

REFINITIV

DELTA REPORT

10-Q

MNSBP - MAINSTREET BANCSHARES, IN

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1230

█ **CHANGES** 427

█ **DELETIONS** 385

█ **ADDITIONS** 418

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

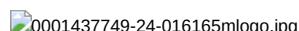
For the quarterly period ended **September 30, 2023** **March 31, 2024**

OR

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

For the transition period from to _____ to _____

Commission file number: 001-38817



MainStreet Bancshares, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Virginia

81-2871064

(State or Other Jurisdiction of
Incorporation or Organization)

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

10089 Fairfax Boulevard, Fairfax, VA 22030

(Address of Principal Executive Offices and Zip Code)

(703) 481-4567

(Registrant's Telephone Number, Including Area Code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MNSB	The Nasdaq Stock Market LLC
Depository Shares (each representing a 1/40 th interest in a share of 7.50% Series A Fixed-Rate Non-Cumulative Perpetual Preferred Stock)	MNSBP	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of **November 8, 2023** **May 8, 2024**, there were **7,527,295** **7,617,213** outstanding shares, par value \$4.00 per share, of the issuer's common stock.

INDEX

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1 – Consolidated Financial Statements</u>	<u>3</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u> <u>23</u>
<u>Item 3 – Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u> <u>36</u>
<u>Item 4 – Controls and Procedures</u>	<u>37</u> <u>36</u>
<u>PART II – OTHER INFORMATION</u>	<u>38</u> <u>37</u>
<u>Item 1 – Legal Proceedings</u>	<u>38</u> <u>37</u>
<u>Item 1A – Risk Factors</u>	<u>38</u> <u>37</u>
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u> <u>37</u>
<u>Item 6 – Exhibits</u>	<u>39</u> <u>38</u>
<u>SIGNATURES</u>	<u>40</u> <u>39</u>

PART I – FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements – Unaudited

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** (Dollars in thousands, except share data)

	At September 30, 2023 (unaudited)	At December 31, 2022 (*)	At March 31, 2024 (unaudited)	At December 31, 2023 (*)
Assets				
Cash and due from banks	\$ 44,912	\$ 48,931	\$ 49,208	\$ 53,581
Federal funds sold	76,271	81,669	75,533	60,932
Cash and cash equivalents	121,183	130,600	124,741	114,513
Investment securities available-for-sale, at fair value	56,726	62,631	58,699	59,928
Investment securities held-to-maturity, at amortized cost, net of allowance for credit losses of \$0 and \$0, respectively.	17,565	17,642	17,251	17,275
Restricted securities, at amortized cost	20,619	24,325	23,924	24,356
Loans, net of allowance for credit losses of \$15,626 and \$14,114, respectively	1,681,444	1,579,950		
Loans, net of allowance for credit losses of \$16,531 and \$16,506, respectively			1,727,110	1,705,137
Premises and equipment, net	14,275	14,709	14,081	13,944
Accrued interest and other receivables	11,184	9,581	10,727	12,390
Bank owned life insurance	38,035	37,249	38,609	38,318
Computer software, net of amortization	13,373	9,149	15,691	14,657
Other assets	47,087	39,915	39,182	34,914
Total Assets	\$ 2,021,491	\$ 1,925,751	\$ 2,070,015	\$ 2,035,432
Liabilities and Stockholders' Equity				
Liabilities				
Non-interest bearing deposits	\$ 394,859	\$ 550,690		
Non-interest bearing demand deposits			\$ 348,945	\$ 364,606
Interest bearing demand deposits	76,423	80,099	165,331	137,128
Savings and NOW deposits	46,550	51,419	46,036	45,878
Money market deposits	461,398	222,540	446,903	442,179
Time deposits	703,960	608,141	725,520	696,336
Total deposits	1,683,190	1,512,889	1,732,735	1,686,127
Federal Home Loan Bank advances		100,000		
Federal funds purchased				15,000
Subordinated debt, net	72,543	72,245	72,741	72,642
Allowance for credit losses on off-balance sheet credit exposure	1,552	—	650	1,009
Other liabilities	50,463	42,335	40,768	39,137
Total Liabilities	1,807,748	1,727,469	1,846,894	1,813,915
Stockholders' Equity				
Preferred stock, \$1.00 par value, 2,000,000 shares authorized; 28,750 shares issued and outstanding at September 30, 2023 and December 31, 2022	27,263	27,263		
Common stock, \$4.00 par value, 10,000,000 shares authorized; issued and outstanding 7,524,877 shares (including 228,300 nonvested shares) at September 30, 2023 and 7,442,743 shares (including 259,036 nonvested shares) at December 31, 2022	29,188	28,736		
Preferred stock, \$1.00 par value, 2,000,000 shares authorized; 28,750 shares issued and outstanding at March 31, 2024 and December 31, 2023			27,263	27,263
Common stock, \$4.00 par value, 10,000,000 shares authorized; issued and outstanding 7,614,090 shares (including 235,855 nonvested shares) at March 31, 2024 and 7,527,415 shares (including 228,300 nonvested shares) at December 31, 2023			29,514	29,198
Capital surplus	65,407	63,999	65,940	65,985
Retained earnings	102,694	86,830	108,334	106,549
Accumulated other comprehensive loss	(10,809)	(8,546)	(7,930)	(7,478)

Total Stockholders' Equity	213,743	198,282	223,121	221,517
Total Liabilities and Stockholders' Equity	\$ 2,021,491	\$ 1,925,751	\$ 2,070,015	\$ 2,035,432

* Derived from audited consolidated financial statements.

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (Dollars in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Interest Income						
Interest and fees on loans	\$ 29,750	\$ 20,261	\$ 85,336	\$ 54,900	\$ 30,487	\$ 26,731
Interest on investments securities						
Taxable securities	459	378	1,384	1,136		
Tax-exempt securities	268	261	797	796		
Interest and dividends on investments securities						
Mortgage-backed securities					102	118
Tax-exempt obligations of states and political subdivisions					270	264
Taxable obligations of states and political subdivisions					64	64
Other					269	336
Interest on federal funds sold and interest-bearing deposits	1,217	1,013	3,528	1,241	1,182	1,132
Total Interest Income	31,694	21,913	91,045	58,073	32,374	28,645
Interest Expense						
Interest on interest-bearing DDA deposits	240	175	834	345		
Interest on interest bearing DDA deposits					1,860	343
Interest on savings and NOW deposits	145	43	400	122	157	108
Interest on money market deposits	4,156	496	8,285	766	5,178	1,203
Interest on time deposits	7,526	2,275	18,747	5,236	8,833	4,144
Interest on federal funds borrowed	35	—	274	—		
Interest on federal funds purchased					107	38
Interest on Federal Home Loan Bank advances	186	—	1,105	83	46	906
Interest on subordinated debt	828	828	2,460	2,108	820	812
Total Interest Expense	13,116	3,817	32,105	8,660	17,001	7,554
Net Interest Income	18,578	18,096	58,940	49,413	15,373	21,091
Provision For (Recovery of) Credit Losses - Loans	(98)	—	934	1,280		
Provision for Credit Losses - Off-Balance Sheet Credit Exposure	353	—	242	—		
Provision For Credit Losses - Loans					164	415
Recovery of Credit Losses - Off-Balance Sheet Credit Exposure					(359)	(132)
Net Interest Income After Provision For (Recovery of) Credit Losses	18,323	18,096	57,764	48,133	15,568	20,808
Non-Interest Income						
Deposit account service charges	514	601	1,639	1,810	469	590
Bank owned life insurance income	272	254	786	755	292	255
Loan swap fee income	—	518	—	619		

Net gain on held-to-maturity securities	—	—	—	4		
Net loss on sale of loans	—	(211)	—	(168)		
Other fee income	177	186	352	753	130	158
Total Non-Interest Income	963	1,348	2,777	3,773	891	1,003
Non-Interest Expense						
Salaries and employee benefits	6,924	5,874	21,139	17,025	7,488	7,621
Furniture and equipment expenses	713	760	1,983	2,076	935	498
Advertising and marketing	577	704	2,072	1,684	454	797
Occupancy expenses	375	400	1,287	1,093	435	486
Outside services	697	611	1,691	1,545	774	490
Administrative expenses	277	253	703	658	242	215
Other operating expenses	1,866	1,291	5,109	4,268	1,996	1,596
Total Non-Interest Expense	11,429	9,893	33,984	28,349	12,324	11,703
Income Before Income Taxes	7,857	9,551	26,557	23,557	4,135	10,108
Income Tax Expense	1,516	1,808	5,119	4,462	830	1,957
Net Income	\$ 6,341	\$ 7,743	\$ 21,438	\$ 19,095	\$ 3,305	\$ 8,151
Preferred Stock Dividends	539	539	1,617	1,617	539	539
Net Income Available To Common Shareholders	\$ 5,802	\$ 7,204	\$ 19,821	\$ 17,478		
Net Income Available to Common Shareholders					\$ 2,766	\$ 7,612
Earnings Per Common Share:						
Basic	\$ 0.77	\$ 0.97	\$ 2.64	\$ 2.31	\$ 0.36	\$ 1.01
Diluted	\$ 0.77	\$ 0.97	\$ 2.64	\$ 2.31	\$ 0.36	\$ 1.01

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (Dollars in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Comprehensive Income, net of taxes				
Net Income	\$ 6,341	\$ 7,743	\$ 21,438	\$ 19,095
Other comprehensive loss, net of tax benefit:				
Unrealized losses on available for sale securities arising during the period (net of tax benefit, \$687 and \$850, respectively, for the three months ended September 30, and \$687 and \$2,641, respectively for the nine months ended September 30).	(2,465)	(3,199)	(2,268)	(9,965)
Add: reclassification adjustment for amortization of unrealized losses on securities transferred from available for sale to held to maturity (net of tax, \$0 and \$1, respectively, for the three months ended September 30, and \$1 and \$3, respectively, for the nine months ended September 30).	2	4	5	12
Other comprehensive loss	(2,463)	(3,195)	(2,263)	(9,953)
Comprehensive Income	\$ 3,878	\$ 4,548	\$ 19,175	\$ 9,142
For the Three Months Ended March 31,				
		2024	2023	
Comprehensive Income, net of taxes				

Net Income	\$	3,305	\$	8,151
Other comprehensive income (loss), net of tax expense (benefit):				
Unrealized gains (losses) on available for sale securities arising during the period (net of tax expense (benefit), (\$109) and \$254, respectively, for the three months ended March 31).		(452)		880
Add: reclassification adjustment for amortization of unrealized losses on securities transferred from available for sale to held to maturity (net of tax, \$0 and \$0, respectively, for the three months ended March 31).		—		2
Other comprehensive (loss) income		(452)		882
Comprehensive Income	\$	2,853	\$	9,033

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Stockholders' Equity for the **Three and Nine** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** (Dollars in thousands)

	Accumulated						Accumulated					
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Other Comprehensive Loss	Total	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Other Comprehensive Loss	Total
Balance, June 30, 2023	\$ 27,263	\$ 29,177	\$ 64,768	\$ 97,646	\$ (8,346)	\$ 210,508						
Balance, December 31, 2023							\$ 27,263	\$ 29,198	\$ 65,985	\$ 106,549	\$ (7,478)	\$ 221,517
Cumulative change in accounting principle (Note 1)							—	—	—	(217)	—	(217)
Vesting of restricted stock	—	11	(11)	—	—	—	—	408	(408)	—	—	—
Stock based compensation	—	—	650	—	—	650	—	—	690	—	—	690
Common stock repurchased							—	(92)	(327)	—	—	(419)
Dividends on preferred stock - (\$0.47 per depositary share)	—	—	—	(539)	—	(539)	—	—	—	(539)	—	(539)
Dividends on common stock - (\$0.10 per share)	—	—	—	(754)	—	(754)	—	—	—	(764)	—	(764)
Net income	—	—	—	6,341	—	6,341	—	—	—	3,305	—	3,305
Other comprehensive loss	—	—	—	—	(2,463)	(2,463)	—	—	—	(452)	(452)	

Balance, September 30, 2023	\$ 27,263	\$ 29,188	\$ 65,407	\$ 102,694	\$ (10,809)	\$ 213,743
2023	_____	_____	_____	_____	_____	_____
Balance, March 31, 2024					\$ 27,263	\$ 29,514
					\$ 65,940	\$ 108,334

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other	Total
Balance, December 31, 2022	\$ 27,263	\$ 28,736	\$ 63,999	\$ 86,830	\$ (8,546)	\$ 198,282	
Cumulative change in accounting principle							
(Note 3)	—	—	—	(1,699)	—	(1,699)	
Vesting of restricted stock	—	460	(460)	—	—	—	
Stock based compensation expense	—	—	1,903	—	—	1,903	
Common stock repurchased	—	(8)	(35)	—	—	(43)	
Dividends on preferred stock - (\$0.94 per depositary share)	—	—	—	(1,617)	—	(1,617)	
Dividends on common stock - (\$0.30 per share)	—	—	—	(2,258)	—	(2,258)	
Net income	—	—	—	21,438	—	21,438	
Other comprehensive loss	—	—	—	—	(2,263)	(2,263)	
Balance, September 30, 2023	<u>\$ 27,263</u>	<u>\$ 29,188</u>	<u>\$ 65,407</u>	<u>\$ 102,694</u>	<u>\$ (10,809)</u>	<u>\$ 213,743</u>	
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other	Total
Balance, June 30, 2022	\$ 27,263	\$ 29,178	\$ 64,822	\$ 73,702	\$ (6,561)	\$ 188,404	
Vesting of restricted stock	—	10	(10)	—	—	—	
Stock based compensation expense	—	—	609	—	—	609	
Common stock repurchased	—	(460)	(2,190)	—	—	(2,650)	
Dividends on preferred stock - (\$0.47 per depositary share)	—	—	—	(539)	—	(539)	
Dividends on common stock - (\$0.05 per share)	—	—	—	(372)	—	(372)	
Net income	—	—	—	7,743	—	7,743	
Other comprehensive loss	—	—	—	—	(3,195)	(3,195)	
Balance, September 30, 2022	<u>\$ 27,263</u>	<u>\$ 28,728</u>	<u>\$ 63,231</u>	<u>\$ 80,534</u>	<u>\$ (9,756)</u>	<u>\$ 190,000</u>	
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other	Total
Balance, December 31, 2021	\$ 27,263	\$ 29,466	\$ 67,668	\$ 64,194	\$ 197	\$ 188,788	
Vesting of restricted stock	—	399	(399)	—	—	—	
Stock based compensation expense	—	—	1,743	—	—	1,743	
Common stock repurchased	—	(1,137)	(5,781)	—	—	(6,918)	
Dividends on preferred stock - (\$0.94 per depositary share)	—	—	—	(1,617)	—	(1,617)	
Dividends on common stock - (\$0.15 per share)	—	—	—	(1,138)	—	(1,138)	
Net income	—	—	—	19,095	—	19,095	
Other comprehensive loss	—	—	—	—	(9,953)	(9,953)	

Balance, September 30, 2022	\$ 27,263	\$ 28,728	\$ 63,231	\$ 80,534	\$ (9,756)	\$ 190,000
-----------------------------	-----------	-----------	-----------	-----------	-------------	------------

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other	Total
Balance, December 31, 2022	\$ 27,263	\$ 28,736	\$ 63,999	\$ 86,830	\$ (8,546)	\$ 198,282	
Cumulative change in accounting principle	—	—	—	(1,699)	—	—	(1,699)
Vesting of restricted stock	—	449	(449)	—	—	—	—
Stock based compensation expense	—	—	663	—	—	—	663
Dividends on preferred stock - (\$0.47 per depositary share)	—	—	—	(539)	—	—	(539)
Dividends on common stock - (\$0.10 per share)	—	—	—	(752)	—	—	(752)
Net income	—	—	—	8,151	—	—	8,151
Other comprehensive income	—	—	—	—	882	882	882
Balance, March 31, 2023	\$ 27,263	\$ 29,185	\$ 64,213	\$ 91,991	\$ (7,664)	\$ 204,988	

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Cash Flows (Dollars in thousands)

For the nine months ended September 30,	2023	2022	2024	2023
For the three months ended March 31,				
Cash Flows from Operating Activities				
Net income	\$ 21,438	\$ 19,095	\$ 3,305	\$ 8,151
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization, and accretion, net	1,684	1,625	750	560
Deferred income tax expense (benefit)	238	(59)	—	—
Provision for credit losses	1,176	1,280	—	—
Writedown of other real estate owned	—	70	—	—
Loss on sale of other real estate owned	—	4	—	—
Loss on sale of loans	—	168	—	—
Amortization of right-of-use assets	—	—	123	79
Deferred income tax expense	—	—	490	589
Loss (gain) on disposal of premises and equipment	—	—	13	(39)
Provision for (recovery of) credit losses, net	—	—	(195)	283
Stock based compensation expense	1,903	1,743	690	663
Income from bank owned life insurance	(786)	(755)	(292)	(255)
Subordinated debt amortization expense	298	229	99	99
Gain on disposal of premises and equipment	(129)	—	—	—
Loss on New Market Tax Credit investment operations	176	—	—	—
Gain on call of held-to-maturity securities	—	(4)	—	—
Amortization of operating lease right-of-use assets	239	233	—	—
Change in:				
Accrued interest receivable and other receivables	(1,597)	(572)	1,663	(163)

Other assets	(5,520)	(26,875)	(4,634)	2,688
Other liabilities	7,188	26,688	1,631	(3,821)
Net cash provided by operating activities	26,308	22,870	3,643	8,834
Cash Flows from Investing Activities				
Activity in available-for-sale securities:				
Payments	2,666	5,783	579	476
Maturities	—	145,000		
Purchases	—	(226,215)		
Activity in held-to-maturity securities:				
Called	—	2,595		
Purchases of equity securities	(231)	(224)	(110)	(82)
Proceeds on sale of loans	—	868		
Proceeds on sale of other real estate owned	—	701		
Purchases of restricted investment in bank stock	(5,974)	(4,873)	(1,500)	(4,536)
Redemption of restricted investment in bank stock	9,339	4,125	1,425	6,375
Net increase in loan portfolio	(103,323)	(108,627)	(22,137)	(38,635)
Proceeds from sale of premises and equipment			83	39
Purchase of premises and equipment			(607)	(131)
Computer software developed	(4,224)	(4,765)	(1,034)	(1,410)
Proceeds from sale of premises and equipment	129	—		
Purchases of premises and equipment	(490)	(614)		
Net cash used in investing activities	(102,108)	(186,246)	(23,301)	(37,904)
Cash Flows from Financing Activities				
Net increase (decrease) in non-interest deposits	(155,831)	35,338		
Net decrease in non-interest deposits			(15,661)	(62,815)
Net increase in interest bearing demand, savings, and time deposits	326,132	106,623	62,269	182,214
Net decrease in Federal Home Loan Bank advances	(100,000)	—	—	(55,000)
Net increase in subordinated debt, net issuance costs	—	42,623		
Net increase (decrease) in federal funds purchased			(15,000)	60,696
Cash dividends paid on preferred stock	(1,617)	(1,617)	(539)	(539)
Cash dividends paid on common stock	(2,258)	(1,138)	(764)	(752)
Repurchases of common stock	(43)	(6,918)	(419)	—
Net cash provided by financing activities	66,383	174,911	29,886	123,804
Increase (Decrease) in Cash and Cash Equivalents	(9,417)	11,535		
Increase in Cash and Cash Equivalents			10,228	94,734
Cash and Cash Equivalents, beginning of period	130,600	93,199	114,513	130,600
Cash and Cash Equivalents, end of period	\$ 121,183	\$ 104,734	\$ 124,741	\$ 225,334
Supplementary Disclosure of Cash Flow Information				
Cash paid during the period for interest	\$ 29,581	\$ 7,869	\$ 16,279	\$ 5,243
Cash paid during the period for income taxes	\$ 6,180	\$ 3,941	\$ —	\$ 3,430
Net unrealized loss on securities available-for-sale	\$ (2,955)	\$ (12,606)	\$ (561)	\$ 1,134
Net cumulative change in accounting principle	\$ (1,699)	\$ —	\$ (217)	\$ (1,699)

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

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

Organization

MainStreet Bancshares, Inc. (the "Company") is a bank holding company incorporated under the laws of the Commonwealth of Virginia whose primary activity is the ownership and management of MainStreet Bank (the "Bank"). On October 12, 2021, the Company filed an election with the Federal Reserve Board to be a financial holding company in order to engage in a broader range of financial activities than are permitted for bank holding companies generally. The Company is authorized to issue 10,000,000 shares of common stock with a par value of \$4.00 per share. Additionally, the Company is authorized to issue 2,000,000 shares of preferred stock at a par value \$1.00 per share. There are currently 28,750 shares of preferred stock outstanding. The Company is regulated under the Bank Holding Company Act of 1956, as amended ("BHC Act") and is subject to inspection, examination, and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve").

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

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

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

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

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

Basis of Presentation

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

The financial statements are unaudited; but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation thereof. The balances as of December 31, 2022 2023 have been derived from the audited consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Form 10-K filed by the Company with the SEC on March 23, 2023 20, 2024. The results of operations for the three and ninemonths ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 2024, or any other period.

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

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

Summary of Significant Recently Adopted Accounting Policies Developments

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

On March 29, 2023, the FASB issued ASU 2023-02 which amends previous guidance to allow entities to account for qualifying tax equity investments using the proportional amortization method regardless of New Accounting Standards: the program giving rise to the related income tax credits, as opposed to only being allowed to apply this method to qualifying tax equity investments in low-income housing tax credit structures as was the case under previous guidance. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. On January 1, 2023, the Company adopted ASU 2016-2023-1302 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by the lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that is more likely than not they will be required to sell. The Company adopted ASC 326 and all the subsequent amendments effective January 1, 2023 using the modified retrospective method for all approach, which did not have a material impact on the Company's financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior periods amounts continue to be reported in accordance with previously applicable GAAP statements. The Company recorded a net decrease transitioned from the equity method of accounting and began applying the proportional amortization method of accounting to retained earnings of \$1.7 million as of January 1, 2023 for its qualifying new markets tax credit investments in addition to its low income housing tax credit partnerships already subject to the cumulative effect of adopting ASC 326. The transition adjustment includes an increase in allowance for credit reserves of \$2.2 million and an increase in net deferred tax assets of \$506,000 proportional amortization method.

Impact of Recently Issued Accounting Pronouncements

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method". These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU is effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. The Company does not expect the adoption of ASU 2023-02 to have a material impact on its consolidated financial statements.

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

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

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of

income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

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

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

Recently Adopted Accounting Developments

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. ASU 2016-13 was effective for the Company on January 1, 2023. The adjustment recorded at adoption to the overall allowance for credit losses, which consisted of adjustments to the allowance for credit losses on loans and an adjustment to the Company's reserve for unfunded loan commitments, was \$2.2 million. The adjustment net of tax recorded to stockholders' equity totaled \$1.7 million.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No.2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs. An entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. ASU 2022-02 was effective for the Company on January 1, 2023. There was no material impact to the Company's consolidated financial statements or related disclosures.

Note 2. Investment Securities

The following tables summarize the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at September 30, 2023 March 31, 2024 and December 31, 2022 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss). Upon further analysis, the income. The Company did not record an allowance for credit losses on its securities held-to-maturity portfolio as of September 30, March 31, 2024 and December 31, 2023.

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

<u>(Dollars in thousands)</u>	September 30, 2023				March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	\$	\$	\$	\$	\$	\$	\$	\$
Collateralized Mortgage Backed	\$ 24,402	\$ —	\$ (5,231)	\$ 19,171	\$ 23,026	\$ —	\$ (4,254)	\$ 18,772
Subordinated Debt	9,970	—	(1,692)	8,278	9,970	—	(1,469)	8,501
Municipal Securities:								

Taxable	10,656	—	(2,997)	7,659	10,643	—	(2,352)	8,291
Tax-exempt	22,707	—	(4,108)	18,599	22,630	13	(2,206)	20,437
U.S. Governmental Agencies	3,054	3	(38)	3,019	2,728	2	(32)	2,698
Total	\$ 70,789	\$ 3	\$ (14,066)	\$ 56,726	\$ 68,997	\$ 15	\$ (10,313)	\$ 58,699

10

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

<u>(Dollars in thousands)</u>	September 30, 2023				March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities:								
Tax-exempt	\$ 15,065	\$ —	\$ (744)	\$ 14,321	\$ 14,751	\$ 5	\$ (198)	\$ 14,558
Subordinated Debt	2,500	—	(9)	2,491	2,500	—	(15)	2,485
Total	\$ 17,565	\$ —	\$ (753)	\$ 16,812	\$ 17,251	\$ 5	\$ (213)	\$ 17,043

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

<u>(Dollars in thousands)</u>	December 31, 2022				December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized Mortgage Backed	\$ 26,801	\$ —	\$ (4,574)	\$ 22,227	\$ 23,446	\$ —	\$ (3,931)	\$ 19,515
Subordinated Debt	9,970	—	(1,143)	8,827	9,970	—	(1,503)	8,467
Municipal Securities:								
Taxable	10,675	—	(2,709)	7,966	10,649	—	(2,342)	8,307
Tax-exempt	22,823	10	(2,658)	20,175	22,668	23	(1,949)	20,742
U.S. Governmental Agencies	3,470	2	(36)	3,436	2,932	3	(38)	2,897
Total	\$ 73,739	\$ 12	\$ (11,120)	\$ 62,631	\$ 69,665	\$ 26	\$ (9,763)	\$ 59,928

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

<u>(Dollars in thousands)</u>	December 31, 2022				December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities:								
Tax-exempt	\$ 15,142	\$ 35	\$ (237)	\$ 14,940	\$ 14,775	\$ 19	\$ (121)	\$ 14,673
Subordinated Debt	2,500	—	—	2,500	2,500	—	(10)	2,490
Total	\$ 17,642	\$ 35	\$ (237)	\$ 17,440	\$ 17,275	\$ 19	\$ (131)	\$ 17,163

Credit Quality Indicators and Allowance for Credit Losses - HTM

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

The following table presents the amortized cost of HTM securities as of September 30, 2023 March 31, 2024 and December 31, 2022 2023 by security type and credit rating:

<u>(Dollars in thousands)</u>	Municipal Securities	Subordinated Debt	Total HTM securities	Municipal Securities	Subordinated Debt	Total HTM securities
September 30, 2023						
March 31, 2024						
Credit Rating:						
AAA/AA/A	\$ 15,065	\$ —	\$ 15,065	\$ 14,751	\$ —	\$ 14,751
Not Rated - Non Agency	—	2,500	2,500	—	2,500	2,500
Total	\$ 15,065	\$ 2,500	\$ 17,565	\$ 14,751	\$ 2,500	\$ 17,251
December 31, 2022						
December 31, 2023						
Credit Rating:						
AAA/AA/A	\$ 15,142	\$ —	\$ 15,142	\$ 14,775	\$ —	\$ 14,775
Not Rated - Non Agency	—	2,500	2,500	—	2,500	2,500
Total	\$ 15,142	\$ 2,500	\$ 17,642	\$ 14,775	\$ 2,500	\$ 17,275

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

The scheduled maturities of securities available-for-sale and held-to-maturity at **September 30, 2023** **March 31, 2024** were as follows:

<u>(Dollars in thousands)</u>	September 30, 2023				March 31, 2024			
	Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —	\$ 265	\$ 264	\$ —	\$ —	\$ 687	\$ 679
Due from one to five years	1,000	955	3,643	3,547	1,000	976	2,957	2,927
Due from after five to ten years	14,100	11,834	7,227	7,063	13,948	12,160	7,209	7,143
Due after ten years	55,689	43,937	6,430	5,938	54,049	45,563	6,398	6,294
Total	\$ 70,789	\$ 56,726	\$ 17,565	\$ 16,812	\$ 68,997	\$ 58,699	\$ 17,251	\$ 17,043

11

The scheduled maturities of securities available-for-sale and held-to-maturity at December 31, **2022** **2023** were as follows:

<u>(Dollars in thousands)</u>	December 31, 2022				December 31, 2023			
	Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value						
Due in one year or less	\$ —	\$ —	\$ 264	\$ 262	\$ —	\$ —	\$ 318	\$ 315
Due from one to five years	1,000	963	1,073	1,073	1,000	976	3,325	3,314
Due from after five to ten years	13,056	11,583	9,828	9,819	14,054	12,222	7,218	7,188
Due after ten years	59,683	50,085	6,477	6,286	54,611	46,730	6,414	6,346
Total	\$ 73,739	\$ 62,631	\$ 17,642	\$ 17,440	\$ 69,665	\$ 59,928	\$ 17,275	\$ 17,163

Securities with a fair value of **\$15.8** **\$15.5** million and **\$3.6** **\$16.1** million were pledged at **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**, respectively, respectively.

The following tables summarize the unrealized loss positions of securities available-for-sale and held-to-maturity as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

September 30, 2023	March 31, 2024
---------------------------	-----------------------

(Dollars in thousands)	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:												
Collateralized Mortgage Backed Subordinated Debt	\$ 72	\$ (3)	\$ 19,099	\$ (5,228)	\$ 19,171	\$ (5,231)	\$ 72	\$ (1)	\$ 18,677	\$ (4,253)	\$ 18,749	\$ (4,254)
Municipal securities:	—	—	7,528	(1,692)	7,528	(1,692)	—	—	7,751	(1,469)	7,751	(1,469)
Taxable	—	—	7,659	(2,997)	7,659	(2,997)	—	—	8,290	(2,352)	8,290	(2,352)
Tax-exempt	3,885	(360)	14,714	(3,748)	18,599	(4,108)	643	(4)	17,222	(2,202)	17,865	(2,206)
U.S. Governmental Agencies	—	—	870	(38)	870	(38)	1,430	—	683	(32)	2,113	(32)
Total	\$ 3,957	\$ (363)	\$ 49,870	\$ (13,703)	\$ 53,827	\$ (14,066)	\$ 2,145	\$ (5)	\$ 52,623	\$ (10,308)	\$ 54,768	\$ (10,313)
December 31, 2022												
(Dollars in thousands)	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:												
Collateralized Mortgage Backed Subordinated Debt	\$ 2,021	\$ (151)	\$ 20,206	\$ (4,423)	\$ 22,227	\$ (4,574)	\$ —	\$ —	\$ 19,440	\$ (3,931)	\$ 19,440	\$ (3,931)
Municipal Securities:	3,357	(393)	4,720	(750)	8,077	(1,143)	—	—	7,717	(1,503)	7,717	(1,503)
Taxable	1,377	(198)	6,589	(2,511)	7,966	(2,709)	—	—	8,307	(2,342)	8,307	(2,342)
Tax-exempt	11,028	(838)	7,663	(1,820)	18,691	(2,658)	1,986	(34)	16,510	(1,915)	18,496	(1,949)
U.S. Government Agencies	1,768	(2)	1,018	(34)	2,786	(36)	1,515	(1)	845	(37)	2,360	(38)
Total	\$ 19,551	\$ (1,582)	\$ 40,196	\$ (9,538)	\$ 59,747	\$ (11,120)	\$ 3,501	\$ (35)	\$ 52,819	\$ (9,728)	\$ 56,320	\$ (9,763)
Held-to-maturity:												
Municipal Securities:												
Tax-exempt	\$ 10,599	\$ (237)	\$ —	\$ —	\$ 10,599	\$ (237)						
Total	\$ 10,599	\$ (237)	\$ —	\$ —	\$ 10,599	\$ (237)						

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

At **September 30, 2023** **March 31, 2024**, there was one collateralized mortgage backed security with a fair value totaling approximately \$72,000 in an unrealized loss position of less than 12 months and **twenty-four** **twenty-three** collateralized mortgage backed securities totaling \$19.0 million in an unrealized loss position of more than 12 months and months. At **March 31, 2024**, there were twenty-one subordinated debt securities totaling **\$7.5** **\$7.8** million in an unrealized loss position of more than 12 months. At **September 30, 2023** **March 31, 2024** **nine** two tax-exempt municipal securities with fair values totaling approximately **\$14.2 million** **\$643,000** were in an unrealized loss position of less than 12 months and **thirty-seventy-eight** securities totaling **\$26.4 million** **\$16.5 million** in an unrealized loss position of more than 12 months. At **September 30, 2023** **March 31, 2024**, there were eleven taxable municipal securities totaling \$8.3 million in an unrealized loss position of more than 12 months. At **March 31, 2024**, there was **seven** one government agency security with a fair value of \$1.4 million in an unrealized loss position of less than 12 months and six government agency securities with a fair value of approximately **\$870,000** **\$683,000** were in an unrealized loss position of more than 12 months.

Certain municipal securities originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity is being amortized over the expected life of the securities. The unamortized, unrealized loss, before tax, at September 30, 2023 and securities, which ended on December 31, 2022 2023, was \$2,056 and \$8,228, respectively.

The Company periodically invests in New Market Tax Credit opportunities, related primarily to certain community development projects. The Company receives tax credits related to these investments, for which the Company typically acts as a limited partner and therefore does not exert control over the operating or financial policies of the partnerships. These tax credits are subject to recapture by taxing authorities based on compliance features required to be met at the project level. Recognition On January 1, 2024, the Company transitioned from the equity method of accounting and began applying the proportional amortization method of accounting to its qualifying new markets tax credits and any associated losses on operations associated with these entities are recorded as a reduction credit investments in addition to its low income housing tax credit partnerships already subject to the carrying value of these investments. Proportional operational losses associated with these investments are included in non-interest income. As of and for the three and nine months ended September 30, 2023, the Company recorded approximately \$87,000 and \$176,000, respectively, in tax credit investment operational losses: proportional amortization method.

Note 3. Loans Receivable

Loans receivable were comprised of the following:

<u>(Dollars in thousands)</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Residential Real Estate:				
Single family	\$ 198,554	\$ 178,615	\$ 209,272	\$ 203,417
Multifamily	264,233	215,624	242,577	271,040
Farmland	148	155	142	145
Commercial Real Estate:				
Owner-occupied	281,303	228,374	318,470	282,052
Non-owner occupied	453,312	472,354	494,917	461,775
Construction and Land Development	426,698	393,783	408,903	429,637
Commercial – Non Real-Estate:				
Commercial & Industrial	73,855	97,351	71,822	75,415
Consumer – Non Real-Estate:				
Unsecured	177	1,984	339	271
Secured	4,421	11,352	2,563	3,339
Total Gross Loans	<u>1,702,701</u>	<u>1,599,592</u>	<u>1,749,005</u>	<u>1,727,091</u>
Less: unearned fees, net	(5,631)	(5,528)	(5,364)	(5,448)
Less: allowance for credit losses - loans	(15,626)	(14,114)	(16,531)	(16,506)
Net Loans	<u>\$ 1,681,444</u>	<u>\$ 1,579,950</u>	<u>\$ 1,727,110</u>	<u>\$ 1,705,137</u>

The unsecured consumer loans above include \$177,000 \$339,000 and \$2.0 million \$271,000 of overdrafts reclassified as loans at September 30, 2023 March 31, 2024 and December 31, 2022 2023, respectively.

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

<u>(Dollars in thousands)</u>	<u>March 31, 2024</u>					<u>Total Loan Receivable</u>
	<u>30-59 Days Past Due</u>		<u>60-89 Days Past Due</u>		<u>Greater than 90 Days Past Due and Still Accruing</u>	
	<u>Due</u>	<u>Due</u>	<u>Nonaccrual</u>	<u>Current</u>		

Residential Real Estate:											
Single Family	\$	—	\$	1,273	\$	—	\$	149	\$	207,850	\$ 209
Multifamily	—	—	—	—	—	—	—	—	—	242,577	242
Farmland	—	—	—	—	—	—	—	—	—	142	142
Commercial Real Estate:											
Owner occupied	—	—	—	—	—	—	—	—	—	318,470	318
Non-owner occupied	—	—	—	—	—	—	—	—	—	494,917	494
Construction & Land	Development	2,228	350	—	—	8,272	—	398,053	—	408	408
Commercial – Non Real Estate:											
Commercial & Industrial	—	—	—	—	—	842	—	70,980	—	72	72
Consumer – Non Real Estate:	Unsecured	—	—	—	—	—	—	—	—	339	339
Secured	—	—	—	—	—	—	—	2,563	—	2	2
Total	\$ 2,228	\$ 1,623	\$ —	\$ 9,263	\$ —	\$ 1,735,891	\$ —	\$ 1,749	\$ —	408	408
December 31, 2023											
Greater than 90 Days Past Due and Still Accruing											
(Dollars in thousands)											
Residential Real Estate:											
Single Family	\$	—	\$	—	\$	—	\$	149	\$	203,268	\$ 203
Multifamily	—	—	—	—	—	—	—	—	—	271,040	272
Farmland	—	—	—	—	—	—	—	—	—	145	145
Commercial Real Estate:											
Owner occupied	—	—	—	—	—	—	—	—	—	282,052	282
Non-owner occupied	—	—	—	—	—	—	—	—	—	461,775	462
Construction & Land	Development	—	—	—	—	—	—	—	—	429,637	429
Commercial – Non Real Estate:											
Commercial & Industrial	—	—	—	—	—	—	851	—	74,564	75	75
Consumer – Non Real Estate:	Unsecured	—	—	—	—	—	—	—	—	271	271
Secured	25	—	—	4	—	—	—	—	3,310	3	3
Total	\$ 25	\$ —	\$ 4	\$ 4	\$ 1,000	\$ —	\$ 1,726,062	\$ —	\$ 1,725	408	408

The following tables summarize the activity in the allowance for credit losses on loans by loan class for the three and nine months ended September 30, 2023, March 31, 2024 and September 30, 2023.

Allowance for Credit Losses By Portfolio Segment

For the three months ended September 30, 2023	Real Estate						Real Estate					
	Residential	Commercial	Construction	Commercial	Consumer	Total	Residential	Commercial	Construction	Commercial	Consumer	Total

For the
three
months
ended
March 31,
2024

Residential Commercial Construction Commercial Consumer

(Dollars in
thousands)

Beginning Balance	\$ 2,325	\$ 8,184	\$ 3,600	\$ 1,919	\$ 19	\$ 16,047	\$ 2,594	\$ 8,888	\$ 3,575	\$ 1,435	\$ 14
Charge-offs	—	—	—	(324)	—	(324)	(132)	—	—	—	(9)
Recoveries	—	—	—	—	1	1	—	—	—	—	2
Provision for (recovery of) credit losses	200	74	(14)	(360)	2	(98)	6	860	(248)	(466)	12
Ending Balance	\$ 2,525	\$ 8,258	\$ 3,586	\$ 1,235	\$ 22	\$ 15,626	\$ 2,468	\$ 9,748	\$ 3,327	\$ 969	\$ 19

Ending Balance:

Individually evaluated for credit loss

Collectively evaluated for credit loss

For the
nine
months
ended
September
30, 2023

Beginning Balance, prior to \$ 2,146 \$ 7,159 \$ 3,347 \$ 1,418 \$ 44 \$ 14,114

adoption of ASC 326

Impact of adopting ASC 326

59 614 19 172 31 895

Charge-offs

Recoveries

Provision for (recovery of) credit losses

312 485 220 (30) (53) 934

Ending Balance

Ending Balance:

Individually evaluated for credit	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
loss						
Collectively evaluated for credit	\$ 2,525	\$ 8,258	\$ 3,586	\$ 1,235	\$ 22	\$ 15,626
loss						

Real Estate							Real Estate						
For the three months ended September 30, 2022	Residential	Commercial	Construction	Commercial	Consumer	Total	For the three months ended March 31, 2023	Residential	Commercial	Construction	Commercial	Consumer	Total
(Dollars in thousands)													
Beginning Balance	\$ 1,994	\$ 6,514	\$ 3,044	\$ 1,340	\$ 90	\$ 12,982	\$ 2,146	\$ 7,159	\$ 3,347	\$ 1,418	\$ 44	\$ 1	
Impact of adopting ASC 326								59	614	19	172	31	
Recoveries	—	—	—	—	12	12	8	—	—	—	—	3	
Provision for (recovery of) credit losses	20	203	73	(247)	(49)	—	(18)	475	181	(170)	(53)		
Ending Balance	\$ 2,014	\$ 6,717	\$ 3,117	\$ 1,093	\$ 53	\$ 12,994	\$ 2,195	\$ 8,248	\$ 3,547	\$ 1,420	\$ 25	\$ 1	
Ending Balance:													
Individually evaluated for credit	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —							
loss													
Collectively evaluated for credit	\$ 2,014	\$ 6,717	\$ 3,117	\$ 1,093	\$ 53	\$ 12,994							
loss													
For the nine months ended September 30, 2022													

Beginning Balance	\$ 1,672	\$ 5,689	\$ 2,697	\$ 1,540	\$ 99	\$ 11,697
Recoveries	—	—	—	—	17	17
Provision for (recovery of) credit losses	342	1,028	420	(447)	(63)	1,280
Ending Balance	\$ 2,014	\$ 6,717	\$ 3,117	\$ 1,093	\$ 53	\$ 12,994
Ending Balance:						
Individually evaluated for credit loss	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for credit loss	\$ 2,014	\$ 6,717	\$ 3,117	\$ 1,093	\$ 53	\$ 12,994

14

Credit quality risk ratings include regulatory classifications of Pass, Watch, Special Mention, Substandard, Doubtful and Loss. Loans classified as Pass have quality metrics to support that the loan will be repaid according to the terms established. Loans classified as Watch have similar characteristics as Pass loans with some emerging signs of financial weaknesses that should be monitored closer. Loans classified as Special Mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of prospects for repayment. Loans classified substandard have The following table is a well-defined weakness or weaknesses that jeopardize the liquidation summary of the debt. They include Company's nonaccrual loans that are inadequately protected by major categories for the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, based on current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for credit losses. Loans not classified are rated pass, periods indicated.

(Dollars in thousands)	March 31, 2024		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Lo
Residential Real Estate:			
Single family	\$ 149	\$ —	\$ —
Construction and Land Development	8,272	—	8,272
Commercial and Industrial	842	—	842
Total	\$ 9,263	\$ —	\$ —
December 31, 2023			
Residential Real Estate:			
Single family	\$ 149	\$ —	\$ —
Commercial and Industrial	851	—	851
Total	\$ 1,000	\$ —	\$ —

The following tables summarize table represents the amortized cost basis accrued interest receivables written off by aggregate Pass and criticized categories of Watch, Special Mention, and Substandard within reversing interest income during the Company's internal risk rating system as of September 30, three months ended March 31, 2024. The Company did not write off accrued interest receivables during the three months ended March 31, 2023 and December 31, 2022.

Term Loans Amortized Cost Basis by Origination Year

September 30, 2023

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving		Total
							Loans	Total	
Residential Real Estate - Single Family									
Pass	\$ 45,280	\$ 18,769	\$ 21,374	\$ 33,482	\$ 20,782	\$ 22,514	\$ 33,871	\$ 196,072	
Watch	312	—	—	1,321	—	—	149	1,782	
Special Mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	436	264	—	700	
Total Residential Real Estate - Single Family	\$ 45,592	\$ 18,769	\$ 21,374	\$ 34,803	\$ 21,218	\$ 22,778	\$ 34,020	\$ 198,554	
Residential Real Estate - Multifamily									
Pass	\$ 31,086	\$ 81,414	\$ 70,444	\$ 39,891	\$ 27,436	\$ 10,842	\$ 3,120	\$ 264,233	
Watch	—	—	—	—	—	—	—	—	
Special Mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	
Total Residential Real Estate - Multifamily	\$ 31,086	\$ 81,414	\$ 70,444	\$ 39,891	\$ 27,436	\$ 10,842	\$ 3,120	\$ 264,233	
Residential Real Estate - Farmland									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 148	\$ —	\$ 148	
Watch	—	—	—	—	—	—	—	—	
Special Mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	
Total Residential Real Estate - Farmland	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 148	\$ —	\$ 148	
Commercial Real Estate - Owner Occupied									
Pass	\$ 67,348	\$ 55,563	\$ 43,882	\$ 40,116	\$ 32,683	\$ 37,906	\$ 2,679	\$ 280,177	
Watch	—	—	—	—	—	—	—	—	
Special Mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	1,126	—	—	—	1,126
Total Commercial Real Estate - Owner Occupied	\$ 67,348	\$ 55,563	\$ 43,882	\$ 40,116	\$ 33,809	\$ 37,906	\$ 2,679	\$ 281,303	
Commercial Real Estate - Non-Owner Occupied									
Pass	\$ 18,132	\$ 103,213	\$ 50,553	\$ 48,000	\$ 17,931	\$ 132,389	\$ 24,738	\$ 394,956	
Watch	—	—	—	964	12,847	20,183	—	33,994	
Special Mention	—	—	—	15,967	—	—	—	15,967	
Substandard	—	—	—	—	7,769	626	—	8,395	
Total Commercial Real Estate - Non-Owner Occupied	\$ 18,132	\$ 103,213	\$ 50,553	\$ 64,931	\$ 38,547	\$ 153,198	\$ 24,738	\$ 453,312	
Construction & Land Development									

Pass	\$ 12,112	\$ 32,558	\$ 13,884	\$ 2,459	\$ 5	\$ 8,231	\$ 335,495	\$ 404,744
Watch	—	1,454	—	—	—	—	20,500	21,954
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total Construction & Land Development	\$ 12,112	\$ 34,012	\$ 13,884	\$ 2,459	\$ 5	\$ 8,231	\$ 355,995	\$ 426,698
Commercial & Industrial								
Pass	\$ 9,918	\$ 5,446	\$ 13,436	\$ 3,768	\$ 2,203	\$ 10,972	\$ 27,569	\$ 73,312
Watch	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	50	168	218
Doubtful	—	—	—	—	—	259	66	325
Total Commercial & Industrial	\$ 9,918	\$ 5,446	\$ 13,436	\$ 3,768	\$ 2,203	\$ 11,281	\$ 27,803	\$ 73,855
Consumer - Unsecured								
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 177	\$ 177
Watch	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total Consumer - Unsecured	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 177	\$ 177
Consumer - Secured								
Pass	\$ 28	\$ 267	\$ 4	\$ 63	\$ 1,637	\$ 2,247	\$ 175	\$ 4,421
Watch	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total Consumer - Secured	\$ 28	\$ 267	\$ 4	\$ 63	\$ 1,637	\$ 2,247	\$ 175	\$ 4,421
Total								
Pass	\$ 183,904	\$ 297,230	\$ 213,577	\$ 167,779	\$ 102,677	\$ 225,249	\$ 427,824	\$ 1,618,240
Watch	312	1,454	—	2,285	12,847	20,183	20,649	57,730
Special Mention	—	—	—	15,967	—	—	—	15,967
Substandard	—	—	—	—	9,331	940	168	10,439
Doubtful	—	—	—	—	—	259	66	325
Total	\$ 184,216	\$ 298,684	\$ 213,577	\$ 186,031	\$ 124,855	\$ 246,631	\$ 448,707	\$ 1,702,701

15

December 31, 2022								
(Dollars in thousands)	Pass		Watch		Special Mention		Substandard	
Residential Real Estate:								
Single Family	\$ 178,172	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 443	\$ 178,61
Multifamily	215,624	—	—	—	—	—	—	215,62
Farmland	155	—	—	—	—	—	—	15
Commercial Real Estate:								
Owner occupied	227,231		—		—		1,143	
Non-owner occupied	439,537		24,897		—		7,920	

Construction & Land Development	393,783	—	—	—	—	393,783
Commercial – Non Real Estate:						
Commercial & Industrial	97,246	97	—	8	—	97,351
Consumer – Non Real Estate:						
Unsecured	1,984	—	—	—	—	1,984
Secured	11,352	—	—	—	—	11,352
Total	\$ 1,565,084	\$ 24,994	\$ —	\$ 9,514	\$ —	\$ 1,599,592

The following tables present the amortized cost basis by segments of the loan portfolio summarized by aging categories as of September 30, 2023 and December 31, 2022:

September 30, 2023												
(Dollars in thousands)	30-59 Days Past Due		60-89 Days Past Due		Greater than 90 Days		Total Past Due		Current		Total Loans Receivable	
	Due	—	Due	—	Days	—	Total	Due	—	Current	—	Nonaccruing
Residential Real Estate:												
Single Family	\$ 841	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 841	\$ 197,713	\$ 198,554	\$ 197,713	\$ 198,554	\$ —
Multifamily	—	—	—	—	—	—	—	—	264,233	—	264,233	264,233
Farmland	—	—	—	—	—	—	—	—	148	—	148	148
Commercial Real Estate:												
Owner occupied	—	—	—	—	—	—	—	—	281,303	—	281,303	281,303
Non-owner occupied	—	—	—	—	—	—	—	—	453,312	—	453,312	453,312
Construction & Land Development	—	—	—	—	—	—	—	—	426,698	—	426,698	426,698
Commercial – Non Real Estate:												
Commercial & Industrial	—	—	—	—	—	—	—	—	73,530	—	73,855	73,855
Consumer – Non Real Estate:												
Unsecured	—	—	—	—	—	—	—	—	177	—	177	177
Secured	5	—	—	—	—	—	5	—	4,416	—	4,421	4,421
Total	\$ 846	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 846	\$ 1,701,530	\$ 1,702,701	\$ 1,702,701	\$ —	\$ —
December 31, 2022												
(Dollars in thousands)	30-59 Days Past Due		60-89 Days Past Due		Greater than 90 Days		Total Past Due		Current		Total Loans Receivable	
	Due	—	Due	—	Days	—	Due	—	Current	—	Nonaccruing	—
Residential Real Estate:												
Single Family	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 178,615	\$ 178,615	\$ 178,615	\$ —	\$ —
Multifamily	—	—	—	—	—	—	—	—	215,624	—	215,624	215,624
Farmland	—	—	—	—	—	—	—	—	155	—	155	155
Commercial Real Estate:												
Owner occupied	—	—	—	—	—	—	—	—	228,374	—	228,374	228,374
Non-owner occupied	—	—	—	—	—	—	—	—	472,354	—	472,354	472,354
Construction & Land Development	—	—	—	—	—	—	—	—	393,783	—	393,783	393,783
Commercial – Non Real Estate:												
Commercial & Industrial	—	—	—	—	15	—	15	—	97,336	—	97,351	97,351
Consumer – Non Real Estate:												
Unsecured	—	—	—	—	—	—	—	—	1,984	—	1,984	1,984
Secured	11	—	12	—	6	—	29	—	11,323	—	11,352	11,352
Total	\$ 11	\$ —	\$ 12	\$ —	\$ 21	\$ —	\$ 44	\$ 1,599,548	\$ 1,599,592	\$ 1,599,592	\$ —	\$ —

There were no loans placed on nonaccrual with an allowance for credit losses as of September 30, 2023 and December 31, 2022.

	For the three months ended March 31, 2024
(Dollars in thousands)	
Residential Real Estate:	
Single family	\$
Construction and Land Development	
Commercial & Industrial	
Total	<u><u>\$</u></u>

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

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

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

	September 30, 2023	March 31, 2024
(Dollars in thousands)		
Residential Real Estate:		
Single family	\$ 487	\$ 149
Commercial Real Estate:		
Owner occupied	1,126	
Non-owner occupied	625	
Construction and Land Development	10,850	
Commercial and Industrial	325	842
Total	<u><u>\$ 2,563</u></u>	<u><u>\$ 11,841</u></u>

	December 31, 2022
(Dollars in thousands)	
Residential Real Estate:	
Single family	\$
Commercial Real Estate:	
Owner occupied	1,126
Commercial and industrial	842
Total	<u><u>\$ 11,841</u></u>

As of March 31, 2024, there were no real estate loans in the process of foreclosure.

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

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

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

15

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the three months ended March 31, 2024. The Company did not modify any loans to borrowers experiencing financial **distress** difficulty during the three months ended March 31, 2023.

(Dollars in thousands)	Term Extension		
	Amortized Cost		Financial Effect
	Basis	% of Total Loan Type	
Residential Real Estate:			
Single family	\$ 364	0.2 %	Deferred loan payment for three months
Construction & Land Development	12,057	2.9 %	Extended term on interest only payments for six months
Commercial & Industrial	743	1.0 %	Extended term on interest only payments for three months
Total	\$ 13,168		

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

The following tables summarize the amortized cost basis by aggregate Pass and criticized categories of Special Mention and Substandard within the Company's internal risk rating system by year of origination as of March 31, 2024 and **nine** December 31, 2023. The following tables also summarize gross charge-offs, by year of origination for the three months ended **September 30**, March 31, 2024 and the year ended December 31, 2023.

As of September 30, 2023 there were no real estate loans in the process of foreclosure.

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year								
							Revolving Loans converted to term		
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving	Total
Residential Real Estate -									
Single Family									
Pass	\$ 1,511	\$ 47,593	\$ 24,429	\$ 23,676	\$ 36,816	\$ 40,496	\$ 30,191	\$ —	\$ 204,712
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	3,576	835	—	149	—	4,560
Total Residential Real Estate -									
Single Family	\$ 1,511	\$ 47,593	\$ 24,429	\$ 27,252	\$ 37,651	\$ 40,496	\$ 30,340	\$ —	\$ 209,272
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 132	\$ —	\$ —	\$ 132
Residential Real Estate -									
Multifamily									

Pass	\$ 2,671	\$ 28,346	\$ 56,314	\$ 56,885	\$ 40,352	\$ 36,923	\$ 21,086	\$ —	\$ 242,577
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Residential Real Estate -									
Multifamily	\$ 2,671	\$ 28,346	\$ 56,314	\$ 56,885	\$ 40,352	\$ 36,923	\$ 21,086	\$ —	\$ 242,577
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential Real Estate -									
Farmland									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 142	\$ —	\$ —	\$ 142
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Residential Real Estate -									
Farmland	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 142	\$ —	\$ —	\$ 142
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial Real Estate -									
Owner Occupied									
Pass	\$ 2,942	\$ 68,176	\$ 71,332	\$ 42,121	\$ 39,332	\$ 75,466	\$ 19,101	\$ —	\$ 318,470
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate -									
Owner Occupied	\$ 2,942	\$ 68,176	\$ 71,332	\$ 42,121	\$ 39,332	\$ 75,466	\$ 19,101	\$ —	\$ 318,470
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial Real Estate - Non-Owner Occupied									
Pass	\$ 16,951	\$ 22,976	\$ 131,891	\$ 52,062	\$ 47,381	\$ 178,020	\$ 29,671	\$ —	\$ 478,952
Special Mention	—	—	—	—	15,965	—	—	—	15,965
Substandard	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate -									
Non-Owner Occupied	\$ 16,951	\$ 22,976	\$ 131,891	\$ 52,062	\$ 63,346	\$ 178,020	\$ 29,671	\$ —	\$ 494,917
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction & Land Development									
Pass	\$ —	\$ 8,256	\$ 22,406	\$ 14,754	\$ 2,452	\$ 7,874	\$ 342,311	\$ —	\$ 398,053
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	1,124	1,454	—	8,272	—	—	—	10,850
Total Construction & Land Development	\$ —	\$ 9,380	\$ 23,860	\$ 14,754	\$ 10,724	\$ 7,874	\$ 342,311	\$ —	\$ 408,903

Current period gross charge-offs	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>					
Commercial & Industrial									
Pass	\$ 690	\$ 9,213	\$ 5,092	\$ 9,895	\$ 3,081	\$ 10,157	\$ 28,042	\$ <u> </u>	\$ 66,170
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	663	—	1,968	3,021	—	5,652
Total Commercial & Industrial	<u>\$ 690</u>	<u>\$ 9,213</u>	<u>\$ 5,092</u>	<u>\$ 10,558</u>	<u>\$ 3,081</u>	<u>\$ 12,125</u>	<u>\$ 31,063</u>	<u>\$ <u> </u></u>	<u>\$ 71,822</u>
Current period gross charge-offs	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>					
Consumer - Unsecured									
Pass	\$ <u> </u>	\$ 339	\$ <u> </u>	\$ 339					
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Consumer - Unsecured	<u>\$ <u> </u></u>	<u>\$ 339</u>	<u>\$ <u> </u></u>	<u>\$ 339</u>					
Current period gross charge-offs	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>					
Consumer - Secured									
Pass	\$ 85	\$ 52	\$ 237	\$ <u> </u>	\$ 37	\$ 2,069	\$ 83	\$ <u> </u>	\$ 2,563
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Consumer - Secured	<u>\$ 85</u>	<u>\$ 52</u>	<u>\$ 237</u>	<u>\$ <u> </u></u>	<u>\$ 37</u>	<u>\$ 2,069</u>	<u>\$ 83</u>	<u>\$ <u> </u></u>	<u>\$ 2,563</u>
Current period gross charge-offs	\$ <u> </u>	\$ 3	\$ 6	\$ <u> </u>	\$ 9				
Total									
Pass	\$ 24,850	\$ 184,612	\$ 311,701	\$ 199,393	\$ 169,451	\$ 351,147	\$ 470,824	\$ <u> </u>	\$ 1,711,978
Special Mention	—	—	—	—	15,965	—	—	—	15,965
Substandard	—	1,124	1,454	4,239	9,107	1,968	3,170	—	21,062
Total	<u>\$ 24,850</u>	<u>\$ 185,736</u>	<u>\$ 313,155</u>	<u>\$ 203,632</u>	<u>\$ 194,523</u>	<u>\$ 353,115</u>	<u>\$ 473,994</u>	<u>\$ <u> </u></u>	<u>\$ 1,749,005</u>
Current period gross charge-offs	\$ <u> </u>	\$ 135	\$ 6	\$ <u> </u>	\$ 141				

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

December 31, 2023 (Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year							Revolving Loans converted to term		
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans converted to term	Total	

Residential Real Estate -											
Single Family											
Pass	\$ 50,101	\$ 17,502	\$ 26,434	\$ 34,453	\$ 20,610	\$ 20,542	\$ 33,217	\$ —	\$ 202,859		
Special Mention	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	409	—	149	—	558	
Total Residential Real Estate -											
Single Family	\$ 50,101	\$ 17,502	\$ 26,434	\$ 34,453	\$ 21,019	\$ 20,542	\$ 33,366	\$ —	\$ 203,417		
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Residential Real Estate -											
Multifamily											
Pass	\$ 28,346	\$ 81,180	\$ 60,156	\$ 39,286	\$ 27,270	\$ 10,797	\$ 24,005	\$ —	\$ 271,040		
Special Mention	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	
Total Residential Real Estate -											
Multifamily	\$ 28,346	\$ 81,180	\$ 60,156	\$ 39,286	\$ 27,270	\$ 10,797	\$ 24,005	\$ —	\$ 271,040		
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Residential Real Estate -											
Farmland											
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 145	\$ —	\$ —	\$ —	\$ 145	
Special Mention	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	
Total Residential Real Estate -											
Farmland	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 145	\$ —	\$ —	\$ —	\$ 145	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial Real Estate -											
Owner Occupied											
Pass	\$ 70,476	\$ 55,222	\$ 43,576	\$ 39,621	\$ 32,044	\$ 37,360	\$ 2,633	\$ —	\$ 280,932		
Special Mention	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	1,120	—	—	—	1,120	
Total Commercial Real Estate -											
Owner Occupied	\$ 70,476	\$ 55,222	\$ 43,576	\$ 39,621	\$ 33,164	\$ 37,360	\$ 2,633	\$ —	\$ 282,052		
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial Real Estate - Non-Owner Occupied											
Pass	\$ 23,091	\$ 101,617	\$ 51,291	\$ 48,692	\$ 30,595	\$ 150,629	\$ 32,122	\$ —	\$ 438,037		
Special Mention	—	—	—	16,000	—	—	—	—	—	16,000	
Substandard	—	—	—	—	7,738	—	—	—	—	7,738	
Total Commercial Real Estate -											
Non-Owner Occupied	\$ 23,091	\$ 101,617	\$ 51,291	\$ 64,692	\$ 38,333	\$ 150,629	\$ 32,122	\$ —	\$ 461,775		

Current period gross charge-offs	\$ <u> </u>								
Construction & Land Development									
Pass									
Pass	\$ 6,416	\$ 32,544	\$ 13,612	\$ 2,455	\$ —	\$ 8,118	\$ 355,689	\$ —	\$ 418,834
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	1,454	—	—	—	—	9,349	—
Total Construction & Land Development	\$ 6,416	\$ 33,998	\$ 13,612	\$ 2,455	\$ —	\$ 8,118	\$ 365,038	\$ —	\$ 429,637
Current period gross charge-offs	\$ <u> </u>								
Commercial & Industrial									
Pass									
Pass	\$ 10,150	\$ 5,271	\$ 13,530	\$ 3,495	\$ 1,230	\$ 10,466	\$ 27,299	\$ —	\$ 71,441
Special Mention	—	—	—	—	—	—	—	2,997	—
Substandard	—	—	—	—	536	353	88	—	977
Total Commercial & Industrial	\$ 10,150	\$ 5,271	\$ 13,530	\$ 3,495	\$ 1,766	\$ 10,819	\$ 30,384	\$ —	\$ 75,415
Current period gross charge-offs	\$ <u> </u>								
Consumer - Unsecured									
Pass									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 271	\$ —	\$ 271
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Consumer - Unsecured	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 271	\$ —	\$ 271
Current period gross charge-offs	\$ <u> </u>								
Consumer - Secured									
Pass									
Pass	\$ 55	\$ 252	\$ 3	\$ 51	\$ 1,400	\$ 1,497	\$ 81	\$ —	\$ 3,339
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Consumer - Secured	\$ 55	\$ 252	\$ 3	\$ 51	\$ 1,400	\$ 1,497	\$ 81	\$ —	\$ 3,339
Current period gross charge-offs	\$ <u> </u>								
Total									
Pass									
Pass	\$ 188,635	\$ 293,588	\$ 208,602	\$ 168,053	\$ 113,149	\$ 239,554	\$ 475,317	\$ —	\$ 1,686,898
Special Mention	—	—	—	16,000	—	—	2,997	—	18,997
Substandard	—	—	1,454	—	9,803	353	9,586	—	21,196
Total	\$ 188,635	\$ 295,042	\$ 208,602	\$ 184,053	\$ 122,952	\$ 239,907	\$ 487,900	\$ —	\$ 1,727,091
Current period gross charge-offs	\$ <u> </u>								

<u>(Dollars in thousands)</u>	December 31, 2022			Loans Receivable	
			Ending Balance	Ending Balance: Individually Evaluated	Ending Balance: Collectively Evaluated
			for Impairment	for Impairment	for Impairment
	Ending Balance	for Impairment	Ending Balance	for Impairment	Ending Balance
Residential Real Estate	\$ 394,394	\$ 149	\$ 394,245		
Commercial Real Estate	700,728	—	700,728		
Construction and Land Development	393,783	—	393,783		
Commercial & Industrial	97,351	—	97,351		
Consumer	13,336	—	13,336		
Total	\$ 1,599,592	\$ 149	\$ 1,599,443		

17

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans could include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The tables below include all loans that were individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following table presents loans individually evaluated for impairment by class of loans, as of December 31, 2022:

<u>(Dollars in thousands)</u>	December 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	\$	\$	\$
With no related allowance recorded			
Residential Real Estate:			
Single family	\$ 149	\$ 149	\$ —
Total	\$ 149	\$ 149	\$ —

The following table presents information related to the average recorded investment and interest income recognized on impaired loans, for the three months ended September 30, 2023:

<u>(Dollars in thousands)</u>	For the three months ended September 30,	
	2023	
	Average Record Investment	Interest Income Recognized
With no related allowance recorded		
Residential Real Estate:		
Single family	\$ 504	\$ —
Commercial Real Estate:		
Owner Occupied	1,129	
Non-owner Occupied	626	
Commercial & Industrial	650	
Total	\$ 2,909	\$ —

The following table presents information related to the average recorded investment and interest income recognized on impaired loans, for the nine months ended September 30, 2023:

	For the nine months ended September 30,	
	2023	
	Average Record Investment	Interest Income Recognized
(Dollars in thousands)		
With no related allowance recorded		
Residential Real Estate:		
Single family	\$ 539	\$
Commercial Real Estate:		
Owner Occupied	\$ 1,134	\$
Non-owner Occupied	626	
Commercial & Industrial	653	
Total	\$ 2,952	\$

Unfunded Commitments

The Company maintains an allowance for credit losses on off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e. commitment cannot be canceled at any time). The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on funded loans. The allowance for credit losses for off-balance sheet credit exposure of \$1.6 million and \$0 million at September 30, 2023 and December 31, 2022, respectively, is classified on the balance sheet within Other Liabilities.

The following table presents the balance and activity in the allowance for credit losses for off-balance sheet credit exposure for the three months ended September 30, March 31, 2024 and 2023, respectively.

	Total Allowance f
	Credit Losses on C
	Balance Sheet Cre
(Dollars in thousands)	
Balance, June 30, 2023	\$ 1,600
Provision for off-balance sheet credit losses	\$ 1,600
Balance, September 30, 2023	\$ 0

The following table presents the balance and activity in the allowance for credit losses for off-balance sheet credit exposure for the nine months ended September 30, 2023.

	Total Allowance f
	Credit Losses on C
	Balance Sheet Cre
(Dollars in thousands)	
Balance, December 31, 2023	\$ 1,600
Recovery of off-balance sheet credit losses, net	\$ 1,600
Balance, March 31, 2024	\$ 0

		Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure	Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure
Balance, December 31, 2022		\$ —	\$ —
Adjustment to allowance for off-balance sheet credit losses upon adoption of ASU 2016-13		1,310	1,310
Provision for off-balance sheet credit losses, net		242	
Balance, September 30, 2023		\$ 1,552	
Recovery of off-balance sheet credit losses, net			(132)
Balance, March 31, 2023		\$ 1,178	

Note 4. Intangible Assets

The carrying amount of computer software developed was \$13.4 \$15.7 million and \$9.1 \$14.7 million at September 30, 2023 March 31, 2024 and December 31, 2022 2023. The following table presents the carrying amount of computer software developed as of September 30, 2023 March 31, 2024 and December 31, 2022 2023.

(Dollars in thousands)	As of September 30, 2023		As of December 31, 2022		As of March 31, 2024		As of December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:								
Computer software	\$ 13,373	\$ —	\$ 9,149	\$ —	\$ 15,691	\$ —	\$ 14,657	\$ —
Total	\$ 13,373	\$ —	\$ 9,149	\$ —	\$ 15,691	\$ —	\$ 14,657	\$ —

The Company is still in the development stage of computer software where costs are capitalized. Capitalization ceases when the software is substantially complete and ready for its intended use. At that time the intangible asset will be amortized on a straight-line basis over the estimated useful life of the asset. As of September 30, 2023 March 31, 2024, the Company has not recorded any amortization on its intangible computer software. We anticipate the amortization period for intangible computer software to be ten years, once placed in service, which is expected to begin in the first second quarter of 2024.

Note 5. Derivatives and Risk Management Activities

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

The following tables summarize key elements of the Company's derivative instruments as of September 30, 2023 March 31, 2024 and December 31, 2022 2023.

September 30, 2023	March 31, 2024									
Dollars in thousands)	Notional Amount	Number of Positions	Assets	Liabilities	Collateral Pledges	Notional Amount	Number of Positions	Assets	Liabilities	Collateral Pledges
Customer-related interest rate contracts										

Matched interest rate swap with borrower	\$ 239,312	44	\$ —	\$ 28,313	\$ —	\$ 220,939	41	\$ —	\$ 22,374	\$ —
Matched interest rate swap with counterparty	\$ 239,312	44	\$ 28,313	\$ —	\$ —	\$ 220,939	41	\$ 22,374	\$ —	\$ —

17 18

December 31, 2022

December 31, 2023

Customer-related interest rate contracts

Dollars in thousands)

	Notional Amount	Number of Positions	Assets	Liabilities	Collateral Pledges	Notional Amount	Number of Positions	Assets	Liabilities	Collateral Pledges
Matched interest rate swap with borrower	\$ 245,717	44	\$ —	\$ 23,896	\$ 3,034	\$ 224,008	42	\$ —	\$ 18,569	\$ —
Matched interest rate swap with counterparty	\$ 245,717	44	\$ 23,896	\$ —	\$ 3,034	\$ 224,008	42	\$ 18,569	\$ —	\$ —

The Company is able to recognize fee income upon execution of the interest rate swap contract. The Company did not record any interest rate swap fee income for the three and nine months ended September 30, March 31, 2024 or 2023. \$518,000 and \$619,000 was recorded for the three and nine months ended September 30, 2022.

Note 6. Fair Value Presentation

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosure", the Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability ("an exit price") in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

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

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

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

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

Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. As of **September 30, 2023** **March 31, 2024**, and December 31, **2022** **2023**, the Bank's entire portfolio of available for sale securities are considered to be Level 2 securities, with the exception of one subordinated debt security which is considered a Level 3.

Derivative asset (liability) – interest rate swaps on loans

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

1819

The following tables provide the fair value for assets required to be measured and reported at fair value on a recurring basis as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

(Dollars in thousands)	September 30, 2023				March 31, 2024			
	Level 1		Level 2		Level 3		Total	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<u>Assets:</u>								
Investment securities available-for-sale:								
Collateralized Mortgage Backed	\$ —	\$ 19,171	\$ —	\$ 19,171	\$ —	\$ 18,772	\$ —	\$ 18,772
Subordinated Debt	—	8,028	250	8,278	—	8,251	250	8,501
Municipal Securities:								
Taxable	—	7,659	—	7,659	—	8,291	—	8,291
Tax-exempt	—	18,599	—	18,599	—	20,437	—	20,437
U.S. Government Agencies	—	3,019	—	3,019	—	2,698	—	2,698
Derivative asset – interest rate swap on loans	—	28,313	—	28,313	—	22,374	—	22,374
Total	\$ —	\$ 84,789	\$ 250	\$ 85,039	\$ —	\$ 80,823	\$ 250	\$ 81,073
<u>Liabilities:</u>								
Derivative liability – interest rate swap on loans	\$ —	\$ 28,313	\$ —	\$ 28,313	\$ —	\$ 22,374	\$ —	\$ 22,374
Total	\$ —	\$ 28,313	\$ —	\$ 28,313	\$ —	\$ 22,374	\$ —	\$ 22,374

(Dollars in thousands)	December 31, 2022			
	Level 1		Level 2	
	Level 1	Level 2	Level 3	Total
<u>Assets:</u>				
Investment securities available-for-sale:				
Collateralized Mortgage Backed	\$ —	\$ 22,227	\$ —	\$ 22,227
Subordinated Debt	—	8,577	250	8,827
Municipal Securities:				
Taxable	—	7,966	—	7,966
Tax-exempt	—	20,175	—	20,175
U.S. Government Agencies	—	3,436	—	3,436
Derivative asset – interest rate swap on loans	—	23,896	—	23,896
Total	\$ —	\$ 86,277	\$ 250	\$ 86,527
<u>Liabilities:</u>				
Derivative liability – interest rate swap on loans	\$ —	\$ 23,896	\$ —	\$ 23,896
Total	\$ —	\$ 23,896	\$ —	\$ 23,896

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

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, there were no changes to the fair value of level three instruments.

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

The Company did not have any assets that were measured at fair value on a nonrecurring basis as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **2023**.

Fair Value of Financial Instruments

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

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

<u>September 30, 2023</u>	Carrying	Estimated	Markets for Identical Assets	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	<u>March 31, 2024</u>	Carrying	Estimated	Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(Dollars in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3		(Dollars in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets:												
Cash and cash equivalents	\$ 121,183	\$ 121,183	\$ 121,183	\$ —	\$ —		Cash and cash equivalents	\$ 124,741	\$ 124,741	\$ 124,741	\$ —	\$ —
Securities:												

Available for sale	56,726	56,726	—	56,726	—	58,699	58,699	—	58,449	250
Held to maturity	17,565	16,812	—	16,812	—	17,251	17,043	—	17,043	—
Restricted securities	20,619	20,619	—	20,619	—	23,924	23,924	—	23,924	—
Loans, net	1,681,444	1,668,678	—	—	1,668,678	1,727,110	1,719,301	—	—	1,719,301
Derivative asset – interest rate swap on loans	28,313	28,313	—	28,313	—	22,374	22,374	—	22,374	—
Bank owned life insurance	38,035	38,035	—	38,035	—	38,609	38,609	—	38,609	—
Accrued interest receivable	10,133	10,133	—	10,133	—	9,978	9,978	—	9,978	—
Liabilities:										
Deposits	\$ 1,683,190	\$ 1,677,844	\$ —	\$ 979,230	\$ 698,614	\$ 1,732,735	\$ 1,732,891	\$ —	\$ 1,007,215	\$ 725,676
Subordinated debt, net	72,543	56,410	—	56,410	—	72,741	69,860	—	69,860	—
Derivative liability – interest rate swaps on loans	28,313	28,313	—	28,313	—	22,374	22,374	—	22,374	—
Accrued interest payable	2,740	2,740	—	2,740	—	3,008	3,008	—	3,008	—

1920

December 31, 2022	Carrying	Estimated	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs		Significant Unobservable Inputs		Carrying	Estimated	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs		Significant Unobservable Inputs	
			Amount	Fair Value	Level 1	Level 2	Level 3	Amount	Fair Value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
(Dollars in thousands)																
Assets:																
Cash and cash equivalents	\$ 130,600	\$ 130,600	\$ 130,600	\$ —	—	—	—	\$ 114,513	\$ 114,513	\$ 114,513	\$ —	\$ —	—	—	—	
Restricted equity securities								24,356	24,356	—	24,356	—				
Securities:																
Available for sale	62,631	62,631	—	62,381	250	59,928	59,928	—	59,678	250						
Held to maturity	17,642	17,440	—	17,440	—	17,275	17,163	—	17,163	—						
Restricted securities	24,325	24,325	—	24,325	—											
Loans, net	1,579,950	1,584,533	—	—	1,584,533	1,705,137	1,701,418	—	—	—	1,701,418					
Derivative asset – interest rate swap on loans	23,896	23,896	—	23,896	—	18,569	18,569	—	18,569	—	—					
Bank owned life insurance	37,249	37,249	—	37,249	—	38,318	38,318	—	38,318	—	—					

Accrued receivable	interest	8,779	8,779	—	8,779	—	10,725	10,725	—	10,725	—
Liabilities:											
Deposits		\$ 1,512,889	\$ 1,503,869	\$ —	\$ 904,978	\$ 599,121	\$ 1,686,127	\$ 1,685,487	\$ —	\$ 989,791	\$ 695,696
Advances from the FHLB		100,000	99,983	—	—	99,983					
Subordinated debt, net		72,245	64,235	—	64,235	—	72,642	56,513	—	56,513	—
Federal funds purchased							15,000	14,968	—	—	14,968
Derivative liability — interest rate swaps on loans		23,896	23,896	—	23,896	—	18,569	18,569	—	18,569	—
Accrued interest payable		896	896	—	896	—	2,845	2,845	—	2,845	—

The above information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. Assumptions utilized in the aggregation of fair value of our loan portfolio include prepayment rates, probability of default and loss given default, and discount rates on cash flows. Our third party valuation utilizes average data by homogenous loan segments nationwide and may not properly reflect the characteristics of our specific portfolio. There were no changes in methodologies or transfers between levels at September 30, 2023 March 31, 2024 and December 31, 2022 2023.

Note 7. Earnings Per Common Share

Basic earnings per common share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock which then shared in the earnings of the Company. There were no such potentially dilutive securities outstanding in 2023 2024 or 2022, 2023.

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

<u>(Dollars in thousands, except for share and per share data)</u>	For the Three Months Ended		For the Nine Months Ended		For the Three Months Ended March 31,	
	September 30,		September 30,		2024	
	2023	2022	2023	2022	2024	2023
Net income	\$ 6,341	\$ 7,743	\$ 21,438	\$ 19,095	\$ 3,305	\$ 8,151
Preferred stock dividends	(539)	(539)	(1,617)	(1,617)	(539)	(539)
Net income available to common shareholders	<u>\$ 5,802</u>	<u>\$ 7,204</u>	<u>\$ 19,821</u>	<u>\$ 17,478</u>	<u>\$ 2,766</u>	<u>\$ 7,612</u>
Weighted average number of common shares issued, basic and diluted	7,524,332	7,463,719	7,521,426	7,561,567	7,611,990	7,517,213
Earnings per common share:						
Basic and diluted earnings per common share	\$ 0.77	\$ 0.97	\$ 2.64	\$ 2.31	\$ 0.36	\$ 1.01

2021

Note 8. Accumulated Other Comprehensive Loss

The following table presents the cumulative balances of the components of accumulated other comprehensive loss, net of deferred taxes, as of September 30, 2023 March 31, 2024 and December 31, 2022 2023:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Unrealized loss on investment securities available-for-sale	\$ (14,063)	\$ (11,108)	\$ (10,298)	\$ (9,737)
Unrealized loss on securities transferred to HTM	(2)	(8)	—	(6)
Tax benefit	3,256	2,570	2,368	2,265
Total accumulated other comprehensive loss	\$ (10,809)	\$ (8,546)	\$ (7,930)	\$ (7,478)

Note 9. Leases

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

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

Cash paid for amounts included in the measurement of lease liabilities during the **nine** **three** months ended **September 30, 2023**, **March 31, 2024** and **2023** was **\$336,000**, **\$163,000** and **\$111,000**, respectively. During the **nine** **three** months ended **September 30, 2023**, **March 31, 2024** and **2022**, the Company recognized lease expense of **\$363,000**, **\$171,000** and **\$363,000**, **\$121,000**, respectively.

(Dollars in thousands)	2023	2022
Lease liabilities	\$ 7,014	\$ 7,342
Right-of-use assets	6,332	6,688
Weighted-average remaining lease term – operating leases (in months).	158.3	162.9
Weighted-average discount rate – operating leases	2.80 %	2.80 %

	As of September 30,	As of December 31,	As of	As of
			March	December
			31,	31,
	2023	2022	2024	2023
Lease liabilities	\$ 7,014	\$ 7,342	\$ 6,842	\$ 6,902
Right-of-use assets	6,332	6,688	6,143	6,211
Weighted-average remaining lease term – operating leases (in months).	158.3	162.9	152.6	155.9
Weighted-average discount rate – operating leases	2.80 %	2.80 %	2.82 %	2.80 %

(Dollars in thousands)	2023	2022	2024	2023
Lease Cost				
Operating lease cost	\$ 363	\$ 363	\$ 171	\$ 121
Total lease costs	\$ 363	\$ 363	\$ 171	\$ 121
Cash paid for amounts included in measurement of lease liabilities	\$ 336	\$ 327	\$ 163	\$ 111

	For the nine months ended September 30,	For the nine months ended September 30,	For the three months ended March 31,	For the three months ended March 31,
			2024	2023
	2023	2022	2024	2023
Lease Cost				
Operating lease cost	\$ 363	\$ 363	\$ 171	\$ 121
Total lease costs	\$ 363	\$ 363	\$ 171	\$ 121
Cash paid for amounts included in measurement of lease liabilities	\$ 336	\$ 327	\$ 163	\$ 111

The Company is the lessor for three operating leases. One lease is extended on a month-to-month basis while two of these leases have arrangements for over twelve months with an option to extend the lease terms. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Total rent income on these operating leases is approximately **\$6,000** **\$8,000** per month.

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

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of **September 30, 2023** **March 31, 2024** is as follows:

<u>(Dollars in thousands)</u>	\$	161	\$ 616
2023			
2024		654	\$ 616
2025		671	691
2026		689	709
2027		587	587
2028			594
Thereafter		5,561	4,363
Total undiscounted cash flows	\$ 8,323	\$ 7,560	
Discount		(1,309)	(718)
Lease liabilities	\$ 7,014	\$ 6,842	

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

The following discussion and analysis is intended as a review of significant factors affecting the Company's consolidated financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the related notes and the Company's Annual Report on Form 10-K, which contains audited consolidated financial statements of the Company as of and for the year ended **December 31, 2022** **December 31, 2023**, previously filed with the SEC on **March 23, 2023** **March 20, 2024**. Results for the three and nine months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of results for the year ending **December 31, 2023** **December 31, 2024** or any future period.

Forward-Looking Statements

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

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition among depository and other financial institutions, particularly intensified competition for deposits;
- inflation and an interest rate environment that may reduce our margins or reduce the fair value of certain of our financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory structure and in regulatory fees and capital requirements;
- the impact of significant changes in accounting procedures or requirements on our financial condition or results of operations;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired and newly organized entities;
- changes in consumer spending, borrowing and savings habits;

- changes in accounting policies and practices;
- changes in our organization, compensation and benefit plans;
- our ability to attract and retain key employees;
- changes in our financial condition or results of operations that reduce capital;
- changes in the financial condition or future prospects of issuers of securities that we own;
- the concentration of our business in the Northern Virginia as well as the greater Washington, DC metropolitan area and the effect of changes in the economic, political and environmental conditions on those markets;
- adequacy of or increases in the allowance for credit losses;
- cyber threats, attacks or other data security events;
- fraud or misconduct by internal or external parties;
- reliance on third parties for key services;
- deterioration of our asset quality, including an increase in loan delinquencies, problem assets and foreclosures;
- future performance of our loan portfolio with respect to recently originated loans;
- additional risks related to new lines of business, products, product enhancements or services;
- results of examination of us by our regulators, including the possibility that our regulators may require us to increase our allowance for credit losses or to write-down assets or take other supervisory action;
- the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting;
- liquidity, interest rate and operational risks associated with our business;
- implications of our status as a smaller reporting company and as an emerging growth company;
- a work stoppage, forced quarantine, or other interruption or the unavailability of key employees; and
- other risk factors and information included in our Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023 and this Quarterly Report on Form 10-Q.

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

Overview

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

MainStreet Bancshares, Inc.

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

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

MainStreet Bank

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

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

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

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

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

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

Avenu

On October 25, 2021, MainStreet Bancshares, Inc. formally introduced Avenu, a division of MainStreet Bank. Avenu represents the Company's suite of Banking as a Service ("BaaS") solutions designed to meet the banking needs of Fintech customers. We believe our approach to providing a proprietary BaaS solution is unique. Our transformational subledger combined with our high-touch compliance training goes beyond the industry standards to ensure that our Fintech partners will prosper. This division of MainStreet Bank currently serves money service businesses, payment **processors**, **processors**, and BaaS customers and provides the Bank with valuable low-cost deposits and additional streams of fee income. A major component of the BaaS solution includes a fintech core, which is Software as a Service (SaaS). **As of March 31, 2024, we have capitalized \$15.7 million in developing our SaaS solution, which is shown separately on our statement of financial condition. Our SaaS solution has launched with software program will be deployed in the second quarter of 2024. Additional information can be found in Note 4 of our first beta client. consolidated financial statements, our investor presentations filed quarterly, and in the investor relations portion of our website.**

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

Effects of Inflation

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

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

Critical Accounting Policies

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

Following the announcement by the U.K.'s Financial Conduct Authority in July 2017 that it will no longer persuade or require banks to submit rates for the London InterBank Offered Rate (LIBOR) after 2021, the Company has opted to use the published Secured Overnight Funding Rate (SOFR) as a substitute and replacement for any financial instruments that are or would otherwise be tied to the LIBOR index. The Bank has officially transitioned all instruments away from LIBOR.

Our critical accounting policies involving significant judgments and assumptions used in the preparation of the consolidated financial statements as of September 30, 2023 March 31, 2024, have remained unchanged since our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 was filed, unless noted herein. As of January 1, 2023, we have adopted the current expected credit loss standard. Any additional changes are discussed in our Recently Issued Accounting Pronouncements.

Comparison of Statements of Income for the Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

General

Total revenue increased \$9.4 \$3.6 million to \$32.7 \$33.3 million for the three months ended September 30, 2023 March 31, 2024 from \$23.3 \$29.6 million for the three months ended September 30, 2022 March 31, 2023. These increases in total revenue were offset primarily by increases in total expenses, interest expense. Total expenses increased \$10.8 \$10.0 million to \$24.5 million \$29.3 million for the three months ended September 30, 2023 March 31, 2024 from \$13.7 million \$19.3 million for the three months ended September 30, 2022 March 31, 2023, of which interest expense accounted for \$9.4 million. The increase in revenue for the three months ended September 30, 2023 March 31, 2024 was primarily due to increases in loan interest income of \$9.5 million \$3.8 million over the same period in 2022. Income was positively impacted 2023. Operating costs grew moderately by interest earned on federal funds sold, which earned \$204,000 in additional interest 5%, or \$621,000 for the three months ended September 30, 2023 than the same period in 2022. These increases in income were offset by increases in interest expense of \$9.3 million and \$1.1 million in salaries and employee benefits for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Net income decreased \$1.4 million to \$6.3 March 31, 2024 from \$11.7 million for the three months ended September 30, 2023 from \$7.7 March 31, 2023. Net income decreased \$4.8 million to \$3.3 million for the three months ended September 30, 2022 March 31, 2024 from \$8.2 million for the three months ended March 31, 2023. The decrease in net income was primarily impacted by the sharp rise in funding costs that occurred in the last three quarters of 2023.

Interest Income

Total interest income increased **\$9.8** **\$3.7** million, or **44.6%** **13.0%**, to **\$31.7** **\$32.4** million for the three months ended **September 30, 2023** **March 31, 2024** from **\$21.9** **\$28.7** million for the three months ended **September 30, 2022** **March 31, 2023**, on a tax equivalent basis. The increase was primarily the result of an increase in interest and fees on loans of **\$9.5** million and an increase in interest on federal funds sold of **\$204,000**. **\$3.8** million. Total average interest-earning assets increased **\$124.6** million **\$100.2** million, to **\$1.87** **\$1.91** billion for the three months ended **September 30, 2023** **March 31, 2024** from **\$1.74** **\$1.81** billion for the same period in **2022** **2023** primarily because of an increase of **\$218.8** **\$129.0** million in the average balance of loans and was offset by a decrease of **\$87.5** **\$26.7** million in the average balance of federal funds sold and a **\$6.7** million **\$2.1** million decrease in the average balance of investment securities. The average yield on our interest-earning assets increased **175** **38** basis points to **6.76%** **6.80%** for the three months ended **September 30, 2023** **March 31, 2024** as compared to **5.01%** **6.42%** for the three months ended **September 30, 2022** **March 31, 2023** primarily because of higher average yields on interest earning assets due to market conditions, and the Federal Reserve increasing the benchmark interest rates by 525 basis points over the course of the previous eighteen months throughout 2022 and 2023.

Interest and fees on loans increased **\$9.5** million **\$3.8** million, to **\$29.8** **\$30.5** million for the three months ended **September 30, 2023** **March 31, 2024** from **\$20.3** **\$26.7** million for the same period in **2022** **2023**. This increase was primarily due to an increase in the average yield on loans and the average loans outstanding increasing **\$218.8** **\$129.0** million, which increased to **\$1.67** **\$1.73** billion for the three months ended **September 30, 2023** **March 31, 2024** from **\$1.45** **\$1.60** billion for the three months ended **September 30, 2022** **March 31, 2023**. The average yield on loans increased **153** **29** basis points, or **27.5%** **4.3%**, for the three months ended **September 30, 2023** **March 31, 2024** as compared to the three months ended **September 30, 2022** **March 31, 2023**. The Federal Reserve increased the federal funds target interest rate by 25 basis points during the quarter so we expect our asset sensitive balance sheet to continue to benefit from the current rate environment.

Interest income on federal funds sold and interest-earning deposits increased by **\$0.2** million **\$50,000** to **\$1.2** million for the three months ended **September 30, 2023** **March 31, 2024**, from **\$1.0** **\$1.1** million for the three months ended **September 30, 2022** **March 31, 2023**. The increase was primarily due to an increase in the average yield on these deposits despite the average balances decreasing over the same time period. The average balance of interest-earning deposits and federal funds sold decreased **\$87.5** **\$26.7** million to **\$94.8** **\$92.0** million for the three months ended **September 30, 2023** **March 31, 2024** from **\$182.3** **\$118.7** million for the same period in **2022** **2023**. The average yield increased to **5.09%** **5.15%** for the three months ended **September 30, 2023** **March 31, 2024** from **2.20%** **3.87%** for the same period in **2022** **2023**.

Interest on investment securities increased decreased by **\$90,000** **\$75,000** to **\$798,000** **\$777,000** for the three months ended **September 30, 2023** **March 31, 2024** from **\$708,000** **\$852,000** for the three months ended **September 30, 2022** **March 31, 2023** on a fully tax-equivalent basis. Interest on investments in U.S Treasury, U.S. Government Agencies, and U.S Municipalities increased decreased in total **\$60,000**, **\$13,000**, or **19.0%** **3.6%**, to **\$364,000** for the three months ended **March 31, 2024**, from **\$377,000** for the three months ended **September 30, 2023**, from **\$317,000** for the three months ended **September 30, 2022** **March 31, 2023**. Interest on mortgage-backed securities decreased by **\$5,000**, **\$15,000**, or **4.5%** **13.0%**, to **\$108,000** **\$102,000** for the three months ended **September 30, 2023** **March 31, 2024**, from **\$114,000** **\$118,000** for the three months ended **September 30, 2022** **March 31, 2023**. Subordinated debt interest income increased by **\$3,000**, **\$2,000**, or **2.0%**, to **\$135,000** **\$136,000** for the three months ended **September 30, 2023** **March 31, 2024**, from **\$132,000** **\$133,000** for the three months ended **September 30, 2022** **March 31, 2023**. The average yield on taxable securities increased **67** decreased **53** basis points, to **2.70%** **3.12%** and the average yield on tax-exempt securities increased **12** **9** basis points, to **3.56%** **3.66%** on a tax equivalent basis for the three months ended **September 30, 2023** **March 31, 2024**, from **2.03%** **3.65%** and **3.44%** **3.57%**, respectively, for the same period in **2022**. Increased **2023**. Fluctuation in market rates and maturing securities resulted in investment income rising despite decreasing, in conjunction with, the average balance of investment securities decreasing by **\$6.7** million **\$2.1** million, to **\$105.3** **\$93.4** million for the three months ended **September 30, 2023** **March 31, 2024**, from **\$112.0** **\$95.5** million for the three months ended **September 30, 2022** **March 31, 2023**.

Interest Expense

Total interest expense increased **\$9.3** **\$9.4** million, to **\$13.1** **\$17.0** million for the three months ended **September 30, 2023** **March 31, 2024** from **\$3.8** million **\$7.6** million for the three months ended **September 30, 2022** **March 31, 2023**, primarily due to a **\$5.3** **\$4.7** million increase in interest expense on time deposits and a **\$3.7** **\$4.0** million increase in interest expense on money market deposits. There were additional increases in The Company also saw an increase of interest expense primarily due to the increase in average outstanding balances on interest bearing demand deposits of advances on FHLB borrowings that were included **\$1.5** million in the three months ended **September 30, 2023** **March 31, 2024** over the three months ended **September 30, 2022** **March 31, 2023**. These increases were offset by a decrease of interest expense of **\$860,000** on advances from the Federal Home Loan Bank in the three months ended **March 31, 2024**, compared to the three months ended **March 31, 2023**.

Interest expense on deposits increased **\$9.1** million **\$10.2** million to **\$12.1** million **\$16.0** million for the three months ended **September 30, 2023** **March 31, 2024** from **\$3.0** million **\$5.8** million for the three months ended **September 30, 2022** **March 31, 2023** primarily as a result of an increase in average interest-bearing deposit yields and balances. The increase in average deposit balances was **\$258.2** million **\$300.3** million to **\$1.24** **\$1.33** billion during the three months ended **September 30, 2023** **March 31, 2024** as compared to **\$981.6** million **\$1.03** billion for the three months ended **September 30, 2022** **March 31, 2023**. The increase in the average balance of interest-bearing deposits was primarily a result of a **\$156.6** million **\$208.6** million increase in the average balance of money market deposit accounts and by a **\$124.6** million **\$36.6** million increase in the average balance of time

deposits. The average cost of deposits was 386 basis points for the three months ended September 30, 2023 March 31, 2024, compared to 121 basis points for the three months ended September 30, 2022 March 31, 2023. The average rate paid on money market deposits increased 322 basis points to 3.99% for the three months ended September 30, 2023 March 31, 2024 from 0.77% for the three months ended September 30, 2022 March 31, 2023. The average rate paid on interest-bearing demand deposits increased 50 basis points to 1.24% for the three months ended September 30, 2023 March 31, 2024 from 0.74% for the three months ended September 30, 2022 March 31, 2023 primarily due to market competition and the interest rate environment. The average cost of certificates of deposit increased by 269 basis points to 4.26% for the three months ended September 30, 2023 March 31, 2024 as compared to 1.57% for the three months ended September 30, 2022 March 31, 2023. The decrease in the average balance of non interest-bearing demand deposits for the three months ended September 30, 2023 March 31, 2024, primarily was the result of depositors looking for higher yielding products and market competition.

Net Interest Income

Net interest income increased/decreased approximately \$0.5 million \$5.7 million, or 2.7% 27.1%, to \$18.6 million \$15.4 million for the three months ended September 30, 2023 March 31, 2024 from \$18.1 million \$21.1 million for the three months ended September 30, 2022 despite March 31, 2023 in connection with our net interest-earning assets decreasing \$149.9 million \$130.5 million to \$537.4 million \$496.6 million for the three months ended September 30, 2023 March 31, 2024 from \$687.3 million \$627.1 million for the three months ended September 30, 2022 March 31, 2023. The interest rate spread tightened by 73 basis points to 2.84% 1.99% for the three months ended September 30, 2023 March 31, 2024 from 3.57% 3.84% for the three months ended September 30, 2022 March 31, 2023, on a tax equivalent basis. The net interest margin compressed by 17 basis points from 4.14% 4.73% for the three months ended September 30, 2022 March 31, 2023 to 3.97% 3.24% for the three months ended September 30, 2023 March 31, 2024 on a tax equivalent basis. Refer to "Use of Certain Non-GAAP Financial Measures," below, for a reconciliation of adjusted net interest margin.

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

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

	For the Three Months Ended September 30,						For the Three Months Ended March 31,					
	2023			2022			2024			2023		
	Average Balance	Interest Income/Expense(6)	Yield/Cost(5)(6)	Average Balance	Interest Income/Expense(6)	Yield/Cost(5)(6)	Average Balance	Interest Income/Expense(6)	Yield/Cost(5)(6)	Average Balance	Interest Income/Expense(6)	Yield/Cost(5)(6)
(Dollars in thousands)												
Interest-earning assets:												
Loans(1)	\$ 1,665,474	\$ 29,750	7.09%	\$ 1,446,679	\$ 20,261	5.56%	\$ 1,728,761	\$ 30,487	7.07%	\$ 1,599,756	\$ 26,731	6.78%
Investment securities:												
Taxable	67,513	459	2.70%	73,914	378	2.03%	56,001	435	3.12%	57,600	518	3.65%
Tax-exempt	37,812	339	3.56%	38,074	330	3.44%	37,420	342	3.66%	37,941	334	3.57%
Federal funds and interest-bearing deposits	94,808	1,217	5.09%	182,331	1,013	2.20%	91,993	1,182	5.15%	118,670	1,132	3.87%
Total interest-earning assets	1,865,607	\$ 31,765	6.76%	1,740,998	\$ 21,982	5.01%	1,914,175	\$ 32,446	6.80%	1,813,967	\$ 28,715	6.42%
Non-interest-earning assets	63,883			61,479			123,294			71,704		
Total assets	<u>\$ 1,929,490</u>			<u>\$ 1,802,477</u>			<u>\$ 2,037,469</u>			<u>\$ 1,885,671</u>		
Interest-bearing liabilities:												
Interest-bearing demand deposits	\$ 77,047	\$ 240	1.24%	\$ 93,569	\$ 175	0.74%	\$ 146,248	\$ 1,860	5.10%	\$ 83,388	\$ 343	1.67%
Savings and NOW deposits	48,594	145	1.18%	55,100	43	0.31%	44,219	157	1.42%	51,943	108	0.84%

Money market deposits	413,710	4,156	3.99%	257,091	496	0.77%	433,654	5,178	4.79%	225,037	1,203	2.17%
Time deposits	700,405	7,526	4.26%	575,832	2,275	1.57%	710,019	8,833	4.99%	673,441	4,144	2.50%
Total interest-bearing deposits	1,239,756	12,067	3.86%	981,592	2,989	1.21%	1,334,140	16,028	4.82%	1,033,809	5,798	2.27%
Federal funds purchased	2,501	35	5.55%	2	—	—	7,476	107	5.74%	2,965	38	5.20%
Federal Home Loan Bank advances	13,478	186	5.48%	—	—	—	3,297	46	5.60%	77,833	906	4.72%
Subordinated debt	72,504	828	4.53%	72,107	828	4.56%	72,703	820	4.52%	72,306	812	4.55%
Total interest-bearing liabilities	1,328,239	\$ 13,116	3.92%	1,053,701	\$ 3,817	1.44%	1,417,616	\$ 17,001	4.81%	1,186,913	\$ 7,554	2.58%
Non-interest-bearing liabilities:												
Demand deposits and other liabilities	388,004			558,337			397,753			497,155		
Total liabilities	1,716,243			1,612,038			1,815,369			1,684,068		
Stockholders' equity	213,247			190,439			222,100			201,603		
Total liabilities and stockholders' equity	\$ 1,929,490			\$ 1,802,477			\$ 2,037,469			\$ 1,885,671		
Net interest income		\$ 18,649			\$ 18,165			\$ 15,445			\$ 21,161	
Interest rate spread(2)			2.84%			3.57%			1.99%			3.84%
Net interest-earning assets(3)	\$ 537,368			\$ 687,297			\$ 496,559			\$ 627,054		
Net interest margin(4)			3.97%			4.14%			3.24%			4.73%
Average interest-earning assets to average interest-bearing liabilities	140.5%			165.23%			135.0%			152.83%		

(1) Includes loans classified as non-accrual

(2) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest earning assets represent total average interest-earning assets less average interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total average interest-earning assets.

(5) Annualized.

(6) Income and yields for all periods presented are reported on a **fully** tax-equivalent basis using the federal statutory tax rate of 21%. Refer to "Use of Certain Non-GAAP Financial Measures."

Rate/ Volume Analysis

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

	For the Three Months Ended September 30, 2023 and 2022					For the Three Months Ended March 31, 2024 and 2023				
	Increase (Decrease) Due to			Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase			
	Volume	Rate	(Dollars in thousands)		Volume	Rate	(Dollars in thousands)			
Interest-earning assets:										
Loans	\$ 3,365	\$ 6,124	\$ 9,489	\$ 2,455	\$ 1,301	\$ 3,756				
Investment securities:										
Taxable	(189)	270	81	(13)	(70)	(83)				
Tax-exempt	(14)	23	9	(22)	30	8				
Federal funds and interest-bearing deposits	(2,766)	2,970	204	(1,209)	1,259	50				
Total interest-earning assets	396	9,387	9,783	1,211	2,520	3,731				
Interest-bearing liabilities:										
Interest-bearing demand deposits	(180)	245	65	407	1,110	1,517				
Savings and NOW accounts	(34)	136	102	7	42	49				
Money market deposit accounts	465	3,195	3,660							
Money market deposits				1,727	2,248	3,975				
Time deposits	589	4,662	5,251	189	4,500	4,689				
Total deposits	840	8,238	9,078	2,330	7,900	10,230				
Fed funds purchased	35	—	35							
Federal funds purchased				65	4	69				
Federal Home Loan Bank advances	186	—	186	(1,867)	1,007	(860)				
Subordinated debt	20	(20)	—	23	(15)	8				
Total interest-bearing liabilities	1,081	8,218	9,299	551	8,896	9,447				
Change in net interest income	\$ (685)	\$ 1,169	\$ 484	\$ 660	\$ (6,376)	\$ (5,716)				

Provision for Credit Losses

Management believes that the provision recorded for the period ended **September 30, 2023** **March 31, 2024** reflects a balance sufficient to provide for each allowance segment, using objective data and information available to us at this time in evaluating our standard analysis of local/national economic data, changes in underwriting quality, portfolio concentrations, experience of lending team, credit quality and supportable forecasts. We will continuously review the credit portfolio to determine the depth and breadth of potential credit losses. As we obtain additional information and to more accurately assess the full nature and extent of elevated risk to the credit portfolio that may arise, additional provision expenses may be required.

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

The provision for credit losses on loans decreased by **\$98,000** to a recovery for credit losses on loans of **\$98,000** **\$251,000** for the three months ended **September 30, 2023** **March 31, 2024** from a provision for credit losses on loans of **\$0** **\$415,000** for the three months ended **September 30, 2022** **March 31, 2023**. Loan originations, which totaled approximately **\$83.2 million** **\$45.5 million** for the three months ended **September 30, 2022** increased **\$8.8 million** **March 31, 2023** decreased **\$11.5 million** to **\$92.0** **\$34.0 million** for the three months

ended September 30, 2023 March 31, 2024. Despite loan originations increasing, During the quarter ended March 31, 2024, the Company noted was able to further segment many loans within the commercial and industrial segment that many lines of had collateral backed by government contracts. These loans present a different risk profile than typical commercial and industrial loans, and come with different qualitative factors within our credit were paid down during the quarter, which lowered the provision for loan losses for the period ended 2023 compared to 2022. The Company noted that a majority of this provision just shifted and increased the provision for unfunded commitments as of September 30, 2023, loss model. The Company did not have any see an uptick in non-performing loans at September 30, 2022 March 31, 2024, with a balance of \$9.3 million, however this is largely attributed to one loan and non-performing the Company is actively working towards a solution. As of March 31, 2024, the Company had only 2.12% criticized and classified loans to total gross loans was only 0.02% as of September 30, 2023, loans.

The provision for recovery of credit losses on off-balance sheet credit exposure increased by \$353,000 was \$359,000 for the three months ended September 30, 2023 March 31, 2024 and \$132,000 for the three months ended March 31, 2023.

During the three months ended September 30, 2023 March 31, 2024, there was one loan downgraded to special mention for \$16.0 million. Substandard loans decreased \$3.0 million and doubtful substandard loans remained consistant consistent as of September 30, 2023 for March 31, 2024 with a collective balance of \$10.7 million \$21.1 million. Of the substandard loans as of September 30, 2023 March 31, 2024, 79% are connected 52% is related to one relationship that the hospitality industry. These Company feels is on a path to positive resolution and an additional 27% of substandard loans were initially impacted by the pandemic and were downgraded out of an abundance of caution while cash flows and occupancy levels have continued to increase to pre-pandemic levels. Management does not believe there will be losses SBA guarantees associated with these credits. During the three months ended September 30, 2023, watch list loans, which are considered pass credits, improved by \$35.6 million to \$56.3 million as of September 30, 2023, them. As interest rates have risen significantly over the last eighteen months, two years, management believes in taking a proactive approach to risk management in the loan portfolio. While these portfolio, particularly as credits do not represent expected losses, management will take are due to reprice in a more active monitoring role to ensure any potential risk is mitigated. new rate environment. During the three months ended September 30, 2023 March 31, 2024, there was \$324,000 \$141,000 in charge-offs incurred for one credit, and recoveries of \$1,000 \$2,000 were received.

Non-Interest Income

Non-interest income decreased \$385,000, \$112,000, or 28.6% 11.2%, to \$963,000 \$891,000 for the three months ended September 30, 2023 March 31, 2024 from \$1.3 \$1.0 million for the three months ended September 30, 2022 March 31, 2023. The decrease in non-interest income was primarily due to decreases in fee income earned on originating loan swaps deposit account service charges in the three months ended September 30, 2023 March 31, 2024 compared to the same period in 2022, 2023. The Company also recognized decrease in account service charges was offset by an increase \$37,000 in bank owned life insurance income for the three months ended March 31, 2024, as a nonrecurring operating loss on a new market tax credit equity investment during result of the quarter of \$87,000, elevated interest rate environment compared to same period in the prior year. The Company continues to focus on increasing fee income as it continues to add services that strategically benefit our customers.

Non-Interest Expense

Non-interest expense increased \$1.5 million, \$621,000, or 15.5% 5.3%, to \$11.4 million \$12.3 million for the three months ended September 30, 2023 March 31, 2024, from \$9.9 million \$11.7 million for the three months ended September 30, 2022 March 31, 2023 primarily because of increases in salary furniture and employee benefits of \$1.1 million equipment expenses and other various operating expenses of \$1.3 million. Salaries \$400,000. Information security tools and employee benefits expense other software expenses increased by \$1.1 approximately \$321,000 to \$6.9 million \$465,000 for the three months ended September 30, 2023 March 31, 2024, from \$5.9 million \$144,000 for the three months ended September 30, 2022 primarily as a result of twenty-eight new employees and the related salary and benefit expenses for these additional employees. March 31, 2023. Franchise taxes increased approximately \$93,000 \$98,000 to \$557,000 for the three months ended March 31, 2024, from \$459,000 for the three months ended September 30, 2023 from \$366,000 for the three months ended September 30, 2022 March 31, 2023 because of the make up of the Company's capital as of September 30, 2023 March 31, 2024 compared to the balance sheet as of September 30, 2022 March 31, 2023. Offsetting these increases was a decrease in advertising and marketing expenses decreased \$127,000, of \$343,000, or 18.0% 43.0%, to \$577,000 \$454,000 for the three months ended September 30, 2023 March 31, 2024 from \$704,000 \$797,000 for the three months ended September 30, 2022 March 31, 2023 due to timing and new being selective in initiatives to further enhance the Company's brand.

Income Tax Expense

Income tax expense decreased \$292,000, \$1.1 million, or 16.2% 57.6%, to a tax expense of \$1.5 \$830,000 for the three months ended March 31, 2024 from a tax expense of \$2.0 million for the three months ended September 30, 2023 from a tax expense of \$1.8 million for the three months ended September 30, 2022 March 31, 2023. The decrease in federal income tax expense for the three months ended September 30, 2023 March 31, 2024 compared to the same period a year ago was driven by the decrease in income before income taxes of \$1.7 million, \$6.0 million, to income before income tax of \$7.9 million \$4.1 million for the three months ended September 30, 2023 March 31, 2024 compared to income before income tax expense of \$9.6 million \$10.1 million for the same period in the prior year. The Company was able to apply and claim a research and development tax credit of approximately \$242,000 \$326,000 for its associated work in developing a software platform in 2022, 2023. The Company also invests in projects that have tax credit benefits in order to help reduce its overall tax liability. As a result of expanding its footprint, the Company has included assessments in income tax expense for potential state tax

liabilities which totaled \$212,000 \$105,000 for the three months ended September 30, 2023 March 31, 2024. For the three months ended September 30, 2023 March 31, 2024, the Company had an effective income tax expense rate of 19.3% 20.1%, compared to an effective income tax expense rate of 18.9% 19.4% for the three months ended September 30, 2022 March 31, 2023.

Comparison of Statements of Income Since the Company adopted the proportional amortization method to account for the Nine Months Ended September 30, 2023 and 2022 General

Total revenue increased \$32.0 million to \$93.8 million for the nine months ended September 30, 2023 from \$61.8 million for the nine months ended September 30, 2022. These increases in total revenue were offset by increases in total expenses. Total expenses increased \$29.1 million to \$66.1 million for the nine months ended September 30, 2023 from \$37.0 million for the nine months ended September 30, 2022. The increase in revenue for the nine months ended September 30, 2023 was primarily due to increases in net interest income of \$9.5 million over the same period in 2022. Income was positively impacted by interest earned on federal funds sold, which earned \$2.3 million in additional interest for the nine months ended September 30, 2023 than the same period in 2022. These increases in income were offset by increases of \$4.1 million in salaries and employee benefits for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Net income increased \$2.3 million to \$21.4 million for the nine months ended September 30, 2023 from \$19.1 million for the nine months ended September 30, 2022.

Interest Income

Total interest income increased \$33.0 million, or 56.8%, to \$91.0 million for the nine months ended September 30, 2023 from \$58.1 million for the nine months ended September 30, 2022, on a tax equivalent basis. The increase was primarily the result of an increase in interest and fees on loans of \$30.4 million and an increase in interest on federal funds sold of \$2.3 million. Total average interest-earning assets increased \$192.6 million, to \$1.85 billion for the nine months ended September 30, 2023 from \$1.65 billion for the same period in 2022 primarily because of an increase of \$220.4 million in the average balance of loans and was offset by a decrease of \$22.8 million in the average balance of federal funds sold and interest-earning deposits and a \$5.1 million decrease in the average balance of investment securities. The average yield on our interest-earning assets increased 190 basis points to 6.61% for the nine months ended September 30, 2023 as compared to 4.71% for the nine months ended September 30, 2022 primarily because of higher average yields on interest earning assets due to market conditions, loans related to PPP lending with a rate of 1% paying off, and the Federal Reserve increasing the benchmark interest rates by 525 basis points over the course of the previous eighteen months.

Interest and fees on loans increased \$30.4 million, to \$85.3 million for the nine months ended September 30, 2023 from \$54.9 million for the same period in 2022. This increase was primarily due to an increase in the average yield on loans and the average loans outstanding increasing \$220.4 million, which increased to \$1.64 billion for the nine months ended September 30, 2023 from \$1.42 billion for the nine months ended September 30, 2022. The average yield on loans increased 178 basis points, or 34.4%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. The Federal Reserve increased the federal funds target interest rate by 100 basis points throughout the first nine months of 2023 and we expect our asset sensitive balance sheet to continue to benefit from the current rate environment.

Interest income on federal funds sold and interest-earning deposits increased by \$2.3 million to \$3.5 million for the nine months ended September 30, 2023, from \$1.2 million for the nine months ended September 30, 2022. The increase was primarily due to an increase in the average yield on these deposits despite the average balances decreasing over the same time period. The average balance of interest-earning deposits and federal funds sold decreased \$22.8 million to \$99.0 million for the nine months ended September 30, 2023 from \$121.8 million for the same period in 2022. The average yield increased to 4.76% for the nine months ended September 30, 2023 from 1.36% for the same period in 2022.

Interest on investment securities increased by \$249,000 to \$2.4 million for the nine months ended September 30, 2023 from \$2.1 million for the nine months ended September 30, 2022 on a fully tax-equivalent basis. Interest on investments in U.S Treasury, U.S. Government Agencies, and U.S Municipalities increased in total \$161,000, or 16.6%, to \$1.1 million for the nine months ended September 30, 2023, from \$969,000 for the nine months ended September 30, 2022. Interest on mortgage-backed securities decreased by \$13,000, or 4.0%, to \$308,000 for the nine months ended September 30, 2023, from \$321,000 for the nine months ended September 30, 2022. Subordinated debt interest income increased by \$7,000, or 1.8%, to \$395,000 for the nine months ended September 30, 2023, from \$388,000 for the nine months ended September 30, 2022. The average yield on taxable securities increased 60 basis points, to 2.67% and the average yield on tax-exempt securities increased 8 basis points, to 3.56% on a tax equivalent basis for the nine months ended September 30, 2023, from 2.07% and 3.48%, respectively, for the same period in 2022. Increased market rates resulted in investment income rising despite the average balance of investment securities decreasing by \$5.1 million, to \$107.1 million for the nine months ended September 30, 2023, from \$112.2 million for the nine months ended September 30, 2022.

Interest Expense

Total interest expense increased \$23.4 million, to \$32.1 million for the nine months ended September 30, 2023 from \$8.7 million for the nine months ended September 30, 2022, primarily due to a \$13.5 million increase in interest expense on time deposits and a \$7.5 million increase in interest expense on money market deposits. There were additional increases in interest expense primarily due to the increase in average outstanding balance of our FHLB advances that were included in the nine months ended September 30, 2023 over the nine months ended September 30, 2022.

Interest expense on deposits increased \$21.8 million to \$28.3 million for the nine months ended September 30, 2023 from \$6.5 million for the nine months ended September 30, 2022 primarily as a result of an increase in average interest-bearing deposit yields and balances. The increase in average interest-bearing deposit balances was \$238.0 million to \$1.16 billion during the nine months ended September 30, 2023 as compared to \$917.8 million for the nine months ended September 30, 2022. The increase in the average balance of interest-bearing deposits was primarily a result of a \$75.0 million increase in the average balance of money market deposit accounts and by a \$188.1 million increase in the average balance of time deposits. The average cost of deposits was 327 basis points for the nine months ended September 30, 2023, compared to 94 basis points for the nine months ended September 30, 2022. The average rate paid on money market deposits increased 298 basis points to 3.38% for the nine months ended September 30, 2023 from 0.40% for the nine months ended September 30, 2022. The average rate paid on interest-bearing demand deposits increased 90 basis points to 1.43% for the nine months ended September 30, 2023 from 0.53% for the nine months ended September 30, 2022 primarily due to market competition and the interest rate environment. The average cost of time deposits increased by 221 basis points to 3.58% for the nine months ended September 30, 2023 as compared to 1.37% for the nine months ended September 30, 2022. The

decrease in the average balance of interest-bearing demand deposits for the nine months ended September 30, 2023, primarily was the result of depositors looking for higher yielding products and market competition.

The average balance of subordinated debt increased \$9.6 million for the nine months ended September 30, 2023, due to an additional \$43.9 million issued in late March of 2022 and was fully captured in the nine months ended September 30, 2023.

Net Interest Income

Net interest income increased approximately \$9.5 million, or 19.8%, to \$58.9 million for the nine months ended September 30, 2023 from \$49.4 million for the nine months ended September 30, 2022 despite our net interest-earning assets decreasing \$68.5 million to \$581.0 million for the nine months ended September 30, 2023 from \$649.4 million for the nine months ended September 30, 2022. The interest rate spread decreased by 34 basis points to 3.22% for the nine months ended September 30, 2023 from 3.56% for the nine months ended September 30, 2022, on a tax equivalent basis. The net interest margin increased by 27 basis points from 4.01% for the nine months ended September 30, 2022 to 4.28% for the nine months ended September 30, 2023 on a tax equivalent basis. Refer to "Use of Certain Non-GAAP Financial Measures," below, for a reconciliation of adjusted net interest margin.

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

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

	For the Nine Months Ended September 30,					
	2023			2022		
	Average Balance	Interest Income/Expense (6)	Yield/ Cost(5)	Average Balance	Interest Income/Expense(6)	Yield/ Cost(6)
	(Dollars in thousands)					
Interest-earning assets:						
Loans(1)	\$ 1,640,460	\$ 85,336	6.95 %	\$ 1,420,013	\$ 54,900	5.17 %
Investment securities:						
Taxable	69,260	1,384	2.67 %	73,496	1,136	2.07 %
Tax-exempt	37,876	1,009	3.56 %	38,703	1,008	3.48 %
Federal funds and interest-bearing deposits	99,004	3,528	4.76 %	121,832	1,241	1.36 %
Total interest-earning assets	1,846,600	\$ 91,257	6.61 %	1,654,044	\$ 58,285	4.71 %
Non-interest-earning assets	62,832			71,361		
Total assets	<u>\$ 1,909,432</u>			<u>\$ 1,725,405</u>		
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 78,018	\$ 834	1.43 %	\$ 86,836	\$ 345	0.53 %
Savings and NOW deposits	50,382	400	1.06 %	66,714	122	0.24 %
Money market deposits	328,037	8,285	3.38 %	252,992	766	0.40 %
Time deposits	699,377	18,747	3.58 %	511,242	5,236	1.37 %
Total interest-bearing deposits	1,155,814	28,266	3.27 %	917,784	6,469	0.94 %
Federal funds purchased	6,878	274	5.33 %	2	—	—
Federal Home Loan Bank advances	30,531	1,105	4.84 %	24,011	83	0.46 %
Subordinated debt	72,405	2,460	4.54 %	62,807	2,108	4.49 %
Total interest-bearing liabilities	1,265,628	\$ 32,105	3.39 %	1,004,604	\$ 8,660	1.15 %
Non-interest-bearing liabilities:						
Demand deposits and other liabilities	<u>436,157</u>			<u>531,115</u>		
Total liabilities	<u>1,701,785</u>			<u>1,535,719</u>		
Stockholders' Equity	207,647			189,686		
Total liabilities and stockholders' equity	<u>\$ 1,909,432</u>			<u>\$ 1,725,405</u>		
Net interest income		\$ 59,152			\$ 49,625	
Interest rate spread(2)			3.22 %			3.56 %
Net interest-earning assets(3)	\$ 580,972			\$ 649,440		
Net interest margin(4)			4.28 %			4.01 %

Average interest-earning assets to average interest-bearing liabilities	145.90 %	164.65 %
---	----------	----------

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

Rate/ Volume Analysis

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

	For the Nine Months Ended September 30, 2023 and 2022				
	Increase (Decrease) Due to		Total Increase		
	Volume	Rate	(Decrease)		
(In thousands)					
Interest-earning assets:					
Loans	\$ 9,459	\$ 20,977	\$ 30,436		
Investment securities:					
Taxable	(105)	353	248		
Tax-exempt	(29)	30	1		
Federal funds and interest-bearing deposits	(418)	2,705	2,287		
Total interest-earning assets	8,907	24,065	32,972		
Interest-bearing liabilities:					
Interest-bearing demand deposits	(61)	550	489		
Savings and NOW accounts	(54)	332	278		
Money market deposit accounts	288	7,231	7,519		
Time deposits	2,509	11,002	13,511		
Total deposits	2,682	19,115	21,797		
Federal funds purchased	274	—	274		
Federal Home Loan Bank advances	31	1,074	1,105		
Subordinated debt	328	24	352		
Total interest-bearing liabilities	3,315	20,213	23,528		
Change in net interest income	\$ 5,592	\$ 3,852	\$ 9,444		

Provision for Credit Losses

Management believes that the provision recorded for the period ended September 30, 2023 reflects a balance sufficient to provide for each allowance segment, using objective data and information available to us at this time in evaluating our standard analysis of local/national economic data, changes in underwriting quality, portfolio concentrations, experience of lending team, credit quality and supportable forecasts. We will continuously review the credit portfolio to determine the depth and breadth of potential credit losses. As we obtain additional information and to more accurately assess the full nature and extent of elevated risk to the credit portfolio that may arise, additional provision expenses may be required. The provision for credit losses, which is an operating expense, is maintained to ensure that the allowance for credit losses is maintained at levels we consider necessary and appropriate to absorb expected credit losses at a balance sheet date. In determining the level of the allowance for credit losses on loans and off-balance sheet credit exposure, we consider past and current loss experience, evaluations of real estate collateral, current and future economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing loans. The amount of the allowance is based on estimates, and actual losses may vary from such estimates as more information becomes available over time or economic conditions change. This evaluation is inherently subjective, as it requires estimates and assumptions that

are susceptible to significant revision as circumstances change or as more information becomes available. The allowance for credit losses is assessed monthly and provisions are made for credit losses as required in order to maintain the overall allowance.

The provision for credit losses on loans decreased by \$346,000 to a provision for credit losses on loans of \$934,000 for the nine months ended September 30, 2023 from a provision for credit losses on loans of \$1.3 million for the nine months ended September 30, 2022. Loan originations, which totaled approximately \$227.7 million for the nine months ended September 30, 2022 increased \$108.0 million to loan originations of \$335.7 million for the nine months ended September 30, 2023. The Company did not have any non-performing loans at September 30, 2022 and non-performing loans to gross loans was only 0.02% as of September 30, 2023.

The provision for credit losses on off-balance sheet credit exposure increased by \$242,000 for a provision of credit losses on off-balance sheet credit exposure of \$1.6 million for the nine months ended September 30, 2023.

During the nine months ended September 30, 2023, there was one loan downgraded to special mention for \$16.0 million. Substandard and doubtful loans increased \$1.2 million as of September 30, 2023 for a balance of \$10.4 million. Of the substandard loans as of September 30, 2023, 79% are connected to the hospitality industry. These loans were initially impacted by the pandemic and were downgraded out of an abundance of caution while cash flows and occupancy levels have continued to increase to pre-pandemic levels. Management does not believe there will be losses associated with these credits. During the nine months ended September 30, 2023, watch list loans, which are considered pass credits, increased \$32.7 million. As the rates have risen significantly over the last eighteen months, management believes in taking a proactive approach to risk management in the loan portfolio. While these credits do not represent expected losses, management will take a more active monitoring role to ensure any potential risk is mitigated. During the nine months ended September 30, 2023, there were \$331,000 in charge-offs incurred, and recoveries of \$14,000 were received.

Non-Interest Income

Non-interest income decreased \$996,000, or 26.4%, to \$2.8 million for the nine months ended September 30, 2023 from \$3.8 million for the nine months ended September 30, 2022. The decrease in non-interest income was primarily due to decreases in mortgage origination and fee income on loan swaps originated in the nine months ended September 30, 2023 compared to the same period in 2022. The Company also recognized operating losses on a new market^{its} tax credit equity investments, during the year of \$176,000. The Company continues to focus on increasing fee income as it strategically benefits^{we expected} our customers.

Non-Interest Expense

Non-interest expense increased \$5.6 million, or 19.9%, to \$34.0 million for the nine months ended September 30, 2023 from \$28.3 million for the nine months ended September 30, 2022 primarily because of increases in salary and employee benefits of \$4.1 million and advertising and marketing expenses of \$388,000. Salaries and employee benefits expense increased by \$4.1 million to \$21.1 million for the nine months ended September 30, 2023 from \$17.0 million for the nine months ended September 30, 2022 primarily as a result of twenty-eight new employees and the related salary and benefit expenses for these additional employees. Advertising and marketing expenses increased \$388,000, or 23.0%, to \$2.1 million for the nine months ended September 30, 2023 from \$1.7 million for the nine months ended September 30, 2022 due to timing and new initiatives to further enhance the Company's brand. Franchise taxes increased approximately \$311,000 to \$1.4 million for the nine months ended September 30, 2023 from \$1.1 million for the nine months ended September 30, 2022 because of the make up of the Company's capital as of September 30, 2023 compared to the balance sheet as of September 30, 2022. Offsetting these increases was a decrease in furniture and equipment expenses of \$93,000, or 4.4%, to \$2.0 million for the nine months ended September 30, 2023 from \$2.1 million for the nine months ended September 30, 2022 due to more normalized expense levels for furniture and equipment.

Income Tax Expense

Income tax expense increased \$657,000, or 14.7%, to a tax expense of \$5.1 million for the nine months ended September 30, 2023 from a tax expense of \$4.5 million for the nine months ended September 30, 2022. The increase in federal income tax expense for the nine months ended September 30, 2023 compared to the same period a year ago was driven by the increase in income before income taxes of \$3.0 million, to income before income tax of \$26.6 million for the nine months ended September 30, 2023 compared to income before income tax expense of \$23.6 million for the same period in the prior year. The Company was able to apply and claim a research and development tax credit of approximately \$242,000 for its associated work in developing a software platform in 2022. The Company also invests in projects that have tax credit benefits in order to help reduce its overall tax liability. As a result of expanding its footprint, the Company has included assessments in income tax expense for potential state tax liabilities which totaled \$675,000 for the nine months ended September 30, 2023. For the nine months ended September 30, 2023, the Company had an effective income tax expense rate of 19.3%, compared to an effective income tax expense rate of 18.9% for the nine months ended September 30, 2022. increase moderately.

Comparison of Statements of Financial Condition at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023

Total Assets

Total assets increased \$95.7 million, \$34.6 million, or 5.0% 1.7%, to \$2.1 billion at March 31, 2024 from \$2.0 billion at September 30, 2023 from \$1.93 billion at December 31, 2022 December 31, 2023. The increase was primarily the result of increases in the loan portfolio of \$101.5 million \$21.9 million and was offset by a decrease an increase in federal funds sold of \$9.4 million \$14.6 million as of September 30, 2023 March 31, 2024.

Investment Securities

Investment securities decreased \$9.7 million \$1.7 million, or 9.3% 1.7%, from \$104.6 million \$101.6 million at December 31, 2022 December 31, 2023 to \$94.9 million \$99.9 million at September 30, 2023 March 31, 2024. The decrease was primarily due to normal payoff of available-for-sale securities and amortization of certain restricted stock securities, and fluctuations in balances of restricted stock held in connection to FHLB advances. securities. At September 30, 2023 March 31, 2024, our held-to-maturity portion of the securities

portfolio, at amortized cost, was \$17.6 million, and our available-for-sale portion of the securities portfolio, at fair value, was \$56.7 million compared to our held-to-maturity portion of the securities portfolio of \$17.6 million and our available-for-sale portion of the securities portfolio of \$62.6 million \$59.9 million at December 31, 2022 December 31, 2023.

Net Loans

Net loans increased \$101.5 million, or 5.4% 1.3%, to \$1.68 billion at September 30, 2023 March 31, 2024 from \$1.58 billion at December 31, 2022 December 31, 2023. Residential real estate loans increased \$68.5 million decreased \$22.6 million, or 17.4% 4.8%, to \$462.9 million at September 30, 2023 from \$394.4 million at December 31, 2022 December 31, 2023 from \$474.6 million at December 31, 2023. Commercial real estate loans increased by \$33.9 million \$69.6 million from \$700.7 million \$743.8 million at December 31, 2022 December 31, 2023 to \$734.6 million \$813.4 million at September 30, 2023 March 31, 2024. Commercial and industrial loans decreased by \$23.5 million \$3.6 million from \$97.4 million at December 31, 2023 to \$71.8 million at December 31, 2022 to \$73.9 million at September 30, 2023. Paycheck Protection Program ("PPP") loans comprised \$1.0 million of this portfolio as of September 30, 2023 March 31, 2024. Construction loans increased \$32.9 million decreased \$20.7 million to \$426.7 million \$408.9 million at September 30, 2023 March 31, 2024 from \$393.8 million \$429.6 million at December 31, 2022 December 31, 2023. Consumer loans decreased by \$8.7 million \$708,000 from \$13.3 million at December 31, 2022 December 31, 2023 to \$4.6 million \$2.9 million at September 30, 2023 March 31, 2024. The \$8.7 million decrease in consumer loans is primarily a result of management's decision to let the indirect lending portfolio amortize off the balance sheet.

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

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

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

1. Total reported loans for construction, land development, and other land represent 100 percent or more of the institution's total risk-based capital; or
2. Total commercial real estate loans as defined in this guidance represent 300 percent or more of the institution's total risk-based capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months.

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

The Company holds a concentration in commercial real estate loans. As of March 31, 2024, construction, land development and other land loans represented 130.1% of consolidated risk-based capital. Total commercial real estate loans as defined by the Agency guidance represented 364.7% of consolidated risk-based capital. During the prior 36 months, the Company has experienced an increase in its commercial real estate portfolio by 56%.

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

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

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

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

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

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

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

Earning Asset Component	March 31, 2024		
	Outstanding Balance	Stress Test Results (1)	Stressed Loss Perce
	(Dollars in thousands)		
Construction	\$ 408,903	\$ (4,091)	(1%
Non-Owner Occupied CRE (2)	737,494	(8,124)	(1%
All Other Loans (3)	602,608	(18,320)	(3%
AFS Securities	68,997	(7,930)	(11%
HTM Securities	17,251	(164)	(0%
Swap Portfolio	—	—	—
Bank Owned Life Insurance	38,609	(38)	(0%
Total	\$ 1,873,862	\$ (38,667)	(2%

(1) Net tax effective loss at the statutory rate of 21%

(2) Non-Owner Occupied CRE includes call codes 1E2 and 1D

(3) The historical loss percentage for "All Other Loans" changed between December 31, 2023 and March 31, 2024

Earning Asset Component	December 31, 2023		
	Outstanding Balance	Stress Test Results (1)	Stressed Loss Perce
	(Dollars in thousands)		
Construction	\$ 429,637	\$ (4,606)	(1%
Non-Owner Occupied CRE (2)	732,815	(7,635)	(1%
All Other Loans	564,639	(11,994)	(2%
AFS Securities	69,665	(7,478)	(10%
HTM Securities	17,275	(88)	(0%
Swap Portfolio	—	—	—
Bank Owned Life Insurance	38,318	(39)	(0%
Total	\$ 1,852,349	\$ (31,840)	(1%

(1) Net tax effective loss at the statutory rate of 21%

(2) Non-Owner Occupied CRE includes call codes 1E2 and 1D

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

March 31, 2024 Bank Capital Adequacy Ratios Pre- and Post-Stress (Tax-Effective)

	Well Capitalized with Buffer	Bank Minimum Target	As of March 31, 2024	Post Stress, Low Estimate	Post Stress, H Estimate
Community Bank Leverage Ratio	8.00 %	8.50 %	14.54 %	13.21 %	1
Leverage Ratio	5.00 %	8.00 %	14.54 %	13.21 %	1
Total Risk-Based Capital	10.00 %	11.50 %	17.05 %	15.57 %	1
Tier 1 Risk-Based Capital	8.00 %	9.50 %	16.12 %	14.64 %	1
Common Equity Tier 1 Risk-Based Capital	6.50 %	8.00 %	16.12 %	14.21 %	1
December 31, 2023 Bank Capital Adequacy Ratios Pre- and Post-Stress (Tax-Effective)					
	Well Capitalized with Buffer	Bank Minimum Target	As of December 31, 2023	Post Stress, Low Estimate	Post Stress, H Estimate
Community Bank Leverage Ratio	8.00 %	8.50 %	14.66 %	13.74 %	1
Leverage Ratio	5.00 %	8.00 %	14.66 %	13.74 %	1
Total Risk-Based Capital	10.00 %	11.50 %	17.18 %	16.17 %	1
Tier 1 Risk-Based Capital	8.00 %	9.50 %	16.22 %	15.20 %	1
Common Equity Tier 1 Risk-Based Capital	6.50 %	8.00 %	16.22 %	14.79 %	1

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

March 31, 2024										
(Dollars in thousands)										
Location										
Non-Owner Occupied CRE (2)	DC	MD	VA	Other	Total		Weighted Average	Weighted Average	Weighted Average Loan-to- Value (1)	Weighted Average Occupancy
Multifamily	\$ 217,748	\$ 7,323	\$ 17,506	\$ —	\$ 242,577	6.20 %	69 %	69 %	83 %	
Office:										
Mixed use	615	2,716	3,051	—	6,382	5.41 %	64 %	64 %	81 %	
Medical	—	22,371	15,162	482	38,015	5.61 %	63 %	63 %	69 %	
Office	1,324	1,892	5,309	—	8,525	6.09 %	58 %	58 %	90 %	
Office to Residential Conversion	—	—	21,550	—	21,550	9.50 %	52 %	52 %	N/A	
Hospitality	29,173	61,401	72,937	—	163,511	6.04 %	65 %	65 %	N/A (3)	
Retail/Commercial	73,241	43,752	95,238	11,924	224,155	5.96 %	58 %	58 %	74 %	
Industrial	745	14,654	5,746	5,970	27,115	6.50 %	59 %	59 %	86 %	
Other	—	—	—	5,664	5,664	6.00 %	66 %	66 %	0 %	
Total Non-Owner Occupied CRE	322,846	154,109	236,499	24,040	737,494	6.14 %	63 %	63 %	69 %	
Construction and Land Development										
Multifamily	112,861	—	11,517	18,250	142,628	8.01 %	63 %	63 %	N/A	
1-4 family	77,764	—	60,480	—	138,244	9.20 %	64 %	64 %	N/A	
Retail/Commercial	18,863	—	—	—	18,863	9.13 %	72 %	72 %	N/A	
Raw land	—	3,690	15,070	7,970	26,730	8.47 %	54 %	54 %	N/A	
Hospitality	—	10,633	—	—	10,633	9.50 %	63 %	63 %	N/A	
Industrial	28,563	—	1,134	—	29,697	7.00 %	57 %	57 %	N/A	
Mixed use	3,544	—	—	—	3,544	9.10 %	57 %	57 %	N/A	
Other	1,257	10,811	14,719	11,777	38,564	8.38 %	47 %	47 %	N/A	
Total Construction and Land Development	242,852	25,134	102,920	37,997	408,903	8.49 %	60 %	60 %	N/A	

Total Construction, Land Development, and Non-Owner Occupied CRE	\$ 565,698	\$ 179,243	\$ 339,419	\$ 62,037	\$ 1,146,397	6.98 %	62 %	N/A
--	------------	------------	------------	-----------	--------------	--------	------	-----

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

(2) Non-owner occupied includes multifamily call code 1D

(3) Hospitality relies upon individual STR data

December 31, 2023

(Dollars in thousands)

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

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

(2) Non-owner occupied includes multifamily call code 1D

(3) Hospitality relies upon individual STR data

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

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

March 31, 2024

Owner Occupied CRE	(Dollars in thousands)										Weighted Average Rate	Average Loan-to- Value (1)		
	Location													
	DC	MD	VA	Other	Total									
Accommodation and food services	\$ 15,214	\$ 2,978	\$ 10,976	\$ 5,577	\$ 34,745						5.59 %	69 %		
Administrative and support	—	4,500	4,519	—	9,019						5.49 %	56 %		
Arts and recreation	—	—	37,204	—	37,204						6.12 %	62 %		
Construction services	13,916	4,033	16,135	—	34,084						5.60 %	69 %		
Education services	28,846	—	5,551	—	34,397						5.86 %	61 %		
Health care	4,784	18,285	16,451	138	39,658						7.04 %	78 %		
Manufacturing	—	—	6,138	—	6,138						4.22 %	56 %		
Religious and other	6,114	8,025	46,430	942	61,511						6.10 %	64 %		
Professional, scientific, tech services	2,891	—	9,503	—	12,394						5.30 %	75 %		
Real estate and rental leasing	750	2,254	3,054	—	6,058						6.59 %	67 %		
Retail trade	889	9,336	24,908	—	35,133						5.87 %	69 %		
Wholesale trade	—	183	829	7,117	8,129						5.98 %	73 %		
Total Owner Occupied CRE	\$ 73,404	\$ 49,594	\$ 181,698	\$ 13,774	\$ 318,470						5.97 %	67 %		

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

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

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

Allowance for Credit Losses - Loans

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

	For the Nine Months Ended September 30,		For the Year Ended December 31,		For the Three Months Ended March 31,	For the Year Ended December 31,
	2023		2022		2024	2023
	(Dollars in thousands)				(Dollars in thousands)	
Balance at beginning of year	\$ 14,114		\$ 11,697		\$ 16,506	\$ 14,114
Impact of adopting ASC 326	895		—		—	895
Charge-offs:						
Residential real estate					(132)	—
Commercial and industrial	(325)		—		—	(462)
Consumer	(6)		—		(9)	(6)
Total charge-offs	(331)		—		(141)	(468)
Recoveries:						
Residential real estate	8		—		—	7
Consumer	6		19		2	15
Total recoveries	14		19		2	22
Net (charge-offs) recoveries	(317)		19			
Net charge-offs					(139)	(446)
Provision for credit losses - loans	934		2,398		164	1,943
Balance at end of period	\$ 15,626		\$ 14,114		\$ 16,531	\$ 16,506
Ratios:						
Net (charge-offs) recoveries to average loans outstanding	(0.02)%		0.00 %			
Non-performing loans to allowance for credit losses on loans at end of period	2.08%		0.15%			
Net charge-offs recoveries to average loans outstanding					0.01 %	0.03 %
Allowance for credit losses on loans to non-performing loans					1.78X	16.44X
Allowance for credit losses on loans to gross loans at end of period	0.92%		0.88%		0.95%	0.96%

Nonperforming Assets

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

	September 30,		December 31,		March 31,	December 31,
	2023		2022		2024	2023
	(Dollars in thousands)				(Dollars in thousands)	
Loans accruing past 90 days:						
Commercial and industrial	\$ —		\$ 15			
Consumer - secured	—		6			
Total loans accruing past 90 days	—		21			
Non-accrual loans						
Non-accrual loans:						
Residential real estate						
Single family					149	149
Construction and land development					8,272	—
Commercial and industrial	325		—		842	851
Total non-accrual loans	325		—		9,263	1,000
Loans 90 days past due and still accruing					—	4
Total non-performing loans	325		21		9,263	1,004
Other real estate owned	—		—		—	—
Total non-performing assets	\$ 325		\$ 21		\$ 9,263	\$ 1,004
Ratios:						

Total non-performing loans to gross loans receivable	0.02%	0.00%	0.53%	0.06%
Total non-performing loans to total assets	0.02%	0.00%	0.45%	0.05%
Total non-performing assets to total assets	0.02%	0.00%	0.45%	0.05%

Deposits

Deposits increased **\$170.3 million** **\$46.6 million**, or **11.3% 2.8%** to **\$1.68 \$1.73 billion** at **September 30, 2023** **March 31, 2024** from **\$1.51 \$1.69 billion** at **December 31, 2022** **December 31, 2023**. Our core deposits decreased **\$20.0 million** increased **\$60.2 million**, or **1.7% 4.8%**, to **\$1.14 \$1.31 billion** at **September 30, 2023** **March 31, 2024** from **\$1.16 \$1.25 billion** at **December 31, 2022** **December 31, 2023**. Non-interest bearing demand deposits decreased **\$155.8 million**, increased **\$155.7 million**, or **28.3% 4.3%**, to **\$394.9 million** **\$348.9 million** at **September 30, 2023** **March 31, 2024** from **\$550.7 million** **\$364.6 million** at **December 31, 2022** **December 31, 2023**. Interest bearing demand deposits decreased **\$3.7 million** increased **\$28.2 million**, or **4.6% 20.6%**, to **\$76.4 million** **\$165.3 million** at **September 30, 2023** **March 31, 2024** from **\$80.1 million** **\$137.1 million** at **December 31, 2022** **December 31, 2023**. Time deposits increased **\$95.8 million**, **\$29.2 million**, or **15.8% 4.0%**, to **\$704.0 million** **\$725.5 million** at **September 30, 2023** **March 31, 2024** from **\$608.1 million** **\$696.3 million** at **December 31, 2022** **December 31, 2023**. Money market demand deposits increased **\$238.9 million**, **\$4.7 million**, or **107.3% 1.1%**, to **\$461.4 million** **\$446.9 million** at **September 30, 2023** **March 31, 2024** from **\$222.5 million** **\$442.2 million** at **December 31, 2022** **December 31, 2023**. The increase in money market deposit accounts and time deposits were primarily the result of the higher rate environment, deposit competition, and customers looking for additional interest-bearing options.

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

	March 31, 2024		December 31, 2023		
	(Dollars in thousands)		Balance	Percent %	Percent %
Deposit type:					
Interest-bearing demand deposits	\$	165,331	9.5 %	\$ 137,128	
Savings and NOW		46,036	2.7 %	45,878	
Money market demand deposits		446,903	25.8 %	442,179	
Time deposits		725,520	41.9 %	696,336	
Interest-bearing deposits		1,383,790	79.9 %	1,321,521	
Non-interest bearing demand deposits		348,945	20.1 %	364,606	
Total deposits	\$	1,732,735	100.0 %	\$ 1,686,127	1

The Company uses wholesale deposits as a funding source in addition to customer deposits. Wholesale deposits provide a diversified and stable source of funding during times of market volatility. As of March 31, 2024, the Company had \$420.5 million of total wholesale deposit funding sources, a decrease of \$12.5 million compared to December 31, 2023, which totaled \$433.0 million.

Given the interest rate environment and strategic initiatives, the Company replaced maturing lower yielding wholesale CDs with higher market rate CDs. The replacement CDs include call options at our discretion if economic conditions changed. The Company also utilized additional wholesale demand deposits to provide liquidity and more effectively balance our interest rate sensitivity. During the quarter ended, total wholesale deposit funding accounted for approximately 35% of our interest expense.

The following table presents the Company's total wholesale deposit composition, concentrations, current rate and remaining duration, if applicable as of March 31, 2024.

	March 31, 2024			December 31, 2023		
	(Dollars in thousands)					
	Wholesale Deposits	Money Market Accounts (MMDA)	Percent %	Weighted Average	Remaining Maturity (in months)	Weighted Average
Wholesale MMDAs	\$ 101,556	24.2 %	5.45 %	N/A	\$ 120,536	27.8 %
Wholesale Time Deposits						
Listing Service CDs (1)	31,598	7.5 %	4.83 %	3	34,481	8.0 %
Wholesale CDs:						
Term	114,392	27.2 %	3.97 %	6	148,906	34.4 %
Term with Call Option (2)	172,957	41.1 %	5.17 %	42	129,083	29.8 %
Total Wholesale CDs	287,349				277,989	

Total Wholesale Deposits	\$ <u>420,503</u>	100.0 %	\$ <u>433,006</u>	100.0 %
--------------------------	-------------------	---------	-------------------	---------

(1) Listing service CDs are excluded from being classified as wholesale deposits, per FDIC call report instructions

(2) Average weighted call date is May 2024

Regulatory Defined Wholesale Deposits

Each quarter the Bank files a bank call report with the FDIC, which has a specific way it defines wholesale brokered deposits. As of March 31, 2024, the Company had \$388.9 million of wholesale deposits outstanding, as defined by FDIC, a decrease of \$9.6 million from December 31, 2023. In addition, pursuant to rule 12 CFR 337.6(e), well-capitalized and well-rated institutions are not required to treat reciprocal deposits as wholesale deposits up to the lesser of 20 percent of their total liabilities or \$5 billion. Reciprocal core deposits exceeding this threshold must be reported additionally as wholesale deposits for call report purposes only. As of March 31, 2024, the Company additionally reported \$210.9 million in reciprocal deposits considered wholesale for call report purposes only, bringing regulatory defined wholesale deposits to \$599.8 million as of March 31, 2024. As of March 31, 2024, all of the Company's reciprocal deposits were core deposits from customers who placed their deposits in the reciprocal network for additional FDIC insurance coverage.

Liquidity and Capital Resources

Liquidity Management. Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Deposits are the primary source of funds for lending and investing activities. The Company uses wholesale deposits in addition to customer deposits, as funding sources. Scheduled payments, as well as prepayments, and maturities from portfolios of loans and investment securities also provide a stable source of funds. FHLB secured advances, other secured borrowings, federal funds purchased, and other short-term unsecured borrowed funds, as well as longer-term debt issued through the capital markets, all provide supplemental liquidity sources. Additional liquidity can be obtained through the Federal Reserve Bank **Term Funding Program** and discount window. The Company's funding activities are monitored and governed through the Company's asset/liability management process. MainStreet Bank had no federal funds purchased outstanding and an additional secured borrowing capacity of **\$560.3 million** **\$507.8 million** as of **September 30, 2023** **March 31, 2024**. Additionally, at **September 30, 2023** **March 31, 2024**, we had the ability to borrow up to \$129.0 million from other financial institutions.

The Board of Directors, management, and the Asset Liability Committee (ALCO) are responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of **September 30, 2023** **March 31, 2024**.

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

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which include federal funds sold and interest-earning deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At **September 30, 2023** **March 31, 2024**, cash and cash equivalents totaled **\$121.2 million** **\$124.7 million**. The Company has availability on secured and unsecured lines for an additional **\$689.3 million** **\$636.8 million**. Finally, securities classified as available-for-sale, which provide additional sources of liquidity, totaled **\$56.7 million** **\$58.7 million** at **September 30, 2023** **March 31, 2024**.

Our cash flows are provided by and used in three primary activities: operating activities, investing activities, and financing activities. Net cash provided by operating activities was **\$26.3 million** **\$3.6 million** and **\$22.9 million** **\$8.8 million** for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023**, respectively. There were no sales of securities in the **nine** **three** months ended **September 30, 2023** **March 31, 2024** or for **nine** **three** months ended **September 30, 2022** **March 31, 2023**. Net cash used in investing activities, which consist primarily of disbursements for loan originations and the purchase of securities, offset by principal collections on loans and proceeds from maturing securities, was **\$102.1 million** **\$23.3 million** and **\$186.2 million** **\$37.9 million** for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023**, respectively. Net cash provided by financing activities was **\$66.4 million** **\$29.9 million** and **\$174.9 million** **\$123.8 million** for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023**, respectively, which consisted primarily of increases in interest bearing deposits of **\$326.1 million** **\$62.3 million** for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, partially offset by repayments of **Federal Home Loan Bank advances** **federal funds purchased** of **\$100.0 million** **\$15.0 million** and decreased non-interest bearing deposits of **\$155.8 million** **\$15.7 million**.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position daily. We anticipate that we have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of **September 30, 2023** **March 31, 2024**, totaled **\$470.8 million** **\$543.7 million** of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits, Federal Home Loan Bank advances and commitments from other financial institutions. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on experience that a significant portion of such deposits will remain with us. We can attract and retain deposits by adjusting the interest rates offered.

Effects of Inflation. In an effort to combat inflation, the Federal Reserve, through the FOMC, increased rates a total of 5.25% during 2022 and through September 30, 2023, which has had a negative effect on the price of existing securities. As a result of rising interest rates, the Company recorded an accumulated other comprehensive loss on securities

available for sale of approximately **\$10.8 million** **\$7.9 million** as of **September 30, 2023** **March 31, 2024**, compared to recording accumulated other comprehensive loss in the amount of **\$8.5 million** **\$7.5 million** as of **December 31, 2022** **December 31, 2023**. This unrealized loss is counter to total equity growth during **2022** **2023** and **2023** **2024** that had otherwise **strong** had continued capital addition through net earnings. Management does not anticipate the unrealized losses to be other than temporary and result in write-down through earnings as they do not reflect credit deterioration within the portfolio.

Capital Management. MainStreet Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At **September 30, 2023** **March 31, 2024**, MainStreet Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines.

Regulatory Capital

Information presented for **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk- weightings and other factors.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer for **2023** **2024** and **2022** **2023** is 2.50%. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of **September 30, 2023** **March 31, 2024**, the Bank meet all capital adequacy requirements to which each is subject.

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

<i>(Dollars in thousands)</i>	Actual				To Be Well Capitalized Under the Prompt Corrective Action Provision		Actual				To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2023												
As of March 31, 2024												
Total capital (to risk-weighted assets)	\$ 307,451	16.89%	\$ 145,603	$\geq 8.0\%$	\$ 182,004	> 10.0%	\$ 314,384	17.05%	\$ 147,476	$\geq 8.0\%$	\$ 184,345	> 10.0%
Common equity tier 1 capital (to risk-weighted assets)	\$ 290,273	15.95%	\$ 81,902	$\geq 4.5\%$	\$ 118,303	> 6.5%	\$ 297,203	16.12%	\$ 82,955	$\geq 4.5\%$	\$ 119,825	> 6.5%
Tier 1 capital (to risk-weighted assets)	\$ 290,273	15.95%	\$ 109,203	$\geq 6.0\%$	\$ 145,603	> 8.0%	\$ 297,203	16.12%	\$ 110,607	$\geq 6.0\%$	\$ 147,476	> 8.0%
Tier 1 capital (to average assets)	\$ 290,273	14.97%	\$ 77,560	$\geq 4.0\%$	\$ 96,950	> 5.0%	\$ 297,203	14.54%	\$ 81,764	$\geq 4.0\%$	\$ 102,205	> 5.0%
As of December 31, 2022												
As of December 31, 2023												
Total capital (to risk-weighted assets)	\$ 286,572	16.27%	\$ 140,929	$\geq 8.0\%$	\$ 176,161	$\geq 10.0\%$	\$ 312,069	17.18%	\$ 145,300	$\geq 8.0\%$	\$ 181,625	$\geq 10.0\%$
Common equity tier 1 capital (to risk-weighted assets)	\$ 272,458	15.47%	\$ 79,272	$\geq 4.5\%$	\$ 114,504	$\geq 6.5\%$	\$ 294,553	16.22%	\$ 81,731	$\geq 4.5\%$	\$ 118,056	$\geq 6.5\%$
Tier 1 capital (to risk-weighted assets)	\$ 272,458	15.47%	\$ 105,696	$\geq 6.0\%$	\$ 140,929	$\geq 8.0\%$	\$ 294,553	16.22%	\$ 108,975	$\geq 6.0\%$	\$ 145,300	$\geq 8.0\%$
Tier 1 capital (to average assets)	\$ 272,538	15.05%	\$ 72,435	$\geq 4.0\%$	\$ 90,544	$\geq 5.0\%$	\$ 294,553	14.66%	\$ 80,375	$\geq 4.0\%$	\$ 100,469	$\geq 5.0\%$

Off-Balance Sheet Arrangements and Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At **September 30, 2023** **March 31, 2024**, we had outstanding loan commitments of **\$361.8 million** **\$339.7 million** and **\$586,000** **\$311,000** in outstanding stand-by letters of credit. We anticipate that we will have sufficient funds available to meet our current lending commitments.

Use of Certain Non-GAAP Financial Measures

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

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

<u>(Dollars in thousands, except for per share data)</u>	For the three months ended		For the nine months ended		For the three months	
	September 30,		September 30,		ended March 31,	
	2023	2022	2023	2022	2024	2023
Net interest margin, fully-taxable equivalent (FTE)						
Net interest income (GAAP)	\$ 18,578	\$ 18,096	\$ 58,940	\$ 49,413	\$ 15,373	\$ 21,091
FTE adjustment on tax-exempt securities	71	69	212	212	72	70
Net interest income (FTE) (non-GAAP)	<u>\$ 18,649</u>	<u>\$ 18,165</u>	<u>59,152</u>	<u>49,625</u>	<u>\$ 15,445</u>	<u>\$ 21,161</u>
Average interest earning assets	1,865,607	1,740,998	1,846,600	1,654,044	1,914,175	1,813,967
Net interest margin (GAAP)	3.95%	4.12%	4.27%	3.99%	3.22%	4.72%
Net interest margin (FTE) (non-GAAP)	3.97%	4.14%	4.28%	4.01%	3.24%	4.73%

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Market Risk Management

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

Interest Rate Market Risk

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

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

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

Our simulation model uses actual data as of **September 30, 2023** **March 31, 2024**, and dynamically incorporates Board-approved budget assumptions in order to forecast the impact of stress factors. It is important to note that no other changes are made. The purpose of this simulation is so that management and the Board can make informed decisions that enhance our resilience and long-term viability. In other words, we examine the results of the stress test first to ensure that they are within Board-approved risk tolerance limits and second to determine whether we should make changes to the structure of our earning assets and interest-bearing liabilities.

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

Net Interest Income Stress Simulation			Net Interest Income Stress Simulation
September 30, 2023			March 31, 2024
Basis Point Change in	Net Interest Income	Year 1 Change	Year 1 Change
Interest Rates (1)	Year 1 Forecast (2)	From Level	Year 1 Forecast From Level (2)
(Dollars in thousands)	(Dollars in thousands)		(Dollars in thousands)
+400	\$89,054	6.47	% \$87,094 12.07%
+300	\$88,483	5.78	% \$85,437 9.94%
+200	\$87,157	4.20	% \$83,125 6.97%
+100	\$86,028	2.85	% \$81,043 4.29%
Level	\$83,646	—	\$77,711 —
-100	\$81,687	(2.34)	%) \$75,494 (2.85)%
-200	\$80,568	(3.68)	%) \$74,383 (4.28)%
-300	\$81,795	(2.21)	%) \$75,971 (2.24)%
-400	\$81,562	(2.49)	%) \$76,885 (1.06)%

(1) Interest rate changes are immediate and sustained for the entire 12-month period

(2) Simulation model assumptions are locked for the entire 12-month period.

Item 4 – Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of **September 30, 2023** **March 31, 2024**. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are designed and operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) occurred during the **third** **first** fiscal quarter of **2023** **2024** that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There has been no significant effect or impact on internal controls over financial reporting as the Company implemented the current expected credit loss accounting standard.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

At **September 30, 2023** **March 31, 2024**, the Company was not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which involve amounts in the aggregate believed by management to be immaterial to the financial condition and operating results of the Company. In addition, no material proceedings are pending or known to be threatened or contemplated against the Company or its subsidiary by governmental authorities.

Item 1A – Risk Factors

Not required for smaller reporting companies. Reference is made to "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 20, 2024. For detailed information about a discussion of certain risk factors that could materially affect the Company, see our business, financial condition, results of operations or prospects, see "Risk Factors" disclosure under "Forward-Looking Statements" in Part I, Item 1A of our 2022 Annual Report on Form 10-K. Set forth below are additional risk factors.

Defaults by or deteriorating asset quality of other financial institutions could adversely affect us.

Financial institutions are often interrelated as a result of trading, clearing, counterparty, or other relationships. For example, we execute transactions with financial institution counterparties. These transactions may expose us to counterparty credit risk that could ultimately result in a loss on default. Such a loss could have an effect on our financial condition. Further, actions taken by governments and/or regulatory bodies in response to financial crises affecting the banking system and financial markets, such as nationalization, conservatorship, receivership, or other intervention could have an adverse effect.

The results of mainstream media and social media contagion and speculation could impact the banking system and have an adverse effect on us.

The results of poorly executed decisions in a financial institution of significant size can negatively impact other financial institutions, despite the quality of leadership and decision making of the other financial institutions or their ability to effectively identify, measure, manage and control risk.

Misinformed or inaccurate reporting regarding an incident or incidents can impact the broader banking industry. Any adverse financial market or economic condition could be reported in a way to exert downward pressure on the price of financial institution securities and could negatively impact credit availability for certain issuers without regard to their underlying financial strength.

This contagion risk can also occur when a perceived lack of trust in the banking system spreads throughout the industry based upon the results of a few poorly managed larger financial institutions. 10-Q.

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

The following table summarized the common shares repurchased during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

<i>(Dollars in thousands, except for per share amounts)</i>	Total Number of Shares Purchased			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
		Average Price Paid per Share			
July 1, 2023 - July 31, 2023	—	\$ —	—	—	\$ 2,109
August 1, 2023 - August 31, 2023	—	\$ —	—	—	\$ 2,109
September 1, 2023 - September 30, 2023	—	\$ —	—	—	\$ 2,109
Total	—	\$ —	—	—	\$ —

<i>(Dollars in thousands, except for per share amounts)</i>	Total Number of Shares Purchased			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
		Average Price Paid per Share			
January 1, 2024 - January 31, 2024	—	\$ —	—	—	\$ 4,506

February 1, 2024 - February 29, 2024	1,977	\$ 18.00	1,977	\$ 4,470
March 1, 2024 - March 31, 2024	20,889	\$ 18.22	20,889	\$ 4,089
Total	22,866	\$ 18.20	22,866	

Item 6 – Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer *
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer *
32.0	Section 1350 Certification *
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 formatted in Inline XBRL, filed herewith: (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Income (unaudited), (iii) the Consolidated Statements of Comprehensive Income (unaudited), (iv) the Consolidated Statements of Stockholders' Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited) and (vi) the Notes to Consolidated Financial Statements (unaudited)
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 , formatted in Inline XBRL (included with Exhibit 101)

* Filed herewith

SIGNATURES

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

MAINSTREET BANCHSHARES, INC
(Registrant)

Date: **November 13, 2023** **May 13, 2024**

By: */s/ Jeff W. Dick*

Jeff W. Dick
Chairman & Chief Executive Officer
(*Principal Executive Officer*)

Date: **November 13, 2023** **May 13, 2024**

By: **/s/ Thomas J. Chmelik**
Thomas J. Chmelik
Senior Executive Vice President and
Chief Financial Officer
(*Principal Financial Officer*)

4039

Exhibit 31.1

Certification

I, Jeff W. Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: **November 13, 2023** **May 13, 2024**

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

Certification

I, Thomas J. Chmelik, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: **November 13, 2023** **May 13, 2024**

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

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

In connection with the Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc. (the "Company") for the quarter ended **September 30, 2023** **March 31, 2024**, as filed with the Securities and Exchange Commission (the "Report"), I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

By: /s/ Jeff W. Dick

Jeff W. Dick

Chairman and Chief Executive Officer

(principal executive officer)

November **May 13, 2023** **2024**

By: /s/ Thomas J. Chmelik

Thomas J. Chmelik

Senior Executive Vice President and

Chief Financial Officer

(principal financial officer)

November **May 13, 2023** **2024**

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.