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

The loan portfolio increased during the first nine months of 2024, with total loans at $2.31 billion at September 30, 2024, up $177.8 million or 8.3% from total loans of $2.13 billion at December 31, 2023. Commercial loans increased $127.4 million or 10.2% between December 31, 2023 and September 30, 2024, municipal loans increased $11.5 million or 22.4%, residential term loans increased $23.2 million, residential construction increased $2.3 million, and home equity lines of credit increased $13.0 million.

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

The following table summarizes the loan portfolio, by class, at September 30, 2024 and 2023 and December 31, 2023.

| *Dollars in thousands* | **September 30, 2024** | | December 31, 2023 | | September 30, 2023 | |
|---|---|---|---|---|---|---|
| Commercial | | | | | | |
| Real estate owner occupied | **$ 348,287** | **15.1 %** | $ 314,819 | 14.8 % | $ 299,943 | 14.4 % |
| Real estate non-owner occupied | **408,361** | **17.7 %** | 390,167 | 18.3 % | 393,531 | 18.9 % |
| Construction | **87,992** | **3.8 %** | 88,673 | 4.2 % | 72,424 | 3.5 % |
| C&I | **368,415** | **16.0 %** | 315,026 | 14.8 % | 306,583 | 14.7 % |
| Multifamily | **110,472** | **4.8 %** | 93,476 | 4.4 % | 91,041 | 4.4 % |
| Agriculture | **51,274** | **2.2 %** | 45,230 | 2.1 % | 47,506 | 2.3 % |
| Municipal | **62,944** | **2.7 %** | 51,423 | 2.4 % | 58,447 | 2.8 % |
| Residential | | | | | | |
| Term | **698,068** | **30.2 %** | 674,855 | 31.7 % | 660,049 | 31.8 % |
| Construction | **34,628** | **1.5 %** | 32,358 | 1.5 % | 28,986 | 1.4 % |
| Home Equity | | | | | | |
| Revolving and term | **117,028** | **5.1 %** | 104,026 | 4.9 % | 101,980 | 4.9 % |
| Consumer | **19,784** | **0.9 %** | 19,401 | 0.9 % | 19,370 | 0.9 % |
| Total loans | **$ 2,307,253** | **100.0 %** | $ 2,129,454 | 100.0 % | $ 2,079,860 | 100.0 % |

The following table sets forth certain information regarding the contractual maturities of the Bank's loan portfolio as of September 30, 2024.

| *Dollars in thousands* | < 1 Year | 1 - 5 Years | 5 - 10 Years | > 10 Years | Total |
|---|---|---|---|---|---|
| Commercial | | | | | |
| Real estate owner occupied | $ 210 | $ 46,629 | $ 32,129 | $ 269,319 | $ 348,287 |
| Real estate non-owner occupied | — | 36,496 | 58,138 | 313,727 | 408,361 |
| Construction | — | 21,653 | 3,287 | 63,052 | 87,992 |
| C&I | 4,761 | 216,550 | 58,326 | 88,778 | 368,415 |
| Multifamily | — | 14,747 | 357 | 95,368 | 110,472 |
| Agriculture | 405 | 10,767 | 12,816 | 27,286 | 51,274 |
| Municipal | 3,057 | 23,567 | 14,209 | 22,111 | 62,944 |
| Residential | | | | | |
| Term | 1 | 18,236 | 32,909 | 646,922 | 698,068 |
| Construction | 176 | 3,203 | 156 | 31,093 | 34,628 |
| Home Equity | | | | | |
| Revolving and term | 803 | 8,652 | 6,214 | 101,359 | 117,028 |
| Consumer | 5,474 | 7,926 | 2,238 | 4,146 | 19,784 |
| Total loans | $ 14,887 | $ 408,426 | $ 220,779 | $ 1,663,161 | $ 2,307,253 |

The following table provides a listing of loans by class, between variable and fixed rates as of September 30, 2024.

| | Fixed-Rate | | Adjustable-Rate | | Total | |
|---|---|---|---|---|---|---|
| *Dollars in thousands* | Amount | % of total | Amount | % of total | Amount | % of total |
| Commercial | | | | | | |
| Real estate owner occupied | $ 41,825 | 1.8 % | $ 306,462 | 13.3 % | $ 348,287 | 15.1 % |
| Real estate non-owner occupied | 106,891 | 4.6 % | 301,470 | 13.1 % | 408,361 | 17.7 % |
| Construction | 29,508 | 1.3 % | 58,484 | 2.5 % | 87,992 | 3.8 % |
| C&I | 147,868 | 6.4 % | 220,547 | 9.6 % | 368,415 | 16.0 % |
| Multifamily | 9,128 | 0.4 % | 101,344 | 4.4 % | 110,472 | 4.8 % |
| Agriculture | 8,597 | 0.4 % | 42,677 | 1.8 % | 51,274 | 2.2 % |
| Municipal | 62,719 | 2.7 % | 225 | 0.0 % | 62,944 | 2.7 % |
| Residential | | | | | | |
| Term | 466,768 | 20.2 % | 231,300 | 10.0 % | 698,068 | 30.2 % |
| Construction | 13,549 | 0.6 % | 21,079 | 0.9 % | 34,628 | 1.5 % |
| Home Equity | | | | | | |
| Revolving and Term | 18,450 | 0.8 % | 98,578 | 4.3 % | 117,028 | 5.1 % |
| Consumer | 13,953 | 0.6 % | 5,831 | 0.3 % | 19,784 | 0.9 % |
| Total loans | $ 919,256 | 39.8 % | $ 1,387,997 | 60.2 % | $ 2,307,253 | 100.0 % |

***Loan Concentrations***

As of September 30, 2024, the Bank had two concentration of loans in two particular industries that exceeded 10% of its total loan portfolio: (1) loans to hotels (except Casino hotels) and motels, totaling $255.5 million, or 11.07% of total loans; and (2) loans to lessors of residential buildings and dwellings, totaling $243.6 million, or 10.56% of total loans. This compares to one concentration of loans in one particular industry that exceeded 10% of its total loan portfolio, hotels (except Casino hotels) and motels, totaling $226.4 million, or 10.88% of total loans, as of September 30, 2023.

***Credit Risk Management and Allowance for Credit Losses on Loans***

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

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

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

Such agencies may require the Company to record additions to the allowance based on judgments different from those of Management.

The ACL includes reserve amounts assigned to IAL. This includes loans with balances of $250,000 or more that have either been placed into non-accrual or are loans identified by management as having characteristics that may impact ultimate collectibility and therefore merit individual analysis. A specific reserve is allocated to an individual loan when the amount of a probable loss is estimable on the basis of its collateral value, the present value of anticipated future cash flows, or its net realizable value. At September 30, 2024, IAL with specific reserves totaled $592,000 and the amount of such reserves was $245,000. This compares to IAL with specific reserves of $919,000 at December 31, 2023 and the amount of such reserves was $264,000.

The total ACL on loans at September 30, 2024 is considered by Management to be appropriate to address the potential for credit losses inherent in the loan portfolio at that date. However, determination of the appropriate allowance level is based upon a number of assumptions made about future events, which management believes are reasonable, but which may or may not prove valid. Thus, there can be no assurance charge-offs in future periods will not exceed the ACL or that additional increases in the ACL will not be necessary.

The following table summarizes the allocation of allowance by loan class as of September 30, 2024 and 2023 and December 31, 2023. The percentages are the portion of each loan class to total loans.

| *Dollars in thousands* | **September 30, 2024** | | December 31, 2023 | | September 30, 2023 | |
|---|---|---|---|---|---|---|
| Commercial | | | | | | |
| Real estate owner occupied | **$ 5,119** | **15.1 %** | $ 4,633 | 14.8 % | $ 4,511 | 14.4 % |
| Real estate non-owner occupied | **4,971** | **17.7 %** | 4,285 | 18.5 % | 4,429 | 19.1 % |
| Construction | **807** | **3.8 %** | 1,978 | 4.2 % | 1,602 | 3.5 % |
| C&I | **4,662** | **16.0 %** | 5,001 | 16.8 % | 4,797 | 16.9 % |
| Multifamily | **1,262** | **4.8 %** | 1,318 | 4.4 % | 1,277 | 4.4 % |
| Agriculture | **613** | **2.2 %** | — | — % | — | — % |
| Municipal | **266** | **2.7 %** | 334 | 2.4 % | 376 | 2.8 % |
| Residential | | | | | | |
| Term | **5,051** | **30.2 %** | 4,991 | 31.6 % | 4,886 | 31.7 % |
| Construction | **425** | **1.5 %** | 618 | 1.5 % | 576 | 1.4 % |
| Home Equity | | | | | | |
| Revolving and term | **663** | **5.1 %** | 626 | 4.9 % | 617 | 4.9 % |
| Consumer | **160** | **0.9 %** | 246 | 0.9 % | 251 | 0.9 % |
| Total | **$ 23,999** | **100.0 %** | $ 24,030 | 100.0 % | $ 23,322 | 100.0 % |

The ACL totaled $24.0 million at September 30, 2024, compared to $24.0 million as of December 31, 2023 and $23.3 million as of September 30, 2023.

A breakdown of the ACL on loans as of September 30, 2024, by loan class and allowance element, is presented in the following table:

| *Dollars in thousands* | Specific Reserves on Loans Evaluated Individually | General Reserves on Loans Based on Historical Loss Experience | Reserves for Qualitative Factors | Total Reserves |
|---|---|---|---|---|
| Commercial | | | | |
| Real estate owner occupied | $ — | $ 4,484 | $ 635 | $ 5,119 |
| Real estate non-owner occupied | — | 4,387 | 584 | 4,971 |
| Construction | — | 762 | 45 | 807 |
| C&I | 223 | 3,872 | 567 | 4,662 |
| Multifamily | — | 1,129 | 133 | 1,262 |
| Agriculture | — | 462 | 151 | 613 |
| Municipal | — | 35 | 231 | 266 |
| Residential | | | | |
| Term | 22 | 4,593 | 436 | 5,051 |
| Construction | — | 411 | 14 | 425 |
| Home Equity | | | | |
| Revolving and term | — | 584 | 79 | 663 |
| Consumer | — | 151 | 9 | 160 |
| | $ 245 | $ 20,870 | $ 2,884 | $ 23,999 |

Based upon Management's evaluation, provisions are made to maintain the allowance as a best estimate of expected losses within the portfolio. The provision for credit losses to maintain the allowance was $58,000 for the first nine months of 2024 and $419,000 the first nine months of 2023. Net charge-offs were $89,000 in the first nine months of 2024, compared to net charge-offs of $30,000 in the first nine months of 2023. The ACL as a percentage of outstanding loans was 1.04% as of September 30, 2024, down from 1.13% as of December 31, 2023, and down from 1.12% as of September 30, 2023.

The following table summarizes the activities in the ACL for the nine months ended September 30, 2024 and 2023 and for the year ended December 31, 2023:

| *Dollars in thousands* | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Balance at the beginning of period | **$ 24,030** | $ 16,723 | $ 16,723 |
| Loans charged off: | | | |
| Commercial | | | |
| Real estate owner occupied | **—** | 40 | 40 |
| Real estate non-owner occupied | **—** | — | — |
| Construction | **—** | — | — |
| C&I | **88** | 153 | 16 |
| Multifamily | **—** | — | — |
| Agriculture | **—** | — | — |
| Municipal | **—** | — | — |
| Residential | | | |
| Term | **36** | — | — |
| Construction | **—** | — | — |
| Home Equity | | | |
| Revolving and term | **7** | 50 | — |
| Consumer | **210** | 194 | 152 |
| Total | **341** | 437 | 208 |
| Recoveries on loans previously charged off | | | |
| Commercial | | | |
| Real estate owner occupied | **100** | 2 | 2 |
| Real estate non-owner occupied | **—** | 75 | 75 |
| Construction | **—** | — | — |
| C&I | **24** | 3 | 3 |
| Multifamily | **—** | — | — |
| Agriculture | **—** | — | — |
| Municipal | **—** | — | — |
| Residential | | | |
| Term | **30** | 14 | 10 |
| Construction | **—** | — | — |
| Home Equity | | | |
| Revolving and term | **21** | 13 | 10 |
| Consumer | **77** | 97 | 78 |
| Total | **252** | 204 | 178 |
| Net loans charged off | **89** | 233 | 30 |
| Credit loss expense | **58** | 1,330 | 419 |
| Adoption of ASU No. 2016-13 | **—** | 6,210 | 6,210 |
| Balance at end of period | **$ 23,999** | $ 24,030 | $ 23,322 |
| Ratio of net loans charged off to average loans outstanding [1] | **0.005 %** | 0.011 % | 0.002 % |
| Ratio of allowance for credit losses to total loans outstanding | **1.04 %** | 1.13 % | 1.12 % |

[1] *Annualized using a 366-day basis in 2024 and a 365-day basis in 2023.*

***ACL for Unfunded Commitments***

The Bank's modeling methodology applies the same class level credit loss factors used in the ACL for loans model to applicable classes of unfunded commitments to determine an appropriate ACL level. Utilization assumptions are based upon an independent analysis of the Bank's historical data. The ACL for unfunded commitments is reported on the Company's consolidated balance sheets within other liabilities and totaled $768,000 as of September 30, 2024.

***Nonperforming Loans***

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

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

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

Nonperforming loans, expressed as a percentage of total loans, totaled 0.11% at September 30, 2024 compared to 0.10% at December 31, 2023 and 0.12% at September 30, 2023. The following table shows the distribution of nonperforming loans by class as of September 30, 2024 and 2023 and December 31, 2023:

| *Dollars in thousands* | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Commercial | | | |
| Real estate owner occupied | **$ 367** | $ — | $ — |
| Real estate non-owner occupied | **—** | — | — |
| Construction | **19** | 29 | 29 |
| C&I | **129** | 538 | 714 |
| Multifamily | **—** | — | — |
| Agriculture | **31** | — | — |
| Municipal | **—** | — | — |
| Residential | | | |
| Term | **1,686** | 1,315 | 1,320 |
| Construction | — | — | — |
| Home Equity | | | |
| Revolving and term | **265** | 296 | 490 |
| Consumer | **—** | — | — |
| Total nonperforming loans | **$ 2,497** | $ 2,178 | $ 2,553 |
| Allowance for credit losses on loans as a percentage of nonperforming loans | **961.1 %** | 1103.3 % | 913.5 % |

The amounts shown for total nonperforming loans do not include loans 90 or more days past due and still accruing interest. These are loans for which we expect to collect all amounts due, including past-due interest. As of September 30, 2024, loans 90 days or more day past due and still accruing interest totaled $405,000, compared to $429,000 at December 31, 2023 and $11,000 at September 30, 2023.

***Loan Modifications Made to Borrowers Experiencing Financial Difficulty***

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

***Past Due Loans***

The Bank's overall loan delinquency ratio was 0.14% at September 30, 2024 compared to 0.18% at December 31, 2023 and 0.10% at September 30, 2023. Loans 90 days delinquent and accruing decreased from $429,000 at December 31, 2023 to $405,000 as of September 30, 2024. The following table sets forth loan delinquencies as of September 30, 2024 and 2023 and December 31, 2023:

| *Dollars in thousands* | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Commercial | | | |
| Real estate owner occupied | **$ 162** | $ — | $ — |
| Real estate non-owner occupied | **—** | — | — |
| Construction | **—** | 17 | 15 |
| C&I | **1,070** | 869 | 670 |
| Multifamily | **—** | — | — |
| Agriculture | **210** | — | — |
| Municipal | **—** | 31 | — |
| Residential | | | |
| Term | **736** | 1,800 | 723 |
| Construction | **—** | — | 62 |
| Home Equity | | | |
| Revolving and term | **512** | 616 | 258 |
| Consumer | **617** | 555 | 260 |
| Total | **$ 3,307** | $ 3,888 | $ 1,988 |
| Loans 30-89 days past due to total loans | **0.104 %** | 0.139 % | 0.048 % |
| Loans 90+ days past due and accruing to total loans | **0.018 %** | 0.020 % | 0.001 % |
| Loans 90+ days past due on non-accrual to total loans | **0.022 %** | 0.024 % | 0.047 % |
| Total past due loans to total loans | **0.143 %** | 0.183 % | 0.096 % |

***Potential Problem Loans and Loans in Process of Foreclosure***

Potential problem loans consist of classified, accruing commercial and commercial real estate loans that were between 30 and 89 days past due. Such loans are characterized by weaknesses in the financial condition of borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve due to improvements in the economy as well as changes in collateral values or the financial condition of the borrowers, while the credit quality of other loans may deteriorate, resulting in some amount of loss. At September 30, 2024, there were nine potential problem loans reported with a balance of $303,000 or 0.01% of total loans. This compares to three potential problem loans with a balance of $180,000 or 0.01% of total loans at December 31, 2023.

As of September 30, 2024, there were two residential loans in the process of foreclosure totaling $127,000. The Bank's residential foreclosure process begins when a loan becomes 75 days past due at which time a Demand/Breach Letter is sent to the borrower. If the loan becomes 120 days past due, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review and a complaint for foreclosure is then prepared. An authorized Bank officer signs the affidavit certifying the validity of the documents and verification of the past due amount which is then forwarded to the court. Once a Motion for Summary Judgment is granted, a POR begins which gives the customer 90 days to cure the default. A foreclosure auction date is then set 30 days from the POR expiration date if the default is not cured.

As of September 30, 2024, there were no commercial loans in the process of foreclosure. The Bank's commercial foreclosure process begins when a loan becomes 60 days past due, at which time a default letter is issued. At expiration of the period to cure default, which lasts 12 days after the issuing of the default letter, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review. A Notice of Statutory Power of Sale is then prepared. This notice must be published for three consecutive weeks in a newspaper located in the county in which the property is located. A notice also must be issued to the mortgagor and all parties of interest 21 days prior to the sale. The foreclosure auction occurs and the Affidavit of Sale is recorded within the appropriate county within 30 days of the sale.

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

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

***Other Real Estate Owned***

OREO and repossessed assets are comprised of properties or other assets acquired through a foreclosure proceeding, or acceptance of a deed or title in lieu of foreclosure. Real estate acquired through foreclosure is carried at the lower of fair value less estimated cost to sell or the cost of the asset and is not included as part of the ACL totals. At September 30, 2024 there was one property owned with an OREO balance of $173,000, net of an allowance for OREO losses of $35,000. This compares to December 31, 2023, and September 30, 2023, when there were no OREO properties and no allowance for losses. The table below presents the composition of OREO at September 30, 2024 and 2023, and December 31, 2023:

| *Dollars in thousands* | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| **Carrying Value** | | | |
| Residential | | | |
| Term | **$ 208** | $ — | $ — |
| Construction | **—** | — | — |
| Home Equity | | | |
| Revolving and Term | **—** | — | — |
| Consumer | **—** | — | — |
| Total | **208** | — | — |
| **Related Allowance** | | | |
| Residential | | | |
| Term | **35** | — | — |
| Construction | **—** | — | — |
| Home Equity | | | |
| Revolving and Term | **—** | — | — |
| Consumer | **—** | — | — |
| Total | **35** | — | — |
| **Net Value** | | | |
| Residential | | | |
| Term | **173** | — | — |
| Construction | **—** | — | — |
| Home Equity | | | |
| Revolving and Term | **—** | — | — |
| Consumer | **—** | — | — |
| Total | **$ 173** | $ — | $ — |

***Liquidity***

Liquidity is the ability of a financial institution to meet maturing liability obligations, depositor withdrawal requests, and customer loan demand. The Bank's lead source of liquidity is deposits, including brokered deposits, which funded 85.3% of total average assets in the first nine months of 2024, down slightly from 86.9% a year ago. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term or overnight advances, and other borrowings), cash flows from the securities portfolio and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs, although Management has no intention to do so at this time. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace.

The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for prompt and comprehensive responses to unexpected demands for liquidity. Management has developed quantitative models to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. In

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

The Company defines its primary sources of contingent liquidity as cash & equivalents, unencumbered U.S. Government or Agency bond collateral, available capacity at FHLBB, and available authorized brokered deposit issuance capacity. As of September 30, 2024, the Bank had primary sources of contingent liquidity of $886.0 million or 28.5% of its total assets. It is Management's opinion that this is an appropriate level. In addition, the Bank has $266 million in borrowing capacity at FRBB under the FRBB's Borrower in Custody program as well as securities available as collateral, $101.0 million in credit lines with correspondent banks, and $155.0 million in other unencumbered securities available as collateral for borrowing. These bring the Bank's total sources of liquidity to $1.408 billion or 45.3% of its total assets.

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

The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. As the sole shareholder of the Bank, the Company is entitled to such dividends when and as declared by the Bank's Board of Directors from legally available funds. For the nine-months periods ended September 30, 2024 and 2023 the Bank declared dividends to the Company of $11.9 million and $11.0 million, respectively. The Bank's regulator, the OCC, may limit the amount of dividends declared and paid in a calendar year based upon certain factors. Further discussion may be found in Shareholder's Equity below.

***Deposits***

During the first nine months of 2024, total deposits increased by $103.1 million or 4.0% from December 31, 2023 levels. Low-cost deposits (demand, NOW, and savings accounts) increased by $9.8 million or 0.8% in the first nine months of 2024. Money market deposits increased $38.2 million or 12.5%, and certificates of deposit increased $55.1 million or 5.1% as depositors shifted balances to higher cost product types and brokered certificates of deposit were issued to support earning asset growth. The increase in total deposits for the period was consistent with Management's estimates based upon historical seasonal deposit behaviors.

Between September 30, 2023 and September 30, 2024, total deposits increased by $102.8 million or 4.0%. Low-cost deposits decreased by $86.4 million or 6.5%, money market accounts increased $73.0 million or 26.9%, and certificates of deposit increased $116.2 million or 11.5%.

Estimated uninsured deposits totaled $470.9 million or 17.4% of total deposits as of September 30, 2024, and $407.4 million or 15.7% of total deposits as of December 31, 2023. The company has pledged assets as collateral covering certain deposits; these amounts were $344.3 million and $340.5 million as of September 30, 2024 and December 31, 2023, respectively.

***Borrowed Funds***

The Company uses funding from the FHLBB, the FRBB and customer repurchase agreements enabling it to grow its balance sheet and its revenues. This funding may also be used to balance seasonal deposit flows or to carry out interest rate risk management strategies, and may be used to replace or supplement other sources of funding, including core deposits and certificates of deposit. During the nine months ended September 30, 2024, borrowed funds increased $81.4 million. This change consisted of a $95.0 million increase in long-term FHLBB advances, a $6.5 million increase in customer repurchase agreement balances, and a $20.1 million decrease in short-term advances from the FHLBB. Between September 30, 2023 and September 30, 2024, borrowed funds increased by $68.0 million.

***Capital Resources***

Shareholders' equity as of September 30, 2024 was $256.8 million, compared to $243.1 million as of December 31, 2023 and $226.7 million as of September 30, 2023. The Company's earnings in the first nine months of 2024, net of dividends declared, added $7.8 million to shareholders' equity. The net unrealized loss on AFS securities, net of tax, presented in accordance with FASB ASC Topic 320 "Investments – Debt and Equity Securities" stands at $34.4 million as of September 30, 2024 and was $39.6 million as of December 31, 2023. Additional information about the net unrealized loss on AFS securities was provided in Note 2 of the Consolidated Financial Statements and in the AFS Debit Securities section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

A cash dividend of $0.36 per share was declared in the third quarter of 2024. The dividend payout ratio, which is calculated by dividing dividends declared per share by basic earnings per share, was 59.81% for the first nine months of 2024 compared to 50.00% for the same period in 2023. In determining future dividend payout levels, the Board of Directors carefully analyzes capital requirements and earnings retention, as set forth in the Company's Dividend Policy. The ability of the Company to pay cash dividends to its shareholders depends on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net profits as the Bank's directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. The amount available for dividends in 2024 is this year's net income plus $41.5 million.

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The net unrealized gain or loss on AFS securities is generally not included in computing regulatory capital. During the first quarter of 2015, the Company adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. In order to avoid limitations on capital distributions, including dividend payments, the Company must hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. The Company met each of the well-capitalized ratio guidelines at September 30, 2024.

The following tables indicate the capital ratios for the Bank and the Company at September 30, 2024 and December 31, 2023:

| *As of September 30, 2024* | Leverage | | Common Equity Tier 1 | | Tier 1 | | Total Risk-Based | |
|---|---|---|---|---|---|---|---|---|
| Bank | 8.39 | % | 11.91 | % | 11.91 | % | 13.06 | % |
| Company | 8.53 | % | 11.97 | % | 11.97 | % | 13.11 | % |
| Adequately capitalized ratio | 4.00 | % | 4.50 | % | 6.00 | % | 8.00 | % |
| Adequately capitalized ratio plus capital conservation buffer | n/a | % | 7.00 | % | 8.50 | % | 10.50 | % |
| Well capitalized ratio (Bank only) | 5.00 | % | 6.50 | % | 8.00 | % | 10.00 | % |

| *As of December 31, 2023* | Leverage | | Common Equity Tier 1 | | Tier 1 | | Total Risk-Based | |
|---|---|---|---|---|---|---|---|---|
| Bank | 8.43 | % | 12.37 | % | 12.37 | % | 13.62 | % |
| Company | 8.61 | % | 12.42 | % | 12.42 | % | 13.66 | % |
| Adequately capitalized ratio | 4.00 | % | 4.50 | % | 6.00 | % | 8.00 | % |
| Adequately capitalized ratio plus capital conservation buffer | n/a | % | 7.00 | % | 8.50 | % | 10.50 | % |
| Well capitalized ratio (Bank only) | 5.00 | % | 6.50 | % | 8.00 | % | 10.00 | % |

The Bank maintains and annually updates a capital plan over a five year horizon. The capital plan was last updated and approved by the Board in July 2024. Based upon reasonable assumptions of growth and operating performance, the base capital plan model projects that the Bank will be well capitalized throughout the five year period. The base model is also stress tested for interest rate risk from increasing and decreasing rates, credit risk in normal, elevated and severe loss scenarios, and combinations of interest rate and credit risk. In each stress scenario, the Bank maintained well capitalized status.

***Off-Balance Sheet Financial Credit Exposures and Contractual Obligations***

***Derivative Financial Instruments Designated as Hedges***

As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets and/or liabilities to mitigate adverse impacts upon net interest income resulting from interest rate changes. Derivative instruments that Management periodically uses as part of its interest rate risk management strategy may include interest rate swap agreements, interest rate floor agreements, and interest rate cap agreements.

At September 30, 2024, the Bank had one outstanding off-balance sheet, derivative instrument, designated as a cash flow hedge and four off-balance sheet, derivative instruments, designated as fair value hedges. These derivative instruments were interest rate swap agreements, with notional principal amounts totaling $75.0 million and $150.0 million, respectively, and an unrealized loss of $2.1 million, net of taxes. The notional amounts and net unrealized gain (loss) of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent the counterparty defaults in its responsibility to pay interest under the terms of the agreements. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that Management believes to be creditworthy and by limiting the amount of exposure to each counter-party. At September 30, 2024, the Bank's derivative instrument counterparties had a composite credit rating of “A-” based upon the ratings of several major credit rating agencies. The interest rate swap agreements were entered into by the Bank to limit its exposure to rising interest rates.

The Bank also enters into swap arrangements with qualified loan customers as a means to provide these customers with access to long-term fixed interest rates for borrowings, and simultaneously enters into a swap contract with an approved third- party financial institution. The terms of the contracts are designed to offset one another resulting in there being neither a net gain or a loss. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent that either counter-party defaults in its responsibility to pay interest under the terms of the agreements. Credit risk is mitigated by prudent underwriting of the loan customer and financial institution counterparties. As of September 30, 2024, the Bank had eight loan swap agreements in place with a total notional value of $85.3 million.

***Contractual Obligations***

The following table sets forth the contractual obligations of the Company as of September 30, 2024:

| *Dollars in thousands* | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Borrowed funds | **$ 151,027** | $ 56,027 | $ 70,000 | $ 25,000 | $ — |
| Operating leases | **688** | 104 | 145 | 57 | 382 |
| Certificates of deposit | **1,125,326** | 669,485 | 373,863 | 81,978 | — |
| Total | **$ 1,277,041** | $ 725,616 | $ 444,008 | $ 107,035 | $ 382 |
| Total loan commitments and unused lines of credit | **$ 297,906** | $ 297,906 | $ — | $ — | $ — |

## Item 3 – Quantitative and Qualitative Disclosures About Market Risk

***Market-Risk Management***

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

***Asset/Liability Management***

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

Static gap analysis measures the amount of repricing risk embedded in the balance sheet at a point in time. It does so by comparing the differences in the repricing characteristics of assets and liabilities. A gap is defined as the difference between the principal amount of assets and liabilities that reprice within a specified time period. The Company's cumulative one-year gap at September 30, 2024 was (14.30)% of total assets compared to (11.54)% of total assets at December 31, 2023. Core deposits with non-contractual maturities are presented based upon historical patterns of balance attrition and pricing behavior, which are reviewed at least annually.

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

A summary of the Company's static gap, as of September 30, 2024, is presented in the following table:

| *Dollars in thousands* | **0-90 Days** | **90-365 Days** | **1-5 Years** | **5+ Years** |
|---|---|---|---|---|
| Investment securities at amortized cost (HTM) and fair value (AFS) | $ 44,864 | $ 44,550 | $ 160,186 | $ 413,056 |
| Restricted stock, at cost | 5,383 | — | — | 1,037 |
| Loans held for sale | — | — | — | — |
| Loans | 597,321 | 362,949 | 1,060,330 | 286,652 |
| Other interest-earning assets | 27,194 | — | — | — |
| Non-rate-sensitive assets | 37,381 | — | — | 101,660 |
| **Total assets** | 712,143 | 407,499 | 1,220,516 | 802,405 |
| Interest-bearing deposits | 1,122,333 | 386,643 | 458,265 | 479,548 |
| Borrowed funds | — | 60,000 | 35,000 | — |
| Non-rate-sensitive liabilities and equity | — | — | — | 600,774 |
| **Total liabilities and equity** | 1,122,333 | 446,643 | 493,265 | 1,080,322 |
| **Period gap** | $ (410,190) | $ (39,144) | $ 727,251 | $ (277,917) |
| Percent of total assets | (13.05) % | (1.25) % | 23.14 % | (8.84) % |
| Cumulative gap (current) | $ (410,190) | $ (449,334) | $ 277,917 | $ — |
| Percent of total assets | (13.05) % | (14.30) % | 8.84 % | — % |

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

The Company's most recent simulation model calculates projected impact on net interest income in scenarios where short-term interest rates gradually decrease by two percentage points, gradually decreases by one percentage point, and where short-term rates gradually increase by two percentage points. The Company's modeling as of September 30, 2024 projects net interest income would increase by approximately 2.6% if short-term rates affected by FOMC actions fall gradually by two percentage points over the next year, and would increase by approximately 1.6% if short term rates gradually fall by one percentage point over the next year; net interest income would decrease by approximately 4.5% if rates rise gradually by two percentage points over the next year. Each scenario is within the ALCO's policy limit of a decrease in net interest income of no more than 10.0% given a 2.0% move in interest rates, up or down. Management believes this reflects a reasonable interest rate risk position. In year two, and assuming no additional movement in rates, the model forecasts that net interest income would be higher than that earned in the first year of a stable rate environment by 20.4% in the two percentage point falling-rate scenario, and higher by 19.1% in the one percentage point falling rate scenario; net interest income would be higher than that earned in a stable rate environment by 4.0% in a two percentage point rising rate scenario, when compared to the year-one base scenario. Each year two scenario is well within the ALCO's policy limit of a decrease of no more than 20% given a 2.0% move in interest rates, up or down. A summary of the Bank's interest rate risk simulation modeling, as of September 30, 2024 and December 31, 2023 is presented in the following table:

| **Changes in Net Interest Income** | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| **Year 1** | | |
| Projected change if rates decrease by 1.0% | **1.6%** | 2.0% |
| Projected change if rates decrease by 2.0% | **2.6%** | 3.7% |
| Projected change if rates increase by 2.0% | **(4.5)%** | (6.0)% |
| **Year 2** | | |
| Projected change if rates decrease by 1.0% | **19.1%** | 20.8% |
| Projected change if rates decrease by 2.0% | **20.4%** | 23.8% |
| Projected change if rates increase by 2.0% | **4.0%** | 0.7% |

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

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

***Interest Rate Risk Management***

A variety of financial instruments can be used to manage interest rate sensitivity. These may include investment securities, interest rate swaps, and interest rate caps and floors. Frequently called interest rate derivatives, interest rate swaps, caps and floors have characteristics similar to securities but possess the advantages of customization of the risk-reward profile of the instrument, minimization of balance sheet leverage and improvement of liquidity. As of September 30, 2024, the Company was using interest rate swaps for interest rate risk management.

The Company engages an independent consultant to periodically review its interest rate risk position, as well as the effectiveness of simulation modeling and reasonableness of assumptions used. As of September 30, 2024, there were no significant differences between the views of the independent consultant and Management regarding the Company's interest rate risk exposure. Management expects interest rates will increase slightly in the next year and believes that the current level of interest risk is acceptable.

**Item 4: Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of September 30, 2024, the end of the quarter covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company's management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company reviews its disclosure controls and procedures, which may include its internal controls over financial reporting on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

**Part II – Other Information**

**Item 1 – Legal Proceedings**

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

**Item 1A – Risk Factors**

There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K for the year ended December 31, 2023.

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

a. None

b. None

c. The Company made the following repurchases of its common stock in the nine months ended September 30, 2024:

| Month | Shares Purchased | Average Price Per Share | Total shares purchased as part of publicly announced repurchase plans | Maximum number of shares that may be purchased under the plans |
|---|---|---|---|---|
| January 2024 | 8,031 | $ 26.39 | — | — |
| February 2024 | — | — | — | — |
| March 2024 | — | — | — | — |
| April 2024 | — | — | — | — |
| May 2024 | — | — | — | — |
| June 2024 | — | — | — | — |
| July 2024 | — | — | — | — |
| August 2024 | — | — | — | — |
| September 2024 | — | — | — | — |
| | 8,031 | $ 26.39 | | — |

**Item 3 – Default Upon Senior Securities**

None.

**Item 4 – Mine Safety Disclosures**

Not applicable.

**Item 5 - Other Information**

None.

**Item 6 – Exhibits**

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

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

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

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

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

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 2.3 to the Company's Form 10-K filed March 8, 2024).

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

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

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

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

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definitions Linkbase

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

**Signatures**

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

THE FIRST BANCORP, INC.

/s/ Tony C. McKim
Tony C. McKim
President & Chief Executive Officer

Date: November 8, 2024

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

Date: November 8, 2024

**Exhibit 31.1**

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

I, Tony C. McKim, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2024

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

**Exhibit 31.2**

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

I, Richard M. Elder, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2024

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

**Exhibit 32.1**

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

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q for the period ended September 30, 2024 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: November 8, 2024

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

**Exhibit 32.2**

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

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q for the period ended September 30, 2024 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: November 8, 2024

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