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Employer Identification No.)11325 Random Hills RoadSuite 240 Fairfax,Â Virginia22030(Address of principal executive offices)(Zip Code)(703) 436-3800(Registrantâ€™s telephone number, including area code)Securities registered pursuant to Section 12(b) of the Act:Title of Each ClassÂ Trading Symbol(s)Â Name of Each Exchange on Which RegisteredCommon Stock, $0.01 par valueFVCBThe Nasdaq Stock Market, LLCIndicate 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 â˜’ No â˜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 (Â§ 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 â˜’ No â˜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 â€œlarge accelerated filer,â€ â€œaccelerated filer,â€ â€œsmaller reporting company,â€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act. Large accelerated filer oAccelerated filer oNon-accelerated filer xSmaller reporting company xEmerging growth company oIf 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. o Table of ContentsIndicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes â˜ No â˜’Indicate the number of shares outstanding of each of the issuerâ€™s classes of common stock, as of the latest practicable date:18,186,147 shares of common stock, par value $0.01 per share, outstanding as of August 12, 2024Table of ContentsFVCBankcorp, Inc.INDEX TO FORM 10-QPART I â€” FINANCIAL INFORMATION1Item 1. 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Defaults Upon Senior Securities67Item 4. Mine Safety Disclosures67Item 5. Other Information67Item 6. Exhibits68SIGNATURES691Table of ContentsPART I â€” FINANCIAL INFORMATIONItem 1. Financial StatementsFVCBankcorp, Inc. and SubsidiaryConsolidated Statements of ConditionJuneÂ 30, 2024 and DecemberÂ 31, 2023(In thousands, except share data)June 30, 2024December 31, 2023(Unaudited)AssetsCash and due from banks$10,226Â $8,042Â Interest-bearing deposits at other financial institutions154,359Â 52,480Â Securities held-to-maturity (fair value of $251 thousand and $252 thousand at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively), net of allowance for credit losses of $0 and $0 at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively.264Â 264Â Securities available-for-sale, at fair value162,164Â 171,595Â Restricted stock, at cost8,186Â 9,488Â Loans, net of allowance for credit losses of $19.2 million and $18.9 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively1,867,721Â 1,809,693Â Premises and equipment, net915Â 997Â Accrued interest receivable10,828Â 10,321Â Prepaid expenses4,073Â 3,506Â Deferred tax assets, net14,305Â 14,823Â Goodwill and intangibles, net7,497Â 7,585Â Bank owned life insurance9,078Â 56,823Â Operating lease right-of-use assets7,736Â 8,395Â Other assets41,842Â 36,546Â Total assets$2,299,194Â $2,190,558Â Liabilities and Stockholders' EquityLiabilitiesDeposits:Noninterest-bearing$373,848Â $396,724Â Interest-bearing checking631,162Â 576,471Â Savings and money market439,198Â 320,498Â Time deposits274,684Â 306,349Â Wholesale deposits249,860Â 245,250Â Total deposits$1,968,752Â $1,845,292Â Other borrowed funds$57,000Â $85,000Â Subordinated notes, net of issuance costs19,652Â 19,620Â Accrued interest payable3,910Â 2,415Â Operating lease liabilities8,450Â 9,241Â Reserves for unfunded commitments506Â 602Â Accrued expenses and other liabilities14,433Â 11,271Â Total liabilities$2,072,703Â $1,973,441Â Commitments and Contingent LiabilitiesStockholders' Equity20242023Preferred stock, $0.01 par valueShares authorized1,000,000Â 1,000,000Â Shares issued and outstandingâ€”Â â€”Â $â€”Â $â€”Â Common stock, $0.01 par valueShares authorized20,000,000Â 20,000,000Â Shares issued and outstanding18,186,147Â 17,806,995Â 182Â 178Â Additional paid-in capital127,063Â 125,209Â Retained earnings121,398Â 115,890Â Accumulated other comprehensive (loss), net(22,152)(24,160)Total stockholders' equity$226,491Â $217,117Â Total liabilities and stockholders' equity$2,299,194Â $2,190,558Â See Notes to Consolidated Financial Statements.2Table of ContentsFVCBankcorp, Inc. and SubsidiaryConsolidated Statements of IncomeFor the Three and Six Months Ended June 30, 2024 and 2023(In thousands, except per share data)(Unaudited)For the Three Months Ended June 30,For the Six Months Ended June 30,2024202320242023Interest and Dividend IncomeÂ Interest and fees on loans$26,457Â $24,986Â $51,771Â $48,382Â Interest and dividends on securities held-to-maturity2Â 1Â 3Â 3Â Interest and dividends on securities available-for-sale944Â 1,247Â 1,908Â 2,635Â Dividends on restricted stock168Â 125Â 344Â 371Â Interest on deposits at other financial institutions401Â 844Â 773Â 1,146Â Total interest and dividend income$27,972Â $27,203Â $54,799Â $52,537Â Interest ExpenseInterest on deposits$12,894Â $12,012Â $25,435Â $20,793Â Interest on federal funds purchased2Â â€”Â 2Â 11Â Interest on short-term debt1,147Â 546Â 2,384Â 2,816Â Interest on subordinated notes258Â 257Â 516Â 515Â Total interest expense$14,301Â $12,815Â $28,337Â $24,135Â Net Interest Income$13,671Â $14,388Â $26,462Â $28,402Â Provision for credit lossesÂ Â Â 206Â 618Â 206Â 860Â Net interest income after provision for credit losses$13,465Â $13,770Â $26,256Â $27,542Â Noninterest IncomeService charges on deposit accounts$278Â $232Â $539Â $447Â BOLI income66Â 362Â 256Â 694Â (Loss) income from minority membership interests351Â 20Â 148Â (781)Loss on sale of securities available-for-saleÂ Â Â Â â€”Â â€”Â â€”Â (4,592)Other income176Â 277Â 323Â 496Â Total non-interest income (loss)$871Â $891Â $1,266Â $(3,736)Noninterest ExpensesSalaries and employee benefits$4,690Â $5,092Â $9,221Â $10,107Â Occupancy and equipment expense515Â 610Â 1,037Â 1,238Â Data processing and network administration667Â 611Â 1,302Â 1,233Â Internet banking and software expense730Â 583Â 1,424Â 1,144Â State franchise taxes590Â 584Â 1,179Â 1,169Â FDIC insurance376Â 357Â 721Â 537Â Marketing, business development and advertising262Â 206Â 466Â 360Â Loan related expenses223Â 116Â 445Â 388Â Director's fee180Â 180Â 315Â 360Â Core deposit intangible amortization42Â 52Â 87Â 107Â Other operating expenses721Â 812Â 1,424Â 1,570Â Total noninterest expenses$8,996Â $9,203Â $17,621Â $18,213Â Net income before income tax expense$5,339Â $5,458Â $9,901Â $5,593Â Income tax expense1,184Â 1,225Â 4,406Â 739Â Net income$4,155Â $4,233Â $5,495Â $4,854Â Earnings per share, basic$0.23Â $0.24Â $0.31Â $0.28Â Earnings per share, diluted$0.23Â $0.23Â $0.30Â $0.27Â See Notes to Consolidated Financial Statements.3Table of ContentsFVCBankcorp, Inc. and SubsidiaryConsolidated Statements of Comprehensive IncomeFor the Three and Six Months Ended June 30, 2024 and 2023(In thousands)(Unaudited)For the Three Months Ended June 30,For the Six Months Ended June 30,2024202320242023Net income$4,155Â $4,233Â $5,495Â $4,854Â Other comprehensive income:Unrealized (loss) gain on securities available for sale, net of tax expense of $2 thousand for the three months ended June 30, 2024, and net of tax benefit of $(433) thousand for the six months ended June 30, 2024, and net of tax benefit of $(651) thousand for the three months ended June 30, 2023, and net of tax expense of $8Â thousand for the six months ended June 30, 2023.6Â (2,307)(1,538)28Â Unrealized gain on interest rate swaps, net of tax expense of $88Â thousand and $1.0Â million for the three and six months ended June 30, 2024, respectively, and net of tax expense of $1.2 million and $621 for the three and six months ended June 30, 2023, respectively.315Â 4,407Â 3,546Â 2,195Â Reclassification adjustment for securities losses realized in income, net of tax expense/benefit of $0 for the three and six months ended June 30, 2024, and $0 and $1.0Â million for the three and six months ended June 30, 2023, respectively.â€”Â â€”Â â€”Â 3,582Â Total other comprehensive income $321Â $2,100Â $2,008Â $5,805Â Total comprehensive income$4,476Â $6,333Â $7,503Â $10,659Â See Notes to Consolidated Financial Statements.4Table of ContentsFVCBankcorp, Inc. and SubsidiaryConsolidated Statements of Cash FlowsFor the Six Months Ended June 30, 2024 and 2023(In thousands)(Unaudited)20242023Cash Flows From Operating ActivitiesÂ Â Net income$5,495Â $4,854Â Adjustments to reconcile net income to net cash provided by operating activities:Depreciation149Â 207Â Provision for credit losses206Â 860Â Net amortization of premium of securities118Â 213Â Net accretion of deferred loan costs and fees(260)(849)Net accretion of acquisition accounting adjustmentsâ€”Â (421)Loss on sale of available-for-sale investment securitiesâ€”Â 4,592Â Loss (income) from minority membership interest(148)781Â Amortization of subordinated debt issuance costs13Â 27Â Core deposits intangible amortization87Â 107Â Tax credits amortizationâ€”Â 63Â Equity-based compensation expense369Â 650Â BOLI income(256)(694)Changes in assets and liabilities:Increase (decrease) in accrued interest receivable, prepaid expenses and other assets(842)(5,756)Increase (decrease) in accrued interest payable, accrued expenses and other liabilities3,773Â 854Â Net cash provided by operating activities$8,704Â $5,488Â Cash Flows From Investing Activities(Increase) decrease in interest-bearing deposits at other financial institutions$(101,860)$7,577Â Proceeds from sales of securities available-for-saleâ€”Â 35,778Â Proceeds from redemptions of securities available-for-saleÂ Â Â Â 7,340Â 10,899Â Net redemption (purchase) of restricted stockâ€”Â 10,702Â Net increase (decrease) in loans(57,975)(62,379)Proceeds from surrender of bank-owned life insurance47,774Â â€”Â Purchases of premises and equipment, net(67)(90)Net cash provided by (used in) investing activities$(104,788)$2,487Â Cash Flows From Financing ActivitiesNet (decrease) increase in noninterest-bearing, interest-bearing checking, savings, and money market deposits$150,514Â $(12,269)Net increase in time deposits(27,057)270,142Â (Decrease) increase in federal funds purchased(469)(30,000)Net decrease in FHLB advances(26,248)(235,000)Payments of withholdings taxes due to restricted stock vestings(52)(83)Repurchase of shares of common stockâ€”Â (1,448)Common stock issuance1,541Â 1,711Â Net cash (used in) provided by financing activities$98,229Â $(6,947)Net (decrease) increase in cash and cash equivalents$2,146Â $1,028Â Cash and cash equivalents, beginning of year8,042Â 7,253Â Cash and cash equivalents, end of period$10,188Â $8,281Â See Notes to Consolidated Financial Statements.5Table of ContentsFVCBankcorp, Inc. and SubsidiaryConsolidated Statements of Changes in Stockholders' EquityFor the Three and Six Months Ended June 30, 2024 and 2023(In thousands)(Unaudited)SharesCommonStockAdditionalPaid-inCapitalRetainedEarningsAccumulatedOtherComprehensiveIncome (Loss), netTotalBalance at DecemberÂ 31, 202217,475Â $175Â $123,886Â $114,888Â $(36,567)$202,382Â Net incomeâ€”Â â€”Â â€”Â 4,854Â â€”Â 4,854Â Impact of adoption of ASU 2016-13â€”Â â€”Â â€”Â (2,808)â€”Â (2,808)Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â 5,805Â 5,805Â Repurchase of common stock(116)(1)(1,447)(12)â€”Â (1,460)Common stock issuance for options exercised, net360Â 4Â 1,707Â â€”Â â€”Â 1,711Â Vesting of restricted stock grants, net64Â â€”Â (83)â€”Â â€”Â (83)Stock-based compensation expenseâ€”Â â€”Â 650Â â€”Â â€”Â 650Â Balance at JuneÂ 30, 202317,783Â $178Â $124,713Â $116,922Â $(30,762)$211,051Â Balance at March 31, 202317,705Â 177Â 0124,152Â 112,689Â 0(32,862)204,156Â Net incomeâ€”Â â€”Â â€”Â 4,233Â â€”Â 4,233Â Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â 2,100Â 2,100Â Repurchase of common stock(25)â€”Â (228)â€”Â â€”Â (228)Common stock issuance for options exercised, net70Â 1Â 500Â â€”Â â€”Â 501Â Vesting of restricted stock grants, net33Â â€”Â (37)â€”Â â€”Â (37)Stock-based compensation expenseâ€”Â â€”Â 326Â â€”Â â€”Â 326Â Balance at JuneÂ 30, 202317,783Â $178Â $124,713Â $116,922Â $(30,762)$211,051Â Balance at DecemberÂ 31, 202317,807Â 178Â 125,209Â 115,890Â (24,160)217,117Â Net incomeâ€”Â â€”Â â€”Â 5,495Â â€”Â 5,495Â Impact of adoption of ASU 2023-02â€”Â â€”Â â€”Â 13Â â€”Â 13Â Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â 2,008Â 2,008Â Common stock issuance for options exercised328Â 4Â 1,537Â â€”Â â€”Â 1,541Â Vesting of restricted stock grants, net51Â â€”Â (52)â€”Â â€”Â (52)Stock-based compensation expenseâ€”Â â€”Â 369Â â€”Â â€”Â 369Â Balance at JuneÂ 30, 202418,186Â $182Â $127,063Â $121,398Â $(22,152)$226,491Â Balance at March 31, 202417,904Â 179Â 125,712Â 117,243Â (22,473)220,661Â Net incomeâ€”Â â€”Â â€”Â 4,155Â â€”Â 4,155Â Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â 321Â 321Â Common stock issuance for options exercised258Â 3Â 1,142Â â€”Â â€”Â 1,145Â Vesting of restricted stock grants, net24Â â€”Â (25)â€”Â â€”Â (25)Stock-based compensation expenseâ€”Â â€”Â 234Â â€”Â â€”Â 234Â Balance at JuneÂ 30, 202418,186Â $182Â $127,063Â $121,398Â $(22,152)$226,491Â See Notes to Consolidated Financial Statements.6Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 1. Organization and Summary of Significant Accounting PoliciesOrganizationFVCBankcorp, Inc. (the "Company"), a Virginia corporation, was formed in

2015 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Fairfax, Virginia. The Company conducts its business activities through the branch offices of its wholly owned subsidiary bank, FVCbank (the "Bank"). The Company exists primarily for the purposes of holding the stock of its subsidiary, the Bank.The Bank was organized under the laws of the Commonwealth of Virginia to engage in a general banking business serving the Washington, D.C. and Baltimore metropolitan areas. The Bank commenced operations on November 27, 2007 and is a member of the Federal Reserve System (the "Federal Reserve"). It is subject to the regulations of the Board of Governors of the Federal Reserve and the State Corporation Commission of Virginia. Consequently, it undergoes periodic examinations by these regulatory authorities.On August 31, 2021, the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for $20.4Â million. As a result of this investment, the Bank obtained a 28.7% ownership interest in ACM. The investment is accounted for using the equity method of accounting. In addition, the Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanant financing line, and has developed portfolio mortgage products to diversify the Bank's held to investment loan portfolio. On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected in the Company's consolidated financial statements have been adjusted for the five-for-four split of the Company's common stock for comparative purposes. Basis of PresentationThe accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements; however, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Companyâ€™s audited financial statements for the year ended DecemberÂ 31, 2023. Certain prior period amounts have been reclassified to conform to current period presentation.Principles of ConsolidationThe consolidated financial statements include the accounts of the Company and the Bank. All material intercompany balances and transactions have been eliminated in consolidation.Significant Accounting PoliciesThe accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the banking industry.Bank Owned Life Insurance ("BOLI")The Company purchased life insurance policies on certain key employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance date, which is the cash surrender value. The increase in the cash surrender value over time is recorded as other noninterest income. The Company monitors the financial strength and condition of the counterparties.7Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)During the first quarter of 2024, the Company surrendered certain BOLI policies with an aggregate cash surrender value of $48.0Â million. Upon their surrender, the Company received a cash payout and was required to accrue additional income tax on the appreciation of those policies which had previously been treated as tax-exempt income. This resulted in additional statutory income tax expense of $1.6Â million and tax penalties of $722Â thousand. The tax penalties related to the surrender of the BOLI were recorded in income tax expense. Recent Accounting PronouncementsIn December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09, â€œIncome Taxes (Topic 740): Improvements to Income Tax Disclosures.â€ 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 entityâ€™s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.Recently Adopted Accounting DevelopmentsIn March 2023, FASB issued ASU 2023-02, â€œInvestmentsâ€”Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.â€ These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. ASU 2023-02 was effective for the Bank on January 1, 2024. The Company recorded an adjustment of $13Â thousand to the stockholders' equity as of January 1, 2024. In June 2022, FASB issued ASU 2022-03, â€œFair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.â€ ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. ASU 2022-03 was effective for the Bank on January 1, 2024. ASU 2022-03 resulted in no material impact to the Company's consolidated financial statements.8Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 2. SecuritiesAmortized cost and fair values of securities held-to-maturity and securities available-for-sale as of JuneÂ 30, 2024 and DecemberÂ 31, 2023, are as follows:June 30, 2024Amortized CostGross Unrealized GainsGross Unrealized (Losses)Fair ValueHeld-to-maturitySecurities of state and local municipalities tax exempt$264Â $â€”Â (13)251Â Total Held-to-maturity Securities$264Â $â€”Â (13)251Â Available-for-saleSecurities of U.S. government and federal agencies $9,998Â $â€”Â $(1,540)$8,458Â Securities of state and local municipalities tax exempt1,000Â â€”Â (6)994Â Securities of state and local municipalities taxable429Â â€”Â (59)370Â Corporate bonds19,000Â â€”Â (2,535)16,465Â SBA pass-through securities55Â â€”Â (5)50Â Mortgage-backed securities164,123Â â€”Â (31,140)132,983Â Collateralized mortgage obligations3,640Â â€”Â (796)2,844Â Total Available-for-sale Securities$198,245Â $â€”Â $(36,081)$162,164Â December 31, 2023Amortized CostGross Unrealized GainsGross Unrealized (Losses)Fair ValueHeld-to-maturitySecurities of state and local municipalities tax exempt$264Â $â€”Â (12)252Â Total Held-to-maturity Securities$264Â $â€”Â (12)252Â Available-for-saleSecurities of U.S. government and federal agencies$9,998Â $â€”Â $(1,528)$8,470Â Securities of state and local municipalities tax exempt1,000Â â€”Â (3)997Â Securities of state and local municipalities taxable453Â â€”Â (49)404Â Corporate bonds20,204Â â€”Â (2,556)17,648Â SBA pass-through securities62Â â€”Â (5)57Â Mortgage-backed securities170,179Â â€”Â (29,237)140,942Â Collateralized mortgage obligations3,809Â â€”Â (732)3,077Â Total Available-for-sale Securities$205,705Â $â€”Â $(34,110)$171,595Â No allowance for credit losses was recognized as of JuneÂ 30, 2024 and DecemberÂ 31, 2023 related to the Company's investment portfolio.The Company had securities with a market value of $6.1 million pledged for secured borrowings at JuneÂ 30, 2024. No securities were pledged as of DecemberÂ 31, 2023 for secured borrowings. The Company had securities of $10.6Â million and $7.2 million pledged to secure public deposits at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. 9Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The Company monitors the credit quality of held-to-maturity securities through the use of credit ratings. The Company monitors credit ratings on a periodic basis. The following table summarizes the amortized cost of held-to-maturity securities at JuneÂ 30, 2024 and DecemberÂ 31, 2023, aggregated by credit quality indicator: Held-to-Maturity: State maturity municipal and tax exemptJune 30, 2024December 31, 2023Aa3$264Â $264Â Total$264Â $264Â The following tables show the fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. One security was held as of JuneÂ 30, 2024 for which the book value and fair value were equal and therefore neither an unrealized gain nor loss was reflected herein. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a securityâ€™s market value exceeded its amortized cost on other days during the past twelve-month period. Available-for-sale securities that have been in a continuous unrealized loss position as of JuneÂ 30, 2024 are as follows:Less Than 12 Months12 Months or LongerTotalAt JuneÂ 30, 2024Fair ValueUnrealized LossesFair ValueUnrealized LossesFair ValueUnrealized LossesSecurities of U.S. government and federal agencies$â€”Â $â€”Â $8,458Â $(1,540)$8,458Â $(1,540)Securities of state and local municipalities tax exemptâ€”Â â€”Â 994Â (6)994Â (6)Securities of state and local municipalities taxableâ€”Â â€”Â 370Â (59)370Â (59)Corporate bondsâ€”Â â€”Â 15,715Â (2,535)15,715Â (2,535)SBA pass-through securitiesâ€”Â â€”Â 50Â (5)50Â (5)Mortgage-backed securitiesâ€”Â â€”Â 132,983Â (31,140)132,983Â (31,140)Collateralized mortgage obligationsâ€”Â â€”Â 2,844Â (796)2,844Â (796)Total$â€”Â $â€”Â $161,414Â $(36,081)$161,414Â $(36,081)Available-for-sale securities that have been in a continuous unrealized loss position as of DecemberÂ 31, 2023 are as follows:Less Than 12 Months12 Months or LongerTotalAt DecemberÂ 31, 2023FairValueUnrealizedLossesFairValueUnrealizedLossesFairValueUnrealizedLossesSecurities of U.S. government and federal agencies$â€”Â $â€”Â $8,470Â $(1,528)$8,470Â $(1,528)Securities of state and local municipalities tax exemptâ€”Â â€”Â 997Â (3)997Â (3)Securities of state and local municipalities taxableâ€”Â â€”Â 404Â (49)404Â (49)Corporate bondsâ€”Â â€”Â 16,898Â (2,556)16,898Â (2,556)SBA pass-through securitiesâ€”Â â€”Â 57Â (5)57Â (5)Mortgage-backed securitiesâ€”Â â€”Â 140,942Â (29,237)140,942Â (29,237)Collateralized mortgage obligationsâ€”Â â€”Â 3,077Â (732)3,077Â (732)Total$â€”Â $â€”Â $170,845Â $(34,110)$170,845Â $(34,110)10Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Securities of U.S. government and federal agencies: The unrealized losses on two available-for-sale securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.Securities of state and local municipalities tax-exempt: The unrealized losses on two of the investments in securities of state and local municipalities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. These investments carry an S&P investment grade rating of AA+ and AA3.Securities of state and local municipalities taxable: The unrealized loss on one of the investments in securities of state and local municipalities was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The investment carries an S&P investment grade rating of AAA.Corporate bonds: The unrealized losses on 13 of the investments in corporate bonds were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.These investments do not carry a rating.SBA pass-through securities: The unrealized losses on one available-for-sale security was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.Mortgage-backed securities: The unrealized losses on the Companyâ€™s investment in 36 mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Companyâ€™s investments. Collateralized mortgage obligations ("CMOs"): The unrealized loss associated with 11 CMOs was caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Companyâ€™s investments. The Company has evaluated its available-for-sale investments securities in an unrealized loss position for credit related impairment at JuneÂ 30, 2024 and DecemberÂ 31, 2023 and concluded no impairment existed based on several factors which included: (1) the majority of these securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) issuers continue to make timely principal and interest payments, and (4) the Company does not intend to sell any of the investments and the accounting standard of â€œmore likely than notâ€ has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis. Additionally, the Companyâ€™s mortgage-backed investment securities are primarily guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association and do not have credit risk given the implicit and explicit government guarantees associated with these agencies. The amortized cost and fair value of securities at JuneÂ 30, 2024, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.June 30, 2024Held-to-maturityAvailable-for-saleAmortized CostFair ValueAmortized CostFair ValueAfter 3 months through 1 year$â€”Â $â€”Â $1,000Â $994Â After 1 year through 5 years264Â 251Â 3,092Â 2,831Â After 5 years through 10 yearsâ€”Â â€”Â 26,867Â 23,003Â After 10 yearsâ€”Â â€”Â 167,286Â 135,336Â Â Â Â Total$264Â $251Â $198,245Â $162,164Â 11Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)For the six months ended June 30, 2024 and 2023, proceeds from principal repayments of securities were $6.3Â million and $10.9Â million, respectively. During the six months ended JuneÂ 30, 2024 and 2023, proceeds from sales, calls and maturities of securities were $1.2Â million and $35.8Â million, respectively. There were no securities sold during the six months ended JuneÂ 30, 2024 compared to $35.8Â million during the six months ended June 30, 2023. There were no realized losses during the six months ended JuneÂ 30, 2024 and realized losses of $4.6Â million during the six months ended JuneÂ 30, 2023.Note 3. Loans and Allowance for Credit LossesA summary of loan balances at amortized cost by type follows:June 30, 2024December 31, 2023Commercial real estate$1,083,481Â $1,091,633Â Commercial and industrial293,346Â 219,873Â Commercial construction164,736Â 147,998Â Consumer real estate339,146Â 363,317Â Consumer nonresidential6,220Â 5,743Â $1,886,929Â $1,828,564Â Less:Allowance for credit losses19,208Â 18,871Â Loans, net$1,867,721Â $1,809,693Â Â Â Â Â An analysis of the allowance for credit losses for the three and six months ended June 30, 2024 and 2023, and for the year ended DecemberÂ 31, 2023 follows:Allowance for Credit LossesFor the Three Months Ended JuneÂ 30, 2024CommercialReal EstateCommercial andIndustrialCommercialConstructionConsumer Real EstateConsumerNonresidentialTotalJune 30, 2024Allowance for credit losses:Beginning Balance, April 1$10,051Â $3,427Â $1,473Â $3,907Â $60Â $18,918Â Charge-offsâ€”Â â€”Â â€”Â â€”Â (7)(7)Recoveriesâ€”Â â€”Â â€”Â â€”Â 12Â 12Â Provision (reversal)(65)171Â 117Â 55Â 7Â 285Â Ending Balance, June 30,$9,986Â $3,598Â $1,590Â $3,962Â $72Â $19,208Â Allowance for Credit LossesFor the Six Months Ended JuneÂ 30, 202412Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)CommercialReal EstateCommercial andIndustrialCommercialConstructionConsumer Real EstateConsumerNonresidentialTotalJune 30, 2024Allowance for credit losses:Beginning Balance, January 1$10,174Â $3,385Â $1,425Â $3,822Â $65Â $18,871Â Charge-offsâ€”Â â€”Â â€”Â â€”Â (11)(11)Recoveriesâ€”Â â€”Â â€”Â â€”Â 46Â 46Â Provision (reversal)(188)213Â 165Â 140Â (28)302Â Ending Balance, June 30,$9,986Â $3,598Â $1,590Â $3,962Â $72Â $19,208Â 13Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Allowance for Credit LossesFor the Three Months Ended JuneÂ 30, 2023CommercialReal EstateCommercial andIndustrialCommercialConstructionConsumer Real EstateConsumerNonresidentialTotalJune 30, 2023Allowance for credit losses:Beginning Balance, April 1$11,324Â $2,596Â $1,698Â $3,374Â $66Â $19,058Â Charge-offsâ€”Â (350)â€”Â â€”Â (15)(365)Recoveriesâ€”Â 2Â â€”Â â€”Â 7Â 9Â Provision (reversal)(202)617Â 4Â 309Â 12Â 740Â Ending Balance, June 30,$11,122Â $2,865Â $1,702Â $3,683Â $70Â $19,442Â Allowance for Credit LossesFor the Six Months Ended JuneÂ 30, 2023CommercialReal EstateCommercial andIndustrialCommercialConstructionConsumer Real EstateConsumerNonresidentialTotalJune 30, 2023Allowance for credit losses:Beginning Balance, Prior to January 1, 2023 Adoption of ASC 326$10,777Â $2,623Â $1,499Â $1,044Â $97Â $16,040Â Impact of Adoption of ASC 326498Â 452Â 70Â 1,856Â (12)2,864Â Charge-offsâ€”Â (350)â€”Â â€”Â (15)(365)Recoveriesâ€”Â 3Â â€”Â 1Â 28Â 32Â Provision (reversal)(153)137Â 133Â 782Â (28)871Â Ending Balance, June 30,$11,122Â 0$2,865Â 0$1,702Â 0$3,683Â 0$70Â 0$19,442Â Allowance for Credit LossesFor the Year Ended December 31, 2023CommercialReal EstateCommercial andIndustrialCommercialConstructionConsumer Real EstateConsumerNonresidentialTotalDecember 31, 2023Allowance for credit losses:Beginning Balance, Prior to January 1, 2023 Adoption of ASC 326$10,777Â $2,623Â $1,499Â $1,044Â $97Â $16,040Â Impact of Adoption of ASC 326498Â 452Â 70Â 1,856Â (12)2,864Â Charge-offs(53)(350)â€”Â â€”Â (15)(418)Recoveriesâ€”Â 3Â â€”Â 1Â 39Â 43Â Provision (reversal)(1,048)657Â (144)921Â (44)342Â Ending Balance$10,174Â $3,385Â $1,425Â $3,822Â $65Â $18,871Â 14Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of JuneÂ 30, 2024 and DecemberÂ 31, 2023:June 30, 2024December 31, 2023Real EstateBusiness / Other AssetsReal EstateBusiness / Other AssetsCollateral-Dependent LoansCommercial real estate$20,709Â $â€”Â $20,765Â $â€”Â Commercial and industrialâ€”Â 1,070Â â€”Â 1,070Â Commercial constructionâ€”Â â€”Â â€”Â â€”Â Consumer real estate1,265Â â€”Â 654Â â€”Â Consumer nonresidentialâ€”Â â€”Â â€”Â â€”Â Total$21,974Â $1,070Â $21,419Â $1,070Â The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:Pass â€" Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.Special Mention â€" Loans classified as special mention have a potential weakness that deserves managementâ€™s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institutionâ€™s credit position at some future date.Substandard â€" Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the enhanced possibility that the institution will sustain some loss if the deficiencies are not corrected.Doubtful â€" Loans classified as doubtful include those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, improbable.Loss â€" Loans classified as loss include those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be achieved in the future, it is neither practical nor desirable to defer writing off these loans.15Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Based on the most recent analysis performed, amortized cost basis of loans by risk category, class and year of origination was as follows as of JuneÂ 30, 2024:Prior20202021202220232024Revolving Loans Amort. Cost BasisRevolving Loans Convert. to TermTotalCommercial Real EstateGrade:Pass$397,007Â $69,480Â $146,323Â $208,558Â $56,839Â $17,699Â $156,551Â $â€"Â $1,052,457Â Special mention8,302Â â€"Â 2,013Â â€"Â â€"Â â€"Â â€"Â â€"Â 10,315Â Substandardâ€"Â 849Â â€"Â â€"Â 19,860Â â€"Â â€"Â â€"Â 20,709Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lo and IndustrialGrade:Pass$32,224Â $3,687Â $9,780Â $49,686Â $39,170Â $57,516Â $99,938Â $â€"Â $292,001Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â 275Â â€"Â 275Â Substandardâ€"Â â€"Â â€"Â 884Â â€"Â â€"Â 186Â â€"Â 1,070Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â ConstructionGrade:Pass$8,951Â $â€"Â $6,180Â $â€"Â $â€"Â $â€"Â $149,605Â $â€"Â $164,736Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Substandardâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â€ Real EstateGrade:Pass$40,192Â $4,651Â $27,419Â $183,507Â $51,606Â $572Â $29,879Â $â€"Â $337,826Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â 55Â â€"Â 55Â Substandard107Â â€"Â â€"Â 749Â â€"Â â€"Â 409Â â€"Â 1,265Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â NonresidentialGrade:Pass$595Â $4Â $1Â $30Â $115Â $87Â $5,388Â $â€"Â $6,220Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Substandardâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â€ Recorded Investment$487,378Â $78,671Â $191,716Â $443,414Â $167,590Â $75,874Â $442,286Â $â€"Â $1,886,929Â 16Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Based on the most recent analysis performed, amortized cost basis of loans by risk category, class and year of origination was as follows as of DecemberÂ 31, 2023:Prior20192020202120222023Revolving Loans Amort. Cost BasisRevolving Loans Convert. to TermTotalCommercial Real EstateGrade:Pass$341,765Â $82,924Â $70,564Â $147,252Â $211,786Â $57,422Â $153,838Â $â€"Â $1,065,551Â Special mention1,268Â 1,361Â â€"Â 2,688Â â€"Â â€"Â â€"Â â€"Â 5,317Â Substandardâ€"Â 849Â â€"Â â€"Â 19,916Â â€"Â â€"Â 20,765Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lo and IndustrialGrade:Pass$9,997Â $2,285Â $6,296Â $13,623Â $54,784Â $42,034Â $88,926Â $â€"Â $217,945Â Special mentionâ€"Â â€"Â â€"Â 76Â â€"Â â€"Â 782Â â€"Â 858Â Substandardâ€"Â â€"Â â€"Â â€"Â 884Â â€"Â 186Â â€"Â 1,070Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â ConstructionGrade:Pass$11,149Â $â€"Â $â€"Â $6,204Â $â€"Â $709Â $129,936Â $â€"Â $147,998Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Substandardâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â€ Real EstateGrade:Pass$35,240Â $8,196Â $8,914Â $28,848Â $196,678Â $51,767Â $32,963Â $â€"Â $362,606Â Special mentionâ€"Â â€"Â â€"Â â€"Â 57Â â€"Â 57Â Substandard108Â â€"Â â€"Â â€"Â â€"Â 546Â â€"Â 654Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â€" NonresidentialGrade:Pass$659Â $â€"Â $7Â $3Â $36Â $177Â $4,861Â $â€"Â $5,743Â Special mentionâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Substandardâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Doubtfulâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â â€"Â Lossâ€"Â â€"Â â€ Recorded Investment$400,186Â $94,766Â $86,630Â $198,694Â $464,168Â $172,025Â $412,095Â $â€"Â $1,828,564Â 17Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Total Loan Portfolio - As of JuneÂ 30, 2024 and DecemberÂ 31, 2023June 30, 2024December 31, 2023Grade:Â Pass$1,853,240Â $1,799,843Â Special mention10,645Â 6,232Â Substandard23,044Â 22,489Â Doubtfulâ€"Â â€"Â Lossâ€"Â â€"Â Total Recorded Investment$1,886,929Â $1,828,564Â The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes larger non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At JuneÂ 30, 2024, the Company had $10.6 million in loans identified as special mention, an increase from $6.2 million at DecemberÂ 31, 2023. Special mention rated loans are loans that have a potential weakness that deserves managementâ€™s close attention, however, the borrower continues to pay in accordance with their contract. Loans rated as special mention do not have a specific reserve and are considered well-secured. At JuneÂ 30, 2024, the Company had $23.0 million in loans identified as substandard, an increase of $555 thousand from DecemberÂ 31, 2023. Substandard rated loans are loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans are individually evaluated, typically on the basis of the underlying collateral. At JuneÂ 30, 2024, an individually assessed allowance for credit losses totaling $679 thousand has been estimated to supplement any shortfall of collateral.18Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Past due and nonaccrual loans presented by loan class were as follows at JuneÂ 30, 2024 and DecemberÂ 31, 2023:As of June 30, 202430-59 days past due60-89 days past due90 days or more past dueTotal past due loansCurrentNonaccrualsTotal Recorded Investment in LoansCommercial real estate$1,824Â $442Â $â€"Â $2,266Â $1,080,366Â $849Â $1,083,481Â Commercial and industrialâ€"Â â€"Â â€"Â â€"Â 292,276Â 1,070Â 293,346Â Commercial constructionâ€"Â â€"Â â€"Â â€"Â 164,736Â â€"Â 164,736Â Consumer real estate240Â â€"Â 240Â 337,641Â 1,265Â 339,146Â Consumer nonresidential14Â 2Â 3Â 19Â 6,201Â â€"Â 6,220Â Total$2,078Â $444Â $3Â $2,525Â $1,881,220Â $3,184Â $1,886,929Â As of December 31, 202330-59 days past due60-89 days past due90 days or more past dueTotal past due loansCurrentNonaccrualsTotal Recorded Investment in LoansCommercial real estate$1,115Â $â€"Â $â€"Â $1,115Â $1,089,669Â $849Â $1,091,633Â Commercial and industrial51Â 1,387Â â€"Â 1,438Â 218,249Â 186Â 219,873Â Commercial construction2,569Â 391Â â€"Â 2,960Â 145,038Â â€"Â 147,998Â Consumer real estate1,300Â â€"Â 134Â 1,434Â 361,229Â 654Â 363,317Â Consumer nonresidentialâ€"Â â€"Â 6Â 6Â 5,737Â â€"Â 5,743Â Total$5,035Â $1,778Â $140Â $6,953Â $1,819,922Â $1,689Â $1,828,564Â The following presents nonaccrual loans as of JuneÂ 30, 2024 and DecemberÂ 31, 2023:As of June 30, 2024Nonaccrual with No Allowance for Credit LossesNonaccrual with an Allowance for Credit LossesTotal Nonaccrual LoansInterest Income RecognizedNonaccrual LoansCommercial real estate$849Â $â€"Â $849Â $34Â Commercial and industrialâ€"Â 1,070Â 1,070Â 42Â Commercial constructionâ€"Â â€"Â â€"Â â€"Â Consumer real estate1,265Â â€"Â 1,265Â â€"Â Consumer nonresidentialâ€"Â â€"Â â€"Â â€"Â Total$2,114Â $1,070Â $3,184Â $76Â As of December 31, 2023Nonaccrual with No Allowance for Credit LossesNonaccrual with an Allowance for Credit LossesTotal Nonaccrual LoansInterest Income RecognizedNonaccrual LoansCommercial real estate$849Â $â€"Â $849Â $37Â Commercial and industrialâ€"Â 186Â 186Â 19Â Commercial constructionâ€"Â â€"Â â€"Â â€"Â Consumer real estate654Â â€"Â 654Â 53Â Consumer nonresidentialâ€"Â â€"Â â€"Â â€"Â Total$1,503Â $186Â $1,689Â $109Â There were two consumer mortgage loans totaling $107Â thousand secured by residential real estate properties for which formal foreclosure proceedings were in process as of JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively.There were no overdrafts and $147Â thousand of overdrafts at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively, which have been reclassified from deposits to loans. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, loans with a carrying value of $520.0 million and $530.2 million were pledged to the Federal Home Loan Bank of Atlanta ("FHLB").19Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Modifications with Borrowers Experiencing Financial DifficultyLoan modifications when a borrower is experiencing financial difficulty ("FDMs") occur as a result of loss mitigation activities. A variety of solutions are offered to borrowers, including loan modifications that may result in principal forgiveness, interest rate reductions, term extensions, payment delays, repayment plans or combinations thereof. FDMs exclude loans held for sale and loans accounted for under the fair value option. Loans with guarantor support, or guaranteed loans are included in the Company's disclosed population of FDMs when those loan modifications are granted to a borrower experiencing financial difficulty.There were no loans designated as modifications for borrowers who were experiencing financial difficulty during the three and six months ended JuneÂ 30, 2024, and 2023, respectively. As of JuneÂ 30, 2024, the reserve for unfunded commitments decreased to $506Â thousand from $602 million at December 31, 2023. The following table presents a breakdown of the provision for credit losses included in the Consolidated Statements of Income for the applicable periods:For the Three Months Ended For the Six Months Ended June 30, 2024June 30, 2023June 30, 2024June 30, 2023Provision for credit losses - loans$285Â $740Â $302Â $871Â Provision for (reversal of) credit losses - unfunded commitments(79)(122)(96)(11)Total provision for credit losses$206Â $618Â $206Â $860Â Note 4. Derivative Financial InstrumentsThe Company enters into interest rate swap agreements ("swap agreements") to facilitate the risk management strategies needed in order to accommodate the needs of its banking customers. The Company mitigates the risk of entering into these loan agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. These back-to-back swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities) as of JuneÂ 30, 2024 and DecemberÂ 31, 2023. The Company is party to master netting arrangements with its financial institution counterparty; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. These payments, commonly referred to as variation margin, are recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures, which effectively results in any centrally cleared derivative having a Level 2 fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table in the Fair Value Measurement section below. As of JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had entered into 17 interest rate swap agreements which were collateralized by $30Â thousand in cash. The notional amount and fair value of the Company's derivative financial instruments as of JuneÂ 30, 2024 and DecemberÂ 31, 2023 were as follows:June 30, 2024Notional AmountFair ValueInterest Rate Swap AgreementsReceive Fixed/Pay Variable Swaps$81,509Â $4,201Â Pay Fixed/Receive Variable Swaps81,509Â (4,201)20Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)December 31, 2023Notional AmountFair ValueInterest Rate Swap AgreementsReceive Fixed/Pay Variable Swaps$82,483Â $2,853Â Pay Fixed/Receive Variable Swaps82,483Â (2,853)Interest Rate Risk Managementâ€"Cash Flow Hedging InstrumentsThe Company uses wholesale funding (in the form of FHLB advances and brokered certificates of deposit) from time to time as a source of funds for use in the Company's lending and investment activities and other general business purposes. This wholesale funding exposes the Company to increased interest rate risk as a result of the variability in cash flows (future interest payments). The Company believes it is prudent to reduce this interest rate risk. To meet this objective, the Company entered into interest rate swap agreements whereby the Company reduces the interest rate risk associated with the Company's variable rate wholesale funding from the designation date and going through the maturity date.At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the information pertaining to outstanding interest rate swap agreements used to hedge variability in cash flows is as follows:June 30, 2024December 31, 2023Notional amount$250,000Â $250,000Â Weighted average pay rate3.25Â %3.25Â %Weighted average receive rate5.33Â %5.34Â %Weighted average maturity in years3.53 years4.03 yearsUnrealized gain relating to interest rate swaps$7,459Â $2,915Â These agreements provided for the Company to receive payments determined by a specific index in exchange for making payments at a fixed rate. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the unrealized gain or loss relating to interest rate swaps designated as hedging instruments of the variability of cash flows associated with wholesale funding are reported in other comprehensive income (loss). These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on wholesale funding affects earnings. The Company measures cash flow hedging relationships for effectiveness on a monthly basis, and at JuneÂ 30, 2024 and DecemberÂ 31, 2023, the hedges were highly effective and the amount of ineffectiveness reflected in earnings was de minimus.Note 5. Financial Instruments with Off-Balance Sheet RiskThe Company is party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the following financial instruments were outstanding which contract amounts represent credit risk:June 30, 2024December 31, 2023Commitments to grant loans$35,773Â $36,650Â Unused commitments to fund loans and lines of credit172,449Â 215,892Â Commercial and standby letters of credit25,805Â 26,024Â Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and 21Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.The Company enters into rate lock commitments to finance residential mortgage loans with its customers. These commitments offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.The Company maintains its cash accounts with the Federal Reserve Board of Richmond ("FRB") and correspondent banks. The total amount of cash on deposit in correspondent banks exceeding the federally insured limits was $1.2 million and $41 thousand at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively.Note 6. Stock-Based Compensation PlanThe Companyâ€™s Amended and Restated 2008 Option Plan (the "Plan"), which is stockholder-approved, was adopted to advance the interests of the Company by providing selected key employees of the Company, their affiliates, and directors with the opportunity to acquire shares of common stock in connection with their service to the Company. In May 2022, the stockholders approved an amendment to the Plan to extend the term and increase the number of shares authorized for issuance under the Plan by 200,000 shares. The Company has granted stock options and restricted stock units under the Plan.The maximum number of shares with respect to which awards may be made is 2,929,296 shares of common stock, subject to adjustment for certain corporate events. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant, generally vest annually over four years of continuous service and have contractual terms of ten years. At JuneÂ 30, 2024, 146,342 shares were available to grant under the Plan. No options were granted during the three and six months ended JuneÂ 30, 2024 and 2023. For the three and six months ended JuneÂ 30, 2024, there were 94,270 shares withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant. There were 63,634 shares withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant during the three and six months ended JuneÂ 30, 2023.22Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)A summary of option activity under the Plan as of JuneÂ 30, 2024, and changes during the six months ended is presented below:OptionsSharesWeightedAverageExercisePriceWeightedAverageRemainingContractualTermAggregateIntrinsicValue (1)Outstanding at January 1, 20241,174,131Â $7.14Â 1.30$â€"Â Grantedâ€"Â â€"Â Exercised(434,133)5.84Â Forfeited or expiredâ€"Â â€"Â Outstanding and Exercisable at JuneÂ 30, 2024$739,998Â $â€"Â 1.21$3,143,163Â ________________________(1)The aggregate intrinsic value of stock options represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on JuneÂ 30, 2024. This amount changes based on changes in the market value of the Company's stock.As of JuneÂ 30, 2024, all outstanding options of the Plan were fully vested. Tax benefits recognized for qualified and non-qualified stock option exercises for the three months ended June 30, 2024 and for the three months ended June 30, 2023 totaled $257 thousand and $479 thousand, respectively.Tax benefits recognized in the income statement for share-based compensation arrangements during the six months ended June 30, 2024 and 2023 totaled $0Â thousand and $479Â thousand, respectively.There were no restricted stock units granted during the six months ended JuneÂ 30, 2024. There were 9,438 restricted stock units granted during the six months ended JuneÂ 30, 2023. For the six months ended JuneÂ 30, 2024, there were 12,199 shares withheld from issuance upon vesting of restricted stock units in order to cover the taxes upon vesting by the participant. There were 7,190 shares withheld from issuance upon vesting of restricted stock units in order to cover the taxes upon vesting by the participant during the six months ended JuneÂ 30, 2023.A summary of the Company's restricted stock unit activity for the six months ended JuneÂ 30, 2024 is shown below.Number of SharesWeighted Average Grant Date Fair ValueNonvested at January 1, 2024179,115Â $14.30Â Grantedâ€"Â â€"Â Vested(61,854)14.34Â Forfeited(15,677)1.96Â Balance at June 30, 2024101,584Â $14.32Â The compensation cost that has been charged to income for the Plan totaled $234 thousand and $326 thousand for the three months ended June 30, 2024 and 2023, respectively. The compensation costs totaled $369 million and $650 million for the six months ended June 30, 2024 and 2023, respectively. As of JuneÂ 30, 2024, there was $1.6 million of total unrecognized compensation cost related to nonvested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 23 months.23Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 7. Fair Value MeasurementsDetermination of Fair ValueThe Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with fair value measurements and disclosures topic of FASB Accounting Standards Codification ("ASC") 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (exit price). Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Companyâ€™s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.Fair Value HierarchyIn accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.Level 1 â€" Valuation is based on quoted prices in active markets for identical assets and liabilities.Level 2 â€" 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 â€" Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).Derivative: The Company has loan interest rate swap derivatives and interest rate swap derivatives on certain time deposits and borrowings, which the latter are designated as cash flow hedges. These derivatives are recorded at fair value using published yield curve rates from a national valuation service. These observable rates and inputs are applied to a third party industry-wide valuation model, and therefore, the valuations fall into a Level 2 category.24Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of JuneÂ 30, 2024 and DecemberÂ 31, 2023:Fair Value Measurements at JuneÂ 30, 2024 UsingBalance as ofJuneÂ 30, 2024Quoted Pricesin ActiveMarkets forIdenticalAssetsSignificantOtherObservableInputsSignificantUnobservableInputsDescription(Level 1)(Level 2)(Level 3)AssetsAvailable-for-saleSecurities of U.S. government and federal agencies$8,458Â $â€"Â $8,458Â $â€"Â Securities of state and local municipalities tax exempt994Â â€"Â 994Â â€"Â Securities of state and local municipalities taxable370Â â€"Â 370Â â€"Â Corporate bonds16,465Â â€"Â 16,465Â â€"Â SBA pass-through securities50Â â€"Â 50Â â€"Â Mortgage-backed securities132,983Â â€"Â 132,983Â â€"Â Collateralized mortgage obligations2,844Â â€"Â 2,844Â â€"Â Total Available-for-Sale Securities$162,164Â $â€"Â $162,164Â $â€"Â Derivative assets - interest rate swaps$4,201Â $â€"Â $4,201Â $â€"Â Derivative assets - cash flow hedge7,459Â â€"Â 7,459Â â€"Â LiabilitiesDerivative liabilities - interest rate swaps$4,201Â $â€"Â $4,201Â $â€"Â 25Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Fair Value Measurements at DecemberÂ 31, 2023 UsingBalance as of DecemberÂ 31, 2023Quoted Pricesin ActiveMarkets forIdenticalAssetsSignificantOtherObservableInputsSignificantUnobservableInputsDescription(Level 1)(Level 2)(Level 3)AssetsAvailable-for-saleSecurities of U.S. government and federal agencies$8,470Â $â€"Â $8,470Â $â€"Â Securities of state and local municipalities tax exempt997Â â€"Â 997Â â€"Â Securities of state and local municipalities taxable404Â â€"Â 404Â â€"Â Corporate bonds17,648Â â€"Â 17,648Â â€"Â SBA pass-through securities57Â â€"Â 57Â â€"Â Mortgage-backed securities140,942Â â€"Â 140,942Â â€"Â Collateralized mortgage obligations3,077Â â€"Â 3,077Â â€"Â Total Available-for-Sale Securities$171,595Â $â€"Â $171,595Â $â€"Â Derivative assets - interest rate swaps$2,853Â $â€"Â $2,853Â $â€"Â Derivative assets - cash flow hedge2,915Â â€"Â 2,915Â â€"Â LiabilitiesDerivative liabilties - interest rate swaps$2,853Â $â€"Â $2,853Â $â€"Â Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower of cost or market accounting or write-downs of individual assets.The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:At JuneÂ 30, 2024 and December 31, 2023 all of the Company's individually evaluated loans were evaluated based upon the fair value of the collateral. In accordance with ASC 820, individually evaluated loans where an allowance is established based on the the fair value of collateral (i.e., those loans that are collateral dependent) require classification in the fair value hierarchy. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction, has the value derived by discounting comparable sales due to lack of similar properties, or is discounted by the Company due to marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable businessâ€™s financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.26Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The following tables summarize the Company's assets that were measured at fair value on a nonrecurring basis at JuneÂ 30, 2024 and DecemberÂ 31, 2023:Fair Value Measurements UsingBalance as ofJuneÂ 30, 2024Quoted Pricesin ActiveMarkets forIdenticalAssetsSignificantOtherObservableInputsSignificantUnobservableInputsDescription(Level 1)(Level 2)(Level 3)AssetsCollateral-dependent loansCommercial and industrial$394Â $â€"Â $â€"Â $394Â Total Collateral-dependent loans$394Â $â€"Â $â€"Â $394Â Fair Value Measurements UsingBalance as of DecemberÂ 31, 2023Quoted Pricesin ActiveMarkets forIdenticalAssetsSignificantOtherObservableInputsSignificantUnobservableInputsDescription(Level 1)(Level 2)(Level 3)AssetsCollateral-dependent loansCommercial real estate$849Â $â€"Â $â€"Â $849Â Commercial and industrial396Â â€"Â â€"Â 396Â Total Collateral-dependent loans$1,245Â $â€"Â $â€"Â $1,245Â The following tables display quantitative information about Level 3 Fair Value Measurements for JuneÂ 30, 2024 and DecemberÂ 31, 2023:Quantitative information about Level 3 Fair Value Measurements at JuneÂ 30, 2024 AssetsFair ValueValuation Technique(s)Unobservable inputRange (Avg.) Collateral-dependent loansCommercial and industrial$394Â Discounted appraised valueMarketability/Selling costs10% - 10%10.00Â %Quantitative information about Level 3 Fair Value Measurements at DecemberÂ 31, 2023 AssetsFair ValueValuation Technique(s)Unobservable inputRange (Avg.)Collateral-dependent loansCommercial real estate$849Â Discounted appraised valueMarketability/Selling costs10% - 10%10.00Â %Commercial and industrial$396Â Discounted appraised valueMarketability/Selling costs10% - 10%10.00Â %27Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments as of JuneÂ 30, 2024 and DecemberÂ 31, 2023. Fair values as of JuneÂ 30, 2024 and DecemberÂ 31, 2023 are estimated under the exit price notion.Fair Value Measurements as of JuneÂ 30, 2024 usingCarrying AmountQuoted Prices inActive Markets for Identical AssetsSignificant OtherObservable InputsSignificant Unobservable InputsLevel 1Level 2Level 3Financial assets:Â Â Â Â Cash and due from banks$10,226Â $10,226Â $â€"Â $â€"Â Interest-bearing deposits at other institutions154,359Â 154,359Â â€"Â â€"Â Securities held-to-maturity264Â â€"Â 251Â â€"Â Securities available-for-sale162,164Â â€"Â 162,164Â â€"Â Restricted stock8,186Â â€"Â 8,186Â â€"Â Loans, net1,867,721Â â€"Â â€"Â 1,765,182Â Bank owned life insurance9,078Â â€"Â 9,078Â â€"Â Accrued interest receivable10,828Â â€"Â 10,828Â â€"Â Derivative assets - interest rate swaps4,201Â â€"Â 4,201Â â€"Â Derivative assets - cash flow hedge7,459Â â€"Â 7,459Â â€"Â Financial liabilities:Checking$1,005,010Â $â€"Â $1,005,010Â $â€"Â Savings and money market439,198Â â€"Â 439,198Â â€"Â Time deposits274,684Â â€"Â 274,408Â â€"Â Wholesale deposits249,860Â â€"Â 248,976Â â€"Â FHLB advances57,000Â â€"Â 57,000Â â€"Â Subordinated notes19,652Â â€"Â 19,610Â â€"Â Accrued interest payable3,910Â â€"Â 3,910Â â€"Â Derivative liabilities - interest rate swaps4,201Â â€"Â 4,201Â â€"Â 28Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Fair Value Measurements as of DecemberÂ 31, 2023 usingCarrying AmountQuoted Prices inActive Markets for Identical AssetsSignificant OtherObservable InputsSignificant Unobservable InputsLevel 1Level 2Level 3Financial assets:Cash and due from banks$8,042Â $8,042Â $â€"Â $â€"Â Interest-bearing deposits at other institutions52,480Â 52,480Â â€"Â â€"Â Securities held-to-maturity264Â â€"Â 252Â â€"Â Securities available-for-sale171,595Â â€"Â 171,595Â â€"Â Restricted stock9,488Â â€"Â 9,488Â â€"Â Loans, net1,809,693Â â€"Â â€"Â 1,725,785Â Bank owned life insurance56,823Â â€"Â 56,823Â â€"Â Accrued interest receivable10,321Â â€"Â 10,321Â â€"Â Derivative assets - interest rate swaps2,853Â â€"Â 2,853Â â€"Â Derivative assets - cash flow hedge2,915Â â€"Â 2,915Â â€"Â Financial liabilities:Checking$973,195Â $â€"Â $973,195Â $â€"Â Savings and money market320,498Â â€"Â 320,498Â â€"Â Time deposits306,349Â â€"Â 306,733Â â€"Â Wholesale deposits245,250Â â€"Â 245,216Â â€"Â FHLB advances85,000Â â€"Â 85,000Â â€"Â Subordinated notes19,620Â â€"Â 18,565Â â€"Â Accrued interest payable2,415Â â€"Â 2,415Â â€"Â Derivative liabilities - interest rate swaps2,853Â â€"Â 2,853Â â€"Â Note 8. Earnings Per ShareBasic earnings per share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of stock which then shared in the earnings of the Company. Weighted average shares â€" diluted includes only the potential dilution of stock options and unvested restricted stock units as of JuneÂ 30, 2024 and 2023, respectively.The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares of dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders. There were 28,495 anti-dilutive shares for the three and six months ended June 30, 2024 and there were 54,132 anti-dilutive shares for the three and six months ended June 30, 2023.29Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The holders of restricted stock do not share in dividends and do not have voting rights during the vesting period.(average shares are in thousands)Three months ended June 30,Six months ended June 30,2024202320242023Net income$4,155Â $4,233Â $5,495Â $4,854Â Weighted average - basic shares18,001Â 17,711Â 17,915Â 17,644Â Effect of dilutive securities, restricted stock units and options341Â 348Â 415Â 534Â Weighted average - diluted shares18,342Â 18,059Â 18,330Â 18,178Â Basic EPS$0.23Â $0.24Â $0.31Â $0.28Â Diluted EPS$0.23Â $0.23Â $0.30Â $0.27Â Note 9. Accumulated Other Comprehensive Income (Loss)Changes in accumulated other comprehensive income (loss) ("AOCI") for the three and six months ended June 30, 2024 and 2023 are shown in the following table. The Company has two components of AOCI, which are available-for-sale securities and cash flow hedges, for the periods presented.2024Three Months Ended June 30, 2024Available-for-Sale SecuritiesCash FlowÂ HedgesTotalBalance, beginning of period $(28,020)$5,547Â $(22,473)Net unrealized gains during the period6Â 315Â 321Â Other comprehensive (loss) income, net of tax6Â 315Â 321Â Balance, end of period $(28,014)$5,862Â $(22,152)2024Six Months Ended June 30, 2024Available-for-Sale SecuritiesCash FlowÂ HedgesTotalBalance, beginning of period $(26,476)$2,316Â $(24,160)Net unrealized gains during the period(1,538)3,546Â 2,008Â Other comprehensive (loss) income, net of tax(1,538)3,546Â 2,008Â Balance, end of period $(28,014)$5,862Â $(22,152)30Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)2023Three Months Ended June 30, 2023Available-for-Sale SecuritiesCash FlowHedgesTotalBalance, beginning of period$(34,009)$1147Â $(32,862)Net unrealized gains during the period(2,307)4,407Â 2,100Â Net reclassification adjustment for losses realized in incomeâ€"Â â€"Â â€"Â Other comprehensive income (loss), net of tax(2,307)4,407Â 2,100Â Balance, end of period$(36,316)$5,554Â $(30,762)2023Six Months Ended June 30, 2023Available-for-Sale SecuritiesCash FlowHedgesTotalBalance, beginning of period$(39,926)$3359Â $(36,567)Net unrealized gains during the period28Â 2,195Â 2,223Â Net reclassification adjustment for losses realized in income3,582Â â€"Â 3,582Â Other comprehensive income, net of tax3,610Â 2,195Â 5,805Â Balance, end of period$(36,316)$5,554Â $(30,762)There were no gains for the three months ended June 30, 2023, that were reclassified from AOCI into income. During the first quarter of 2023, $40.3Â million in investment securities available-for-sale, or 12% of the investment portfolio, were sold with a realized after-tax loss of $3.6Â million that was reclassified from AOCI into income. There were no gains or losses that were reclassified from AOCI into income for the three and six months ended June 30, 2024.31Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 10.Â Â Â Â Subordinated NotesOn October 13, 2020, the Company completed the private placement of $20.0Â million of its 4.875% Fixed to Floating Subordinated Notes due 2030 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes have a maturity date of October 15, 2030 and carry a fixed rate of interest of 4.875% for the first five years. Thereafter, the Notes will pay interest at 3-month Secured Overnight Financing Rate (SOFR) plus 471 basis points, resetting quarterly. The Notes include a right of prepayment without penalty on or after October 15, 2025. The Notes were structured to qualify as Tier 2 capital for regulatory purposes.32Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 11. Revenue RecognitionThe Company recognizes revenue in accordance with ASC 606 â€˜â€˜Revenue from Contracts with Customersâ€™â€™ ("Topic 606"). Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gain on sale of securities, bank-owned life insurance income, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Companyâ€™s revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.Service Charges on Deposit AccountsService charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and personal checking accounts), monthly service fees, check orders, and other deposit account related fees. The Companyâ€™s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Companyâ€™s performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customersâ€™ accounts.Fees, Exchange and Other Service ChargesFees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges and are included in other income on the Companyâ€™s consolidated statements of income. Debit and credit card income is primarily comprised of interchange fees earned whenever the Companyâ€™s debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashierâ€™s checks, and other services. The Companyâ€™s performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. This income is reflected in other income on the Companyâ€™s Consolidated Statements of Income.Other IncomeOther noninterest income consists of loan swap fees, insurance commissions, and other miscellaneous revenue streams not meeting the criteria above. When the Company enters into an interest rate swap agreement, the Company may receive an additional one-time payment fee which is recognized as income when received. The Company receives monthly recurring commissions based on a percentage of premiums issued and revenue is recognized when received. Any residual miscellaneous fees are recognized as they occur, and therefore, the Company determined this consistent practice satisfies the obligation for performance.33Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2024 and 2023:Three months ended June 30,Six months ended June 30,2024202320242023Noninterest IncomeIn-scope of Topic 606Service Charges on Deposit Accounts$278Â $232Â $539Â $447Â Fees, Exchange, and Other Service Charges106Â 84Â 179Â 171Â Other income31Â 23Â 55Â 77Â Noninterest Income (in-scope of Topic 606)415Â 339Â 773Â 695Â Noninterest Income (out-scope of Topic 606)456Â 552Â 492Â (4,431)Total Non-interest (Loss) Income$871Â $891Â $1,266Â $(3,736)Contract BalancesA contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entityâ€™s obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Companyâ€™s noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of JuneÂ 30, 2024 and December 31, 2023, the Company did not have any significant contract balances.Contract Acquisition CostsUnder Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company did not capitalize any contract acquisition costs during the three and six months ended JuneÂ 30, 2024 or 2023.34Table of ContentsNotes to Consolidated Financial Statements($ in thousands, except per share data)Note 12. Supplemental Cash Flow InformationBelow is additional information regarding the Companyâ€™s cash flows for the six months ended June 30, 2024 and 2023.For the Six Months Ended June 30,20242023Supplemental Disclosure of Cash Flow Information:Cash paid for:Interest on deposits and borrowed funds$24,916Â $22,691Â Income taxesâ€”Â 2,360Â Noncash investing and financing activities:Unrealized gain (loss) on securities available-for-sale(1,979)4,628Â Unrealized (loss) gain on interest rate swaps(4,545)2,816Â Adoption of CECL accounting standardâ€”Â (2,808)Right-of-use assets obtained in the exchange for lease liabilities during the current periodâ€”Â 397Â Adoption of Investment accounting standard13Â â€”Â 35Item 2. Management's Discussion and Analysis of Financial Condition and Results of OperationsThe following presents managementâ€™s discussion and analysis of our consolidated financial condition at JuneÂ 30, 2024 and DecemberÂ 31, 2023 and the results of our operations for the three and six months ended JuneÂ 30, 2024 and 2023. This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report and the audited consolidated financial statements and the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended DecemberÂ 31, 2023. Results of operations for the three and six month periods ended JuneÂ 30, 2024 are not necessarily indicative of the results of operations for the balance of 2024, or for any other period. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from managementâ€™s expectations.36CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTSThis Form 10-Q, as well as other periodic reports filed with the U.S. Securities and Exchange Commission (the "SEC"), and written or oral communications made from time to time by or on behalf of FVCBankcorp, Inc. and our subsidiary (the â€œCompanyâ€), may contain statements relating to future events or our future results that are considered â€œforward-looking statementsâ€ under the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as â€œmay,â€ â€œcould,â€ â€œshould,â€ â€œwill,â€ â€œwould,â€ â€œbelieve,â€ â€œanticipate,â€ â€œestimate,â€ â€œexpect,â€ â€œaim,â€ â€œintend,â€ â€œplan,â€ or words or phases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements.The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:â€¢general business and economic conditions, including higher inflation and its impacts, nationally or in the markets that we serve could adversely affect, among other things, real estate valuations, unemployment levels, the ability of businesses to remain viable, consumer and business confidence, and consumer or business spending, which could lead to decreases in demand for loans, deposits, and other financial services that we provide and increases in loan delinquencies and defaults;â€¢the impact of the interest rate environment on our business, financial condition and results of operation, and its impact on the composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;â€¢changes in our liquidity requirements could be adversely affected by changes in its assets and liabilities;â€¢changes in the assumptions underlying the establishment of reserves for possible credit losses and the possibility that future credit losses may be higher than currently expected;â€¢changes in market conditions, specifically declines in the commercial and residential real estate market, volatility and disruption of the capital and credit markets, and soundness of other financial institutions that we do business with;â€¢the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), inflation, interest rate, market and monetary fluctuations;â€¢Our investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates used to value the securities in the portfolio; â€¢declines in our common stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to record a noncash impairment charge to earnings in future periods;â€¢geopolitical conditions, including acts or threats of terrorism, or actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;â€¢the occurrence of significant natural disasters, including severe weather conditions, floods, health related issues or emergencies, and other catastrophic events;â€¢the management of risks inherent in our real estate loan portfolio, and the risk of a prolonged downturn in the real estate market, which could impair the value of loan collateral and the ability to sell collateral upon any foreclosure;37â€¢the impact of changes in bank regulatory conditions, including laws, regulations and policies concerning capital requirements, deposit insurance premiums, taxes, securities, and the application thereof by regulatory bodies;â€¢the effect of changes in accounting policies and practices, as may be adopted from time to time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board ("FASB") or other accounting standards setting bodies;â€¢competitive pressures among financial services companies, including the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;â€¢the effect of acquisitions and partnerships we may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;â€¢Our involvement, from time to time, in legal proceedings and examination and remedial actions by regulators; andâ€¢potential exposure to fraud, negligence, computer theft and cyber-crime, and our ability to maintain the security of our data processing and information technology systems.The foregoing factors should not be considered exhaustive and should be read together with other cautionary statements that are included in our Annual Report on Form 10-K for the year ended DecemberÂ 31, 2023, including those discussed in the section entitled â€œRisk Factorsâ€. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect our operations, financial condition, or results of operations.OverviewWe are a bank holding company headquartered in Fairfax County, Virginia. Our sole subsidiary, FVCbank (the "Bank"), was formed in November 2007 as a community-oriented, locally-owned and managed commercial bank under the laws of the Commonwealth of Virginia. The Bank offers a wide range of traditional bank loan and deposit products and services to both our commercial and retail customers. Our commercial relationship officers focus on attracting small and medium sized businesses, commercial real estate developers and builders, including government contractors, non-profit organizations, and professionals. Our approach to our market features competitive customized financial services offered to customers and prospects in a personal relationship context by seasoned professionals.On August 31, 2021, we announced that the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for $20.4 million to obtain a 28.7% ownership interest in ACM. The Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify our held to investment loan portfolio.On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected herein have been adjusted for the five-for-four split of the Company's common stock for comparative purposes. Net interest income is our primary source of revenue. We define revenue as net interest income plus noninterest income. We manage our balance sheet and interest rate risk exposure to maximize, and concurrently stabilize, net interest income. We do this by monitoring our liquidity position and the spread between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities. We attempt to minimize our exposure to interest rate risk, but are unable to eliminate it entirely. In addition to managing interest rate risk, we also analyze our loan portfolio for exposure to credit risk. Loan defaults and foreclosures are inherent risks in the banking industry, and we attempt to limit our exposure to these risks by carefully underwriting and then monitoring our extensions of credit. In addition to net interest income, noninterest income is a complementary source of revenue for us and includes, among other things, service charges on deposits and loans, income from minority membership interest in ACM, merchant services fee income, insurance commission income, income from bank owned life insurance ("BOLI"), and gains and losses on sales of investment securities available-for-sale.38Critical Accounting PoliciesGeneralThe accounting principles we apply under U.S generally accepted accounting principles ("GAAP") are complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions, judgments and estimates when applying these principles where precise measurements are not possible or practical. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such judgments, assumptions and estimates may have a significant impact on the consolidated financial statements. Actual results, in fact, could differ from initial estimates.The accounting policies we view as critical are those relating to judgments, assumptions and estimates regarding the determination of the allowance for credit losses - loans & reserve for unfunded commitments, and fair value measurements.Allowance for Credit Losses - Loans & Unfunded Commitments We maintain the allowance for credit losses ("ACL") at a level that represents managementâ€™s best estimate of expected losses in our loan portfolio. We adopted the provisions of the current expected credit losses ("CECL") accounting standard as of January 1, 2023 in accordance with the required implementation date and recorded the impact of the adoption to retained earnings, net of deferred income taxes, as required by the standard. Prior to the adoption of CECL, we utilized an incurred loss model to derive our best estimate of the ACL.Accounting Standards Codification ("ASC") 326 requires that an estimate of CECL be immediately recognized and reevaluated over the contractual life of the financial asset. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loan portfolio. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously and expected to be charged-off.Reserves on loans that do not share risk characteristics are evaluated on an individual basis. Nonaccrual loans are specifically reviewed for loss potential and when deemed appropriate are assigned a reserve based on an individual evaluation. The remainder of the portfolio, representing all loans not evaluated individually for impairment, is segmented based on call report code and processed through a cash flow valuation model. In particular, loan-level probability of default ("PD") and severity (also referred to as loss given default ("LGD")) is applied to derive a baseline expected loss as of the valuation date. These expected default and severity rates, which are regression-derived and based on peer historical loan-level performance data, are calibrated to incorporate our reasonable and supportable forecast of future losses as well as any necessary qualitative adjustments. Typically, financial institutions use their historical loss experience and trends in losses for each loan segment which are then adjusted for portfolio trends and economic and environmental factors in determining the ACL. Since the Bankâ€™s inception in 2007, we have experienced minimal loss history within our loan portfolio. Due to the fact that limited internal loss history exists to generate statistical significance, we determined it was most prudent to rely on peer data when deriving our best estimate of PD and LGD. As part of our estimation process, we will continue to assess the reasonableness of the data, assumptions, and model methodology utilized to derive our allowance for credit losses.For each of the modeled loan segments, we generate cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, PD rates, and LGD rates. The modeling of expected prepayment speeds is based on internal loan-level historical data. For our cash flow model, we utilize national unemployment for reasonable and supportable forecasting of expected default. To further adjust the ACL for expected losses not already within the quantitative component of the calculation, we may consider qualitative factors as prescribed in ASC 326. Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. We record a reserve for unfunded commitments on off-balance sheet credit exposures through a charge to provision for credit loss expense in our Consolidated Statement of Income. The reserve for unfunded commitments is estimated by call report code segmentation as of the valuation date under the CECL model using the same methodologies as portfolio loans taking utilization rates into consideration. The reserve for unfunded commitments is reflected as a liability on our Consolidated Statement of Condition. 39While our methodology in establishing the ACL attributes portions of a combined reserve to multiple elements, we believe that the combined allowance for credit losses (which is inclusive of the reserve for unfunded commitments) represents the most appropriate coverage metric for loss absorption purposes.Our methodology utilized in the estimation of the ACL, which is performed at least quarterly, is designed to be dynamic and responsive to changes in our loan portfolio credit quality, composition, and forecasted economic conditions. The review of the reasonableness and appropriateness of the ACL is reviewed by the ACL Committee for approval as of the valuation date. Additionally, information is provided to the Board of Directors on a quarterly basis along with our consolidated financial statements. Credit losses are an inherent part of our business and, although we believe the methodologies for determining the ACL and the current level of the allowance and reserve on unfunded commitments are appropriate, it is possible that there may be unidentified losses in the portfolio at any particular time that may become evident at a future date pursuant to additional internal analysis or regulatory comment. Additional provisions for such losses, if necessary, would be recorded, and would negatively impact earnings.Collateral Dependent Financial AssetsLoans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the financial asset to be provided substantially through the sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the net present value from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.Allowance for Credit Losses - SecuritiesWe evaluate our available-for-sale and held-to-maturity debt securities portfolios for expected credit losses as of the valuation date under ASC 326. For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell, the security before recovery of our amortized cost basis. If either criterion is met, the securityâ€™s amortized cost basis is written down to fair value through income during the current period. For available-for-sale debt securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other driving factors. If our assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an ACL is recorded for the credit loss (which represents the difference between the expected cash flows and amortized cost basis), limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.The entire amount of an impairment loss is recognized in earnings only when: (1) we intend to sell the security; or (2) it is more likely than not that we will have to sell the security before recovery of our amortized cost basis; or (3) we do not expect to recover the entire amortized cost basis of the security. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as comprehensive income, net of deferred taxes.Changes in the ACL are recorded as a provision for (or reversal of) credit losses. Losses are charged against the ACL when we believe the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Any impairment not recorded through an ACL is recognized in other comprehensive income as a noncredit-related impairment.As part of our estimation process, we have made a policy election to exclude accrued interest from the amortized cost basis of available-for-sale debt securities and report accrued interest separately in other assets in the Consolidated Statement of Condition. Available-for-sale debt securities are placed on nonaccrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on nonaccrual status. Accordingly, we do not recognize an ACL against accrued interest receivable. This approach is consistent with our nonaccrual policy implemented for our loan portfolio. 40We separately evaluate our held-to-maturity investment securities for any credit losses. If we determine that a security indicates evidence of deteriorated credit quality, the security is individually-evaluated and a discounted cash flow analysis is performed and compared to the amortized cost basis. As of JuneÂ 30, 2024, we had one security classified as held-to-maturity with an amortized cost basis of $264Â thousand with the remainder of the securities portfolio held as available-for-sale. Fair Value MeasurementsWe determine the fair values of financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Our investment securities available-for-sale are recorded at fair value using reliable and unbiased evaluations by an industry-wide valuation service. This service uses evaluated pricing models that vary based on asset class and include available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.Results of Operationsâ€” Three and Six Months Ended June 30, 2024 and 2023OverviewWe recorded net income of $4.2 million, or $0.23 diluted earnings per share, for each of the three months ended June 30, 2024 and 2023.Net interest income decreased $717 thousand, or 5%, to $13.7 million for the three months ended June 30, 2024, compared to $14.4 million for the same period of 2023. Provision of credit losses of $206 thousand was recorded for the three months ended June 30, 2024, compared to $618 thousand for the same period of 2023. Noninterest income was $871 thousand and $891 thousand for the three months ended June 30, 2024 and 2023, respectively. Noninterest expense was $9.0 million for the three months ended June 30, 2024, compared to $9.2 million for the three months ended June 30, 2023, a decrease of $207 thousand, or 2%. The annualized return on average assets for the three months ended June 30, 2024 and 2023 was 0.77% and 0.73%, respectively. The annualized return on average equity for the three months ended June 30, 2024 and 2023 was 7.42% and 8.17%, respectively. For the six months ended June 30, 2024, we recorded net income of $5.5 million, or $0.30 diluted earnings per share, compared to net income of $4.9 million, or $0.27 diluted earnings per share for the six months ended June 30, 2023. Net income for the six months ended June 30, 2024 includes the surrender of certain BOLI policies with an aggregate cash surrender value of $48.0 million. Upon the surrender, we received a cash payout and were required to accrue additional income tax on the appreciation of those policies which had previously been treated as tax-exempt income. This resulted in additional statutory income tax expense of $1.6 million and tax penalties of $722 thousand. The tax penalties related to the surrender of the BOLI were recorded in income tax expense. Additionally, net income for the six months ended June 30, 2023 included sales of available-for-sale investment securities, which resulted in a pre-tax loss totaling $4.6 million.Net interest income for the six months ended June 30, 2024 was $26.5 million, compared to $28.4 million for the same period in 2023, a decrease of $1.9 million, or 7%. Provision for credit losses for the six months ended June 30, 2024 was $206 thousand, compared to $860 thousand for the same period of 2023. Non-interest income was $1.3 million compared to a loss of $3.7 million for the six months ended June 30, 2024 and 2023, respectively. Noninterest expense was $17.6 million and $18.2Â million for the six months ended June 30, 2024 and 2023, respectively, a decrease of $592 thousand, or 3%.Commercial bank operating earnings, which exclude the nonrecurring taxes on the surrender of our BOLI policies recorded during the first quarter of 2024 and the after-tax losses on the sale of investment securities available-for-sale recorded during the first quarter 2023, for the three months ended June 30, 2024 and JuneÂ 30, 2023 were each $4.2 million. For the six months ended June 30, 2024 and JuneÂ 30, 2023, commercial bank operating earnings were $7.9 million and $8.4Â million, respectively.41Diluted commercial bank operating earnings per share for the three months ended June 30, 2024 and JuneÂ 30, 2023 were each $0.23. For the six months ended June 30, 2024 and 2023, diluted commercial bank operating earnings per share were $0.43 and $0.46, respectively. We consider commercial bank operating earnings a useful financial measure of our operating performance. Commercial bank operating earnings is determined by methods other than in accordance with GAAP. A reconciliation of non-GAAP financial measures to their most comparable financial measure in accordance with GAAP can be found in the tables below. 42Reconciliation of Net Income (GAAP) to Commercial Bank Operating Earnings (Non-GAAP)For the Three and Six Months Ended June 30, 2024 and 2023 (Dollars in thousands, except per share data)For the Three Months Ended June 30,20242023Net income (as reported)$4,155Â $4,232Â Non-GAAP Commercial Bank Operating Earnings$4,155Â $4,232Â Earnings per share - basic (GAAP net income)$0.23Â $0.24Â Earnings per share - basic (non-GAAP core bank operating earnings)$0.23Â $0.24Â Earnings per share - diluted (GAAP net income)$0.23Â $0.23Â Adjusted Earnings per share - diluted (non-GAAP core bank operating earnings)$0.23Â $0.23Â Return on average assets (GAAP net income)0.77Â %0.73Â %Adjusted Return on average assets (nonâ€'GAAP core bank operating earnings)0.77Â %0.73Â %Return on average equity (GAAP net income)7.42Â %8.17Â %Adjusted Return on average equity (nonâ€'GAAP core bank operating earnings)7.42Â %8.17Â %For the Six Months Ended June 30,20242023Net income (as reported)$5,495Â $4,854Â Add: Loss on sale of available-for-sale investment securitiesâ€"Â 4,592Â Add: Non-recurring tax and 10% modified endowment contract penalty on early surrender of BOLI policies2,386Â â€"Â (Subtract) Add: (Provision) Benefit for income taxes associated with non-GAAP adjustmentsâ€"Â (1,010)Non-GAAP Commercial Bank Operating Earnings, excluding above items$7,881Â $8,436Â Earnings per share - basic (GAAP net income)$0.31Â $0.28Â Adjusted Earnings per share - Non-GAAP expenses including provision for income taxes$0.13Â $0.20Â Earnings per share - basic (non-GAAP core bank operating earnings)$0.44Â $0.48Â Earnings per share - diluted (GAAP net income)$0.30Â $0.27Â Adjusted Earnings per share - Non-GAAP expenses including provision for income taxes$0.13Â $0.19Â Adjusted Earnings per share - diluted (non-GAAP core bank operating earnings)$0.43Â $0.46Â Return on average assets (GAAP net income)0.51Â %0.42Â %Adjusted Non-GAAP expenses including provision for income taxes0.22Â %0.32Â %Adjusted Return on average assets (nonâ€'GAAP core bank operating earnings)0.73Â %0.74Â %Return on average equity (GAAP net income)4.95Â %4.70Â %Adjusted Non-GAAP expenses including provision for income taxes2.15Â %3.47Â %Adjusted Return on average equity (nonâ€'GAAP core bank operating earnings)7.10Â %8.17Â %43Net Interest Income/MarginNet interest income is our primary source of revenue, representing the difference between interest and fees earned on interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. The following table presents average balance information, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended June 30, 2024 and 2023.Average Balance Sheets and Interest Rates on Interest-Earning Assets and Interest-Bearing LiabilitiesFor the Three Months Ended JuneÂ 30, 2024 and 2023(Dollars in thousands)20242023AverageBalanceInterestIncome/ExpenseAverage Yield/RateAverageBalanceInterestIncome/ExpenseAverage Yield/RateAssetsInterestâ€'earning assets:Loans receivable, net of fees Commercial real estate$1,087,064Â $13,795Â 5.08Â %$1,119,042Â $13,541Â 4.84Â %Commercial and industrial253,485Â 5,022Â 7.92Â %197,130Â 3,735Â 7.58Â %Commercial construction162,711Â 2,918Â 7.17Â %156,471Â 2,814Â 7.19Â %Consumer real estate347,180Â 4,116Â 4.74Â %360,161Â 4,241Â 4.71Â %Warehouse facilities26,000Â 483Â 7.44Â %28,910Â 512Â 7.06Â %Consumer nonresidential5,902Â 123Â 8.34Â %6,099Â 143Â 9.36Â %Total loans(1)1,882,342Â 26,457Â 5.62Â %1,867,813Â 24,986Â 5.35Â %Investment securities(2)(3)211,630Â 1,115Â 2.10Â %288,987Â 1,375Â 1.90Â %Interest-bearing deposits at other financial institutions29,459Â 401Â 5.48Â %66,781Â 844Â 5.07Â %Total interestâ€'earning assets and interest income$2,123,431Â $27,973Â 5.27Â %$2,223,581Â $27,205Â 4.89Â %Non-interestâ€'earning assets:Cash and due from banks7,553Â 6,930Â Premises and equipment, net979Â 1,152Â Accrued interest and other assets57,755Â 96,656Â Allowance for credit losses(18,932)(19,068)Total assets$2,170,786Â $2,309,251Â Liabilities and Stockholders' EquityInterest â€' bearing liabilities:Interest â€' bearing deposits:Interest checking$549,071Â $4,622Â 3.39Â %$531,440Â $3,546Â 2.68Â %Savings and money markets334,627Â 3,081Â 3.70Â %245,306Â 1,289Â 2.11Â %Time deposits286,910Â 3,104Â 4.35Â %393,877Â 3,563Â 3.63Â %Wholesale deposits249,846Â 2,087Â 3.36Â %377,126Â 3,614Â 3.84Â %Total interest â€' bearing deposits1,420,454Â 12,894Â 3.65Â %1,547,748Â 12,012Â 3.11Â %Other borrowed funds99,758Â 1,150Â 4.63Â %57,176Â 546Â 3.83Â %Subordinated notes, net of issuance costs19,639Â 257Â 5.27Â %19,583Â 257Â 5.27Â %Total interestâ€'bearing liabilities and interest expense$1,539,851Â $14,301Â 3.74Â %$1,624,507Â $12,815Â 3.16Â %Non-interestâ€'bearing liabilities:Demand deposits378,280Â 454,299Â Other liabilities28,740Â 23,146Â Common stockholders' equity223,914Â 207,299Â Total liabilities and stockholders' equity$2,170,786Â $2,309,251Â Net interest income and net interest margin$13,672Â 2.59Â %$14,390Â 2.60Â %_________________________44(1)Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the quarters presented. Net loan fees and late charges included in interest income on loans totaled $388 thousand and $422 thousand for the quarters ended JuneÂ 30, 2024 and 2023, respectively. (2)The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 22% for JuneÂ 30, 2024 and JuneÂ 30, 2023.(3)The average balances for investment securities includes restricted stock.The level of net interest income is affected primarily by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates. The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities for the three months ended June 30, 2024 as compared to the three months ended JuneÂ 30, 2023.Rate and Volume AnalysisFor the Three Months Ended JuneÂ 30, 2024 and 2023(Dollars in thousands)2024 Compared to 2023AverageVolumeAverageRateIncrease(Decrease)Interest income:Loans(1):Commercial real estate(387)641Â $254Â Commercial and industrial1,068Â 219Â 1,287Â Commercial construction113Â (9)103Â Consumer residential(153)28Â (125)Warehouse facilities(52)23Â (29)Consumer nonresidential(5)(15)(20)Total loans(1)584Â 887Â 1,471Â Investment securities(2)(366)105Â (260)Deposits at other financial institutions and federal funds soldÂ Â Â Â (474)31Â (444)Total interest income(256)1,023Â 767Â Interest expense:Interest - bearing deposits:Interest checking104Â 972Â 1,076Â Savings and money markets466Â 1,326Â 1,792Â Time deposits(974)515Â (459)Wholesale deposits(1,229)(298)(1,527)Total interest - bearing deposits(1,633)2,515Â 883Â Other borrowed funds405Â 199Â 604Â Subordinated notes, net of issuance costs(2)2Â â€"Â Total interest expense(1,230)2,716Â 1,486Â Net interest income$972Â $(1,691)$(721)_________________________(1)Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.(2)The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 22% for JuneÂ 30, 2024 and JuneÂ 30, 2023.45Net interest income totaled $13.7 million, a decrease of $717 thousand, or 5%, for the three months ended June 30, 2024, compared to JuneÂ 30, 2023. The decrease in net interest income is primarily due to an increase in funding costs, which have increased precipitously as a result of Federal Reserve monetary policy, coupled with the need to meet intense competition from market area banks, brokerages, other financial institutions and the U.S. Treasury. Average earning assets decreased $100.2Â million to $2.12Â billion during the second quarter of 2024 as compared to $2.22Â billion for the same period of 2023, which was primarily related to the sales of investment securities available-for-sale that were completed during 2023, decreasing the average balances of our investment securities by $77.4 million.Interest income for the three months ended June 30, 2024 increased $769 thousand, or 3%, to $28.0 million from $27.2Â million for the three months ended June 30, 2023. Loan interest income during the second quarter of 2024 increased $1.5 million, or 6%, as compared to the year ago quarter due to both an increase in loan volume and an increase in yields earned on the loan portfolio. The year ago 2023 quarter included recovered loan interest of $338 thousand from an impaired loan that was fully recovered. Income from investment securities decreased $259 thousand for the three months ended June 30, 2024 compared to the same period of 2023, primarily as a result of the sales of investment securities executed during 2023. Interest income from deposits at other financial institutions decreased $443 thousand to $401 thousand for the second quarter of 2024 as compared to the second quarter of 2023, which was primarily due to lower average balances. Average interest-bearing deposits decreased $127.3Â million to $1.42Â billion for the three months ended June 30, 2024 compared to $1.55Â billion for the three months ended June 30, 2023, primarily as a result of a decrease in wholesale deposits. Average wholesale deposits decreased $127.3Â million to $249.8 million for the three months ended June 30, 2024 compared to $377.1 million for the same period in 2023. Average non-interest-bearing deposits decreased $76.0 million to $378.3Â million for the three months ended June 30, 2024 compared to $454.3Â million for the same period in 2023. Average other borrowed funds, which primarily include federal funds purchased and advances from the Federal Home Loan Bank of Atlanta ("FHLB"), increased $42.6Â million to $99.8 million for the three months ended JuneÂ 30, 2024 compared to $57.2 million for the three months ended JuneÂ 30, 2023.Interest expense for the three months ended June 30, 2024 increased $1.5 million to $14.3 million, or 12%, from $12.8 million for the three months ended June 30, 2023. Deposit interest expense for the second quarter of 2024 increased $882Â thousand compared to the year ago quarter primarily as a result of increased interest rates on interest-bearing deposits. Interest expense on other borrowed funds increased $604 thousand for the three months ended June 30, 2024 compared to the same period in 2023. Our net interest margin, on a tax equivalent basis, for the three months ended June 30, 2024 and 2023 was 2.59% and 2.60%, respectively. The yield on interest-earning assets increased 38 basis points to 5.27% for the three months ended June 30, 2024, compared to 4.89% for the same period of 2023. The average yield of the loan portfolio for the three months ended June 30, 2024 and 2023 was 5.62% and 5.35%, respectively, an increase of 27 basis points. The cost of interest-bearing deposits increased 54 basis points to 3.65% for the three months ended June 30, 2024, compared to 3.11% for the same period of 2023, which was primarily attributable to the repricing of our interest-bearing deposits due to higher interest rates. Cost of deposits (which includes non-interest-bearing deposits) was 2.88% for the three months ended June 30, 2024 compared to 2.41% for the three months ended June 30, 2023. Cost of other borrowed funds increased 80 basis points to 4.63% for the three months ended June 30, 2024 compared to 3.83% for the three months ended June 30, 2023.Net interest income, on a tax equivalent basis, is a non-GAAP financial measure that we believe provides a more accurate picture of the interest margin for comparative purposes. To derive our net interest margin on a tax equivalent basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before tax basis with a corresponding 46increase in income tax expense. For purposes of this calculation, we use our statutory tax rates for the periods presented. This measure ensures comparability of net interest income arising from taxable and tax-exempt sources.The following table provides a reconciliation of our GAAP net interest income to our tax equivalent net interest income.Supplemental Financial Data and Reconciliations to GAAP Financial MeasuresFor the Three and Six Months Ended June 30, 2024 and 2023 (Dollars in thousands)Three months ended June 30,Six months ended June 30,2024202320242023GAAP Financial Measurements:Interest income:Loans$26,457Â $24,986Â $51,771Â $48,382Â Deposits at other financial institutions and federal funds sold401Â 844Â 773Â 1,146Â Investment securities availableâ€'forâ€'sale944Â 1,247Â 1,908Â 2,635Â Investment securities heldâ€'toâ€'maturity2Â 1Â 3Â 3Â Dividend on Restricted stock168Â 125Â 344Â 371Â Total interest income27,972Â 27,203Â 54,799Â 52,537Â Interest expense:Interestâ€'bearing deposits12,894Â 12,012Â 25,435Â 20,793Â Other borrowed funds1,407Â 803Â 2,902Â 3,342Â Total interest expense14,301Â 12,815Â 28,337Â 24,135Â Net interest income$13,671Â $14,388Â $26,462Â $28,402Â Nonâ€'GAAP Financial Measurements:Add: Tax benefit on taxâ€'exempt interest income - securities1Â 2Â 4Â 3Â Total tax benefit on interest income$1Â $2Â $4Â $3Â Tax equivalent net interest income$13,672Â $14,390Â $26,466Â $28,405Â Net interest margin on a tax-equivalent basis2.59Â %2.60Â %2.53Â %2.60Â %47The following table presents average balance information, interest income, interest expense and the corresponding average yields earned and rates paid for the six months ended June 30, 2024 and 2023.Average Balance Sheets and Interest Rates on Interest-Earning Assets and Interest-Bearing LiabilitiesFor the Six months ended June 30, 2024 and 2023(Dollars in thousands)20242023AverageBalanceInterestIncome/ExpenseAverage Yield/RateAverageBalanceInterestIncome/ExpenseAverage Yield/RateAssetsInterestâ€'earning assets:Loans receivable, net of fees Commercial real estate$1,089,076Â $27,356Â 5.02Â %$1,108,700Â $26,221Â 4.73Â %Commercial and industrial240,816Â 9,383Â 7.79Â %200,160Â 7,183Â 7.18Â %Commercial construction157,622Â 5,670Â 7.19Â %155,010Â 5,453Â 7.04Â %Consumer real estate353,033Â 8,557Â 4.85Â %352,728Â 8,289Â 4.71Â %Warehouse facilities15,266Â 571Â 7.49Â %26,471Â 934Â 7.06Â %Consumer nonresidential5,801Â 234Â 8.07Â %6,424Â 302Â 9.41Â %Total loans(1)1,861,614Â 51,771Â 5.56Â %1,849,493Â 48,382Â 5.23Â %Investment securities(2)(3)213,325Â 2,259Â 2.12Â %308,072Â 3,012Â 1.96Â %Interest-bearing deposits at other financial institutions28,496Â 773Â 5.46Â %46,606Â 1,146Â 4.96Â %Total interestâ€'earning assets and interest income$2,103,435Â $54,803Â 5.21Â %$2,204,172Â $52,540Â 4.77Â %Non-interestâ€'earning assets:Cash and due from banks5,880Â 5,874Â Premises and equipment, net978Â 1,180Â Accrued interest and other assets73,739Â 95,670Â Allowance for credit losses(18,907)(18,061)Total assets$2,165,125Â $2,288,835Â Liabilities and Stockholders' EquityInterest â€' bearing liabilities:Interest â€' bearing deposits:Interest checking$524,497Â $8,565Â 3.28Â %$525,637Â $6,461Â 2.48Â %Savings and money markets317,499Â 5,589Â 3.54Â %268,867Â 2,763Â 2.07Â %Time deposits293,891Â 6,310Â 4.32Â %347,972Â 5,742Â 3.33Â %Wholesale deposits277,619Â 4,971Â 3.60Â %314,706Â 5,827Â 3.73Â %Total interest â€' bearing deposits1,413,506Â 25,435Â 3.62Â %1,457,182Â 20,793Â 2.88Â %Other borrowed funds103,794Â 2,387Â 4.62Â %143,735Â 2,827Â 3.97Â %Subordinated notes, net of issuance costs19,632Â 514Â 5.27Â %19,577Â 515Â 5.30Â %Total interestâ€'bearing liabilities and interest expense$1,536,932Â $28,336Â 3.71Â %$1,620,494Â $24,135Â 3.00Â %Non-interestâ€'bearing liabilities:Demand deposits379,199Â 437,161Â Other liabilities27,015Â 24,768Â Common stockholders' equity221,979Â 206,412Â Total liabilities and stockholders' equity$2,165,125Â $2,288,835Â Net interest income and net interest margin$26,468Â 2.53Â %$28,405Â 2.60Â %_________________________(1)Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the periods presented. Net loan fees and late charges included in interest income on loans totaled $792 thousand and $921 thousand for the six months ended June 30, 2024 and 2023, respectively. (2)The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 22% for JuneÂ 30, 2024 and JuneÂ 30, 2023.(3)The average balances for investment securities includes restricted stock.48The following table shows the effect of variations in the volume and mix of our assets and liabilities, as well as the changes in interest rates had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities for the six months ended June 30, 2024.Rate and Volume AnalysisFor the Six months ended June 30, 2024 and 2023(Dollars in thousands)2024 Compared to 2023AverageVolumeAverageRateIncrease(Decrease)Interest income:Loans(1):Commercial real estate(444)1,579Â $1,135Â Commercial and industrial1,459Â 741Â 2,200Â Commercial construction93Â 124Â 216Â Consumer residential25Â 243Â 268Â Warehouse facilities(396)33Â (363)Consumer nonresidential(29)(39)(68)Total loans(1)$708Â $2,681Â $3,388Â Investment securities(2)(929)173Â $(755)Deposits at other financial institutions and federal funds soldÂ Â Â (451)71Â (373)Total interest income(672)2,935Â $2,263Â Interest expense:Interest - bearing deposits:Interest checking(15)2,119Â 2,104Â Savings and money markets500Â 2,326Â 2,825Â Time deposits(897)1,465Â 568Â Wholesale deposits(689)(167)(856)Total interest - bearing deposits$(1,101)$5,741Â $4,640Â Other borrowed funds(775)335Â (440)Subordinated notes, net of issuance costsâ€”Â (1)1Â Total interest expense$(1,876)$6,075Â $4,202Â Net interest income$1,204Â $(3,140)$(1,937)_________________________(1)Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.(2)The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 22% for JuneÂ 30, 2024 and JuneÂ 30, 2023.49Net interest income for the six months ended JuneÂ 30, 2024 and JuneÂ 30, 2023, was $26.5 million and $28.4Â million, respectively, a decrease of $1.9 million, or 7%. The decrease in net interest income is primarily due to an increase in funding costs, which have increased significantly over the last 12 months.Average earning assets decreased $100.7Â million to $2.10Â billion during the six months ended JuneÂ 30, 2024 as compared to $2.20Â billion for the same period of 2023, which is primarily related to our sales of investment securities available-for-sale completed during 2023. Interest income for the six months ended JuneÂ 30, 2024 increased $2.3 million to $54.8 million from $52.5 million for the six months ended June 30, 2023. Loan interest income during the first half of 2024 increased $3.4 million as compared to the year ago six month period primarily as a result of the increase in yields earned on the loan portfolio. Income from investment securities decreased $754 thousand for the six months ended JuneÂ 30, 2024 compared to the same period of 2023, primarily as a result of the sales of investment securities executed during 2023. Income from deposits at other financial institutions decreased $373 thousand year-over-year, as excess liquidity was used to fund loan originations and paydown costly wholesale fundings.Total average interest-bearing deposits decreased $43.7 million to $1.41 billion for the six months ended JuneÂ 30, 2024 compared to $1.46 billion for the six months ended JuneÂ 30, 2023. Average noninterest-bearing deposits decreased $58.0 million to $379.2 million for the six months ended JuneÂ 30, 2024 compared to $437.2 million for the same period of 2023. Average wholesale deposits decreased $37.1 million to $277.6 million for the six months ended JuneÂ 30, 2024 compared to $314.7 million for the same period in 2023. Average other borrowed funds, which include federal funds purchased and FHLB advances, decreased $40.0 million to $103.8 million at JuneÂ 30, 2024 compared to $143.7 million at JuneÂ 30, 2023. Interest expense for the six months ended JuneÂ 30, 2024 increased $4.2 million to $28.3 million from $24.1 million for the six months ended JuneÂ 30, 2023. Deposit interest expense for the year-to-date period of 2024 increased $4.6 million compared to the year ago six month period primarily as a result of increased interest rates paid on deposits.Our net interest margin, on a tax equivalent basis, for the six months ended JuneÂ 30, 2024 and 2023 was 2.53% and 2.60% respectively. The decrease in our net interest margin was primarily a result of the increase in the cost of our interest-bearing liabilities during 2024 compared to 2023, a result of the increased interest rate environment. The yield on interest-earning assets increased 44 basis points to 5.21% for the six months ended JuneÂ 30, 2024, compared to 4.77% for the same period of 2023. The average yield of the loan portfolio for the six month periods ended JuneÂ 30, 2024 and 2023 was 5.56% and 5.23%, respectively, an increase of 33 basis points. The cost of interest-bearing deposits increased 74 basis points to 3.62% for the six months ended JuneÂ 30, 2024, compared to 2.88% for the same period of 2023, which was primarily attributable to the repricing of our interest-bearing deposits due to higher interest rates. Cost of deposits (which includes noninterest-bearing deposits) was 2.84% for the six months ended June 30, 2024 compared to 2.20% for the same six month period of 2023. Cost of other borrowed funds increased 65 basis points to 4.62% for the six months ended JuneÂ 30, 2024 compared to 3.97% for the six months ended JuneÂ 30, 2023.Average balances of nonperforming loans, which include nonaccrual loans, are included in the net interest margin calculation and did not have a material impact on our net interest margin in 2024 and 2023.Provision Expense and Allowance for Credit LossesOur policy is to maintain the ACL at a level that represents our best estimate of expected losses in the loan portfolio as of the valuation date. Both the amount of the provision and the level of the allowance for credit losses are impacted by many factors, including general and industry-specific economic conditions, actual and expected credit losses, historical trends and specific conditions of individual borrowers. We recorded a provision for credit losses of $206 thousand for each of the three and six months ended June 30, 2024 compared to $618 thousand and $860Â thousand for the three and six months ended June 30, 2023. The allowance for credit losses was $19.2 million and $18.9Â million at JuneÂ 30, 2024 and at December 31, 2023, respectively. Our allowance for credit losses on loans as a percent of total loans, net of deferred fees and costs, was 1.02% at both June 30, 2024 and December 31, 2023.We lend to well-established and relationship-driven borrowers which has contributed to our track record of low historical credit losses. We continue to maintain our disciplined credit guidelines during the current rate environment. We proactively monitor the impact of interest rates on our adjustable loans as the industry navigates through this economic cycle of increased inflation and higher interest rates. Nonperforming loans for the three months ended June 30, 2024 totaled $3.2 million, or 0.13% of total assets, compared to $1.8 million, or 0.08%, of total assets at December 31, 2023. We 50had no other real estate owned at JuneÂ 30, 2024 and at December 31, 2023. We recorded net recoveries of $5 thousand during the second quarter of 2024 compared to net charge-offs of $356 thousand for same period of 2023. For the six months ended JuneÂ 30, 2024 and 2023, we recorded net recoveries of $35 thousand and net charge-offs of $333 thousand, respectively.See â€œAsset Qualityâ€ below for additional information on the credit quality of the loan portfolio. Noninterest IncomeThe following table provides detail for noninterest income for the three and six months ended June 30, 2024 and 2023.Noninterest IncomeFor the Three and Six Months Ended June 30, 2024 and 2023(Dollars in thousands)For the Three Months Ended June 30,For the Six Months Ended June 30,20242023Change from Prior Year20242023Change from Prior YearAmountPercentAmountPercentService charges on deposit accounts$278Â $232Â $46Â 19.8Â %$539Â $447Â $92Â 20.6Â %Fees on loans38Â 169Â (131)(77.5)%87Â 246Â (159)(64.6)%BOLI income66Â 362Â (296)(81.8)%256Â 694Â (438)(63.1)%Income (loss) from minority membership interest351Â 20Â 331Â 1655.0Â %148Â (781)929Â (119.0)%Loss on sale of available-for-sale securitiesâ€"Â â€"Â â€"Â â€"Â %â€"Â (4,592)4,592Â (100.0)%Other fee income138Â 108Â 30Â 27.8Â %236Â 250Â (14)(5.6)%Total noninterest income (loss)$871Â $891Â $(20)(2.2)%$1,266Â $(3,736)$5,002Â (133.9)%Noninterest income includes service charges on deposits and loans, loan swap fee income, income from our membership interest in ACM and other investments, income from our BOLI policies, and other fee income, and continues to supplement our operating results. Non-interest income was $871 thousand for the three months ended June 30, 2024 compared to $891 thousand for same period of 2023. For the six months ended June 30, 2024, we recorded noninterest income of $1.3 million compared to a loss of $3.7Â million for same period of 2023.We recorded income from our minority membership interest in ACM, totaling $351 thousand and $148 thousand for the three and six months ended June 30, 2024, compared to income of $20 thousand and loss of $781 thousand for the three and six months ended June 30, 2023. Fee income from loans was $38Â thousand for the three months ended June 30, 2024, compared to $169Â thousand for the same period of 2023, which included income from back-to-back loan swap transactions entered into during the second quarter of 2023. Service charges on deposits was $278Â thousand for the three months ended June 30, 2024, compared to $232Â thousand for the same period of 2023. Income from BOLI decreased to $66Â thousand for the three months ended June 30, 2024 as compared to $362Â thousand for the three months ended June 30, 2023, a result of surrendering our BOLI policies during the first quarter of 2024.Fee income from loans was $87Â thousand for the six months ended June 30, 2024, compared to $246Â thousand for the same period of 2023. Service charges on deposits was $539Â thousand for the six months ended June 30, 2024, compared to $447Â thousand for the same period of 2023, an increase of $93 thousand, or 21%. Income from BOLI decreased to $256Â thousand for the six months ended June 30, 2024 as compared to $694Â thousand for the six months ended June 30, 2023, a result of surrendering our BOLI policies during the first quarter of 2024. 51Noninterest ExpenseThe following table reflects the components of noninterest expense for the three and six months ended June 30, 2024 and 2023.Noninterest ExpenseFor the Three and Six Months Ended June 30, 2024 and 2023(Dollars in thousands)For the Three Months Ended June 30,For the Six Months Ended June 30,20242023Change from Prior Year20242023Change from Prior YearAmountPercentAmountPercentSalaries and employee benefits$4,690Â $5,092Â $(402)(7.9)%$9,221Â $10,107Â $(886)(8.8)%Occupancy expense515Â 610Â (95)(15.6)%1,037Â 1,238Â (201)(16.2)%Internet banking and software expense730Â 583Â 147Â 25.2Â %1,424Â 1,144Â 280Â 24.5Â %Data processing and network administration667Â 611Â 56Â 9.2Â %1,302Â 1,233Â 69Â 5.6Â %State franchise taxes590Â 584Â 6Â 1.0Â %1,179Â 1,169Â 10Â 0.9Â %Audit, legal and consulting fees228Â 247Â (19)(7.7)%471Â 431Â 40Â 9.3Â %Loan related expenses223Â 116Â 107Â 92.2Â %445Â 388Â 57Â 14.7Â %FDIC insurance376Â 357Â 19Â 5.3Â %721Â 537Â 184Â 34.3Â %Marketing, business development and advertising262Â 206Â 56Â 27.2Â %466Â 360Â 106Â 29.4Â %Director fees180Â 180Â â€"Â â€"Â %315Â 360Â (45)(12.5)%Postage, courier and telephone50Â 47Â 3Â 6.4Â %94Â 96Â (2)(2.1)%Core deposit intangible amortization42Â 52Â (10)(19.2)%87Â 107Â (20)(18.7)%Tax credit amortizationâ€"Â 32Â (32)(100.0)%â€"Â 63Â (63)(100.0)%Other operating expenses443Â 486Â (43)(8.8)%859Â 980Â (121)(12.3)%Total noninterest expense$8,996Â $9,203Â $(207)(2.2)%$17,621Â $18,213Â $(592)(3.3)%Noninterest expense includes, among other things, salaries and benefits, occupancy and equipment costs, professional fees, data processing, insurance and miscellaneous expenses. Noninterest expense was $9.0 million and $9.2 million for the three months ended June 30, 2024 and 2023, respectively. Salaries and benefits expense decreased $402Â thousand to $4.7Â million for the three months ended June 30, 2024 compared to $5.1 million for the same period in 2023, a result of reduced staffing through process improvement resulting from the use of improved technologies. Occupancy expense decreased by $95Â thousand, primarily as a result of the office space reduction efforts that were completed during the fourth quarter of 2023. These decreases were partially offset by an increase in internet banking and software expense of $147 thousand for the three months ended June 30, 2024 to $730Â thousand, as compared to $583Â thousand for the same period in 2023, a result of the implementation of enhanced customer software solutions. In addition, loan related expenses increased $107 thousand for the three months ended June 30, 2024 compared to the same period in 2023, a result of recovered loan legal expenses recorded during 2023.Noninterest expense was $17.6 million and $18.2 million for the six months ended June 30, 2024 and 2023, respectively. Salaries and benefits expense decreased $886Â thousand to $9.2Â million for the six months ended June 30, 2024 compared to $10.1 million for the same period in 2023, which was primarily related to reduced staffing for the six months ended June 30, 2024 compared to the same period of 2023. Occupancy expense decreased by $201Â thousand for the six months ended June 30, 2024 as compared to the same period of 2023, which was primarily related to the office space reduction initiatives that were completed during the fourth quarter of 2023. These decreases were partially offset by an increase in internet banking and software expense of $280 thousand for the six months ended June 30, 2024 to $1.4Â million, compared to $1.1Â million for the same period in 2023, a result of the implementation of enhanced customer software solutions during 2023. Lastly, Federal Deposit Insurance Corporation ("FDIC") insurance premium expense increased 52$184Â thousand for the six months ended June 30, 2024 compared to the same period in 2023, primarily a result of a decrease in wholesale deposits, which increased the calculation base during 2023.Income TaxesWe recorded a provision for income tax expense of $1.2Â million for each of the three months ended June 30, 2024 and June 30, 2023. The effective tax rate for the three months ended June 30, 2024 and 2023 was 22.2% and 22.4%, respectively.For the six months ended June 30, 2024 and 2023, provision for income taxes was $4.4 million and $739 thousand, respectively. Provision for income taxes for the six months ended June 30, 2024 includes $2.4 million in taxes and penalties related to the surrender of our BOLI policies. Provision for income taxes for the six months ended June 30, 2023 were decreased as a result of the losses recorded on the sale of investment securities available-for-sale during 2023.Discussion and Analysis of Financial ConditionOverviewAt JuneÂ 30, 2024, total assets were $2.30Â billion, an increase of 5.0%, or $108.6Â million, from $2.19Â billion at DecemberÂ 31, 2023. Investment in debt securities were $162.4Â million at JuneÂ 30, 2024, a decrease of $9.4Â million, from $171.9Â million at DecemberÂ 31, 2023. Total deposits increased 7%, or $123.5Â million, to $1.97Â billion at JuneÂ 30, 2024, from $1.85Â billion at DecemberÂ 31, 2023. From time to time, we may utilize other funding sources such as federal funds purchased and FHLB advances as an additional funding source for the Bank. We had no federal funds purchased at JuneÂ 30, 2024 and DecemberÂ 31, 2023. The Bank had FHLB advances outstanding of

$50.0 million and $85.0Â million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. Subordinated debt, net of unamortized issuance costs, totaled $19.7Â million and $19.6Â million at JuneÂ 30, 2024 and DecemberÂ 31, 2023. Loans Receivable, NetLoans receivable, net of deferred fees, were $1.89Â billion at JuneÂ 30, 2024 and $1.83Â billion at DecemberÂ 31, 2023, an increase of $58.4Â million, or 3%. During the second quarter of 2024, commercial loan originations totaled $41.1 million with a weighted average rate of 8.38%, loan renewals totaled $15.4 million with a weighted average rate of 8.95%, and repayments of loans totaled $42.5 million with a weighted average rate of 6.39%.Commercial real estate loans totaled $1.08Â billion and $1.09Â billion at JuneÂ 30, 2024 and DecemberÂ 31, 2023, and were approximately 57% and 60% of the total loans receivable at such dates, respectively. Owner-occupied commercial real estate loans were $204.5 million at JuneÂ 30, 2024 compared to $212.9 million at DecemberÂ 31, 2023. Nonowner-occupied commercial real estate loans were $879.0 million at JuneÂ 30, 2024 compared to $878.7 million at DecemberÂ 31, 2023. Commercial construction loans totaled $164.7Â million at JuneÂ 30, 2024, compared to $148.0Â million at DecemberÂ 31, 2023 and comprised of 8% of total loans receivable at such dates, respectively. Our regulatory commercial real estate concentration (which includes nonowner-occupied real estate and construction loans) was 393% of our total risk based capital at JuneÂ 30, 2024. Our commercial real estate portfolio, including construction loans, is diversified by asset type and geographic concentration. We manage this portion of our portfolio in a disciplined manner. We have comprehensive policies to monitor, measure, and mitigate our loan concentrations within this portfolio segment, including rigorous credit approval, monitoring and administrative practices. Additional information on the stratification of these portfolio segments can be found below under "Asset Quality".The following table presents the composition of our loans receivable portfolio at JuneÂ 30, 2024 and DecemberÂ 31, 2023.53Loans ReceivableAt JuneÂ 30, 2024 and DecemberÂ 31, 2023(Dollars in thousands)June 30, 2024December 31, 2023Commercial real estate$1,083,481Â $1,091,633Â Commercial and industrial293,346Â 219,873Â Commercial construction164,736Â 147,998Â Consumer real estate339,146Â 363,317Â Consumer nonresidential6,220Â 5,743Â Total loans, net of fees1,886,929Â 1,828,564Â Less:Â Allowance for credit losses on loans19,208Â 18,871Â Loans receivable, net$1,867,721Â $1,809,693Â Asset QualityNonperforming loans, defined as nonaccrual loans and loans contractually past due 90 days or more as to principal or interest and still accruing, were $3.2 million and $1.8 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively, an increase of $1.4 million. Loans that we have classified as nonperforming are a result of customer specific deterioration, mostly financial in nature, that are not a result of economic, industry, or environmental causes that we might see as a pattern for possible future losses within our loan portfolio. For each of our criticized assets, we individually evaluate each loan, generally through the performance of a collateral analysis to determine the amount of allowance required. As a result of the analysis completed, we had specific reserves totaling $679 thousand and $676 thousand at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. Our ratio of nonperforming loans to total assets was 0.13% and 0.08% at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. We had no other real estate owned and there were no loan modifications for borrowers who were experiencing financial difficulty during the quarter ended JuneÂ 30, 2024. We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. This analysis includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At JuneÂ 30, 2024, we had $10.6 million in loans identified as special mention, an increase of $4.4 million from DecemberÂ 31, 2023. Special mention rated loans have a potential weakness that deserves our close attention; however, the borrower continues to pay in accordance with their contractual terms, unless modified and disclosed. The increase from DecemberÂ 31, 2023 was driven by one loan that was downgraded to special mention during the second quarter of 2024, offset by several loans that were upgraded and paid off. Loans rated as special mention are generally considered to be well-secured, and are not individually evaluated.At JuneÂ 30, 2024 and December 31, 2023, we had $23.0 million in loans identified as substandard, an increase of $555 thousand from December 31, 2023. Substandard rated loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. For each of these substandard loans, a liquidation analysis is completed. At JuneÂ 30, 2024, specific reserves totaling $679 thousand were allocated within the allowance for credit losses to supplement any shortfall of collateral. At December 31, 2023, we downgraded an owner-occupied commercial real estate loan totaling $19.9 million to substandard due to concerns regarding the financial condition of this borrowerâ€™s parent company. Subsequent to the quarter ended June 30, 2024, the parent company obtained long term financing, strengthening its overall financial condition. As a result, we have upgraded this loan to a pass rating. We recorded annualized net charge-offs to average loans receivable of 0.00% for the six months ended JuneÂ 30, 2024, compared to 0.04% for the six months ended June 30, 2023. For the six months ended June 30, 2024, we have 54recorded net recoveries totaling $35 thousand, compared to net charge-offs of $333 thousand for the comparable six month period of 2023. The following table provides additional information on our asset quality for the dates presented. Nonperforming Loans and AssetsAt JuneÂ 30, 2024 and DecemberÂ 31, 2023(Dollars in thousands)June 30, 2024December 31, 2023Nonperforming assets:Â Nonaccrual loans, gross$3,184Â $1,689Â Loans contractually pastâ€'due 90 days or more and still accruing3Â 140Â Total nonperforming loans (NPLs)$3,187Â $1,829Â Total nonperforming assets (NPAs)$3,187Â $1,829Â NPLs/Total Assets0.14Â %0.08Â %NPAs/Total Assets0.14Â %0.08Â %Allowance for credit losses on loans/NPLs602.56Â %1,031.77Â %We are closely and proactively monitoring the effects of recent market activity. As mentioned above, our commercial real estate loan portfolio totaled $1.08 billion, or 57% of total loans, at JuneÂ 30, 2024 and $1.09 billion, or 60% of total loans, at DecemberÂ 31, 2023. The commercial real estate portfolio, including construction loans, is diversified by asset type and geographic concentration. We manage this portion of the portfolio in a disciplined manner, and have comprehensive policies to monitor, measure and mitigate our loan concentrations within this portfolio segment, including rigorous credit approval, monitoring and administrative practices. Included in commercial real estate are loans secured by office buildings totaling $136.4 million, or 7% of total loans, and retail shopping centers totaling $260.8 million, or 14% of total loans, at JuneÂ 30, 2024. Loans secured by multi-family commercial properties totaled $178.2 million, or 9% of total loans, at JuneÂ 30, 2024. The following table provides further stratification of these and additional classes of commercial real estate and construction loans at JuneÂ 30, 2024 (dollars in thousands).55Owner Occupied Commercial Real EstateNon-Owner Occupied Commercial Real EstateConstructionTotal CREAsset ClassAverage Loan-to-Value (1)Number of Total Loans Â Bank Owned Principal (2) Average Loan-to-Value (1)Number of Total Loans Â Bank Owned Principal (2) Â Top 3 Geographic Concentration Number of Total Loans Bank Owned Principal (2)Â Total Bank Owned Principal (2)Â % of Total Loans Office, Class A69%6$7,47646%4$3,717Â Counties of Fairfax and Loudoun, Virginia and Montgomery County, Maryland â€"$â€"$11,193Office, Class B45%3412,14345%2957,324â€"â€"69,467Office, Class C53%85,13839%81,90218737,913Office, Medical39%71,15547%741,51415,12947,798Subtotal55$25,91248$104,4572$6,002$136,3717%Retail- Neighborhood/Community Shopâ€"$â€"44%30$81,612Â Prince George's County, Maryland, Fairfax County, Virginia and Montgomery County, MD2$11,37692,988Retail- Restaurant57%98,08844%1626,456â€"â€"34,544Retail- Single Tenant58%51,96341%2035,691â€"â€"37,654Retail- Anchored,Otherâ€"%0â€"52%1342,957â€"â€"42,957Retail- Grocery-anchoredâ€"â€"46%851,45511,24752,702Subtotal14$10,05187$238,1713$12,623$260,84514%Multi-family, Class A (Market)â€"$â€"â€"%1$â€"Washington, D.C., Baltimore City, Maryland and Richmond City, Virginia1$1,026$1,026Multi-family, Class B (Market)â€"â€"62%2178,360â€"â€"78,360Multi-family, Class C (Market)â€"55%5871,35527,04778,402Multi-Family-Affordable Housingâ€"â€"52%1016,36014,03420,394Subtotal â€"$â€"90$166,0754$12,107$178,1829%Industrial51%41$67,88347%38$125,223Prince William County, Virginia, Fairfax County, Virginia and Howard County, Maryland1$1,041$194,147Warehouse51%1418,45127%89,399â€"â€"27,850Flex50%1518,43654%1456,2262â€"74,662Subtotal70$104,77060$190,8483$1,041$296,65916%Hotelsâ€"$â€"43%9 Use45%105,94560%3666,146â€"â€"72,0914%Land$â€"Â $â€"Â 26$53,660Â $53,6603%1- 4 family construction$â€"Â $â€"Â 2249,265Â 49,2653%Other (including net deferred fees)$57,844$61,389$23,556142,7898%Total commercial real estate and construction loans, net of fees, at June 30, 2024$204,522Â $878,959Â $164,735Â $1,248,216Â 65%Total commercial real estate and construction loans, net of fees, at DecemberÂ 31, 2023$212,889Â $878,744Â $147,998Â $1,239,631Â 68%_________________________(1).Loan-to-value is based on collateral valuation at origination date against current bank owned principal.(2).Minimum debt service coverage policy is 1.30x for owner occupied and 1.25x for non-owner occupied at origination.The loans shown in the above table exhibit strong credit quality, reflecting only one classified delinquency at JuneÂ 30, 2024. During our assessment of the allowance for credit losses on loans, we addressed the credit risks associated with these portfolio segments and believe that as a result of our conservative underwriting discipline at loan origination and our ongoing loan monitoring procedures, we have appropriately reserved for possible credit concerns in the event of a downturn in economic activity. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, there were no performing loans considered potential problem loans. Potential problem loans are defined as loans that are not included in the 90 days or more past due, nonaccrual or restructured categories, but for which known information about possible credit problems causes us to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosure in the past due, nonaccrual or restructured loan categories. We take a conservative approach with respect to risk rating loans in our portfolio. Based upon the status as a potential problem loan, these loans receive heightened scrutiny and ongoing 56intensive risk management. Additionally, our allowance for credit losses on loans estimation methodology adjusts expected losses to calibrate the likelihood of a default event to occur through the use of risk ratings. Unexpected changes in economic growth could adversely affect our loan portfolio, including causing increases in delinquencies and default rates, which would adversely impact our charge-offs, allowance for credit losses, and provision for credit losses. Deterioration in real estate values, employment data and household incomes may also result in higher credit losses for us. Also, in the ordinary course of business, we may be subject to a concentration of credit risk to a particular industry, counterparty, borrower or issuer. A deterioration in the financial condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities could negatively impact our business, perhaps materially, and the systems by which we set limits and monitor the level of our credit exposure to individual entities and industries, may not function as we have anticipated.See â€œCritical Accounting Policiesâ€ above for more information on our allowance for credit losses methodology.The following tables present additional information pertaining to the activity in and allocation of the allowance for credit losses on loans by loan type and the percentage of the loan type to the total loan portfolio for the periods and at the dates presented. The allocation of the allowance for credit losses on loans to a category of loans is not necessarily indicative of future losses or charge-offs, and does not restrict the use of the allowance to any specific category of loans.Allowance for Credit Losses on LoansFor the Three Months Ended and at JuneÂ 30, 2024 and 2023(Dollars in thousands)For the Three Months Ended June 30,20242023Net (charge-offs) recoveriesPercentage of net charge-offs to average loans outstanding during the year Net (charge-offs) recoveriesPercentage of net charge-offs to average loans outstanding during the yearCommercial real estate$â€"Â â€"Â %$â€"Â â€"Â %Commercial and industrialâ€"Â â€"Â %(348)(0.08)%Consumer residentialâ€"Â â€"Â %â€"Â â€"Â %Consumer nonresidential5Â â€"Â %(8)â€"Â %Total$5Â â€"Â %$(356)(0.08)%Average loans outstanding during the period$1,882,342Â $1,867,813Â For the Six Months Ended June 30,20242023Net (charge-offs) recoveriesPercentage of net charge-offs to average loans outstanding during the yearNet (charge-offs) recoveriesPercentage of net charge-offs to average loans outstanding during the yearCommercial real estate$â€"Â â€"Â %$â€"Â â€"Â %Commercial and industrialâ€"Â â€"Â %(347)(0.04)%Consumer residentialâ€"Â â€"Â %1Â â€"Â %Consumer nonresidential35Â â€"Â %13Â â€"Â %Total$35Â â€"Â %$(333)(0.04)%Average loans outstanding during the period$1,861,614Â $1,849,493Â June 30,20242023Allowance for credit losses to loans receivable, net of fees1.02Â %1.02Â %57Allocation of the Allowance for Credit Losses on LoansAt JuneÂ 30, 2024 and DecemberÂ 31, 2023(Dollars in thousands)20242023Allocation% of Total* Allocation% of Total* Commercial real estate$9,986Â 51.99Â %$10,174Â 59.88Â %Commercial and industrial3,598Â 18.73Â %3,385Â 12.07Â %Commercial construction1,590Â 8.28Â %1,425Â 8.13Â %Consumer residential3,962Â 20.63Â %3,822Â 19.61Â %Consumer nonresidential72Â 0.37Â %65Â 0.31Â %Total allowance for credit losses$19,208Â 100.00Â %$18,871Â 100.00Â %___________________*Percentage of loan type to the total loan portfolio.Investment SecuritiesOur investment securities portfolio is used as a source of income and liquidity. The investment portfolio consists of investment securities available-for-sale and investment securities held-to-maturity. Investment securities available-for-sale are those securities that we intend to hold for an indefinite period of time, but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability strategy, liquidity management or regulatory capital management. Investment securities held-to-maturity at JuneÂ 30, 2024 and DecemberÂ 31, 2023 totaled $264Â thousand at both dates, and are those securities that we have the intent and ability to hold to maturity and are carried at amortized cost. The fair value of our investment securities available-for-sale was $162.2Â million at JuneÂ 30, 2024, a decrease of $9.4Â million, or 5%, from $171.6Â million at DecemberÂ 31, 2023, due to principal repayments of $7.4 million during the first half-year of 2024 and a decrease in the market value of the investment securities portfolio totaling $2.0 million at June 30, 2024.As of JuneÂ 30, 2024 and DecemberÂ 31, 2023, the majority of the investment securities portfolio consisted of securities rated AAA by a leading rating agency. Investment securities which carry a AAA rating are judged to be of the best quality and carry the smallest degree of investment risk. All of our mortgage-backed securities are guaranteed by either the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. The effective duration of the investment securities portfolio continues to be slightly over five years, which is within the industry average. Investment securities that were pledged to secure public deposits totaled $10.6 million and $7.2 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. Investment securities that were pledged to secure Federal Reserve Bank of Richmond ("FRB") borrowings totaled $6.1 million at JuneÂ 30, 2024 and none at DecemberÂ 31, 2023.In accordance with ASC 326, we complete periodic assessments on at least a quarterly basis to determine if credit deterioration exists within our investment securities portfolio and if an allowance for credit losses would be required as of a valuation date. For additional details related to management's assessment process, see the â€œCritical Accounting Policiesâ€ section above. As a result of the assessment performed as of JuneÂ 30, 2024, the investment securities with unrealized losses are a result of pricing changes due to recent rising interest rate conditions in the current market environment and not as a result of credit deterioration. Contractual cash flows for agency-backed portfolios are guaranteed and funded by the U.S. government. Municipal securities have third party protective elements and there are no negative indications that the contractual cash flows will not be received when due. We do not intend to sell nor do we believe we will be required to sell any of our investment securities portfolio prior to the recovery of the amortized cost as of the valuation date. As such, no allowance was recognized for our investment securities portfolio as of JuneÂ 30, 2024. We hold restricted investments in equities of the FRB and FHLB. At JuneÂ 30, 2024, we owned $4.1 million in FRB stock and $4.0 million in FHLB stock. At DecemberÂ 31, 2023, we owned $3.6 million in FRB stock and $5.8 million in FHLB stock.58The following table presents the weighted average yields of our investment portfolio for each of the maturity ranges at JuneÂ 30, 2024 and DecemberÂ 31, 2023.Investment Securities by Stated YieldsAt JuneÂ 30, 2024 and DecemberÂ 31, 2023 (Dollars in thousands)At June 30, 2024Within One YearOne to Five YearsFive to Ten YearsOver Ten YearsTotalWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldHeldâ€'toâ€'maturitySecurities of state and local municipalities tax exemptâ€"Â %2.32Â %â€"Â %â€"Â %2.32Â %Total heldâ€'toâ€'maturity securitiesâ€"Â %2.32Â %â€"Â %â€"Â %2.32Â %Availableâ€'forâ€'saleSecurities of U.S. government and federal agenciesâ€"Â 1.75Â 1.55Â â€"Â 1.59Â Securities of state and local municipalities3.00Â â€"Â â€"Â 2.92Â 2.98Â Corporate bondsâ€"Â 10.26Â 4.09Â â€"Â 4.41Â Mortgagedâ€'backed securitiesâ€"Â 2.11Â 3.23Â 1.59Â 1.60Â Total availableâ€'forâ€'sale securities3.00Â %4.51Â %3.31Â %1.59Â %1.88Â %Total investment securities3.00Â %4.34Â %3.31Â %1.59Â %1.88Â %At December 31, 2023Within One YearOne to Five YearsFive to Ten YearsOver Ten YearsTotalWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldWeightedAverageYieldHeldâ€'toâ€'maturitySecurities of state and local municipalities tax exemptâ€"Â %2.32Â %â€"Â %â€"Â %2.32Â %Total heldâ€'toâ€'maturity securitiesâ€"Â %2.32Â %â€"Â %â€"Â %2.32Â %Availableâ€'forâ€'saleSecurities of U.S. government and federal agenciesâ€"Â â€"Â 1.59Â â€"Â 1.59Â Securities of state and local municipalities3.00Â â€"Â â€"Â 2.92Â 2.98Â Corporate bondsâ€"Â 10.35Â 4.09Â â€"Â 4.40Â Mortgagedâ€'backed securitiesâ€"Â 2.11Â 3.22Â 1.60Â 1.61Â Total availableâ€'forâ€'sale securities3.00Â %9.52Â %3.23Â %1.60Â %1.89Â %Total investment securities3.00Â %8.13Â %3.23Â %1.60Â %1.89Â %59Deposits and Other Borrowed FundsThe following table sets forth the average balances of deposits and the percentage of each category to total average deposits for the six months ended June 30, 2024 and 2023:Average Deposit BalanceFor the six months ended June 30, 2024 and 2023(Dollars in thousands)June 30, 2024June 30, 2023Non-interest-bearing demand$379,199Â 21.15Â %$437,161Â 23.08Â %Interest-bearing depositsInterest checking524,497Â 29.26Â %525,637Â 27.75Â %Savings and money markets317,499Â 17.71Â %268,867Â 14.19Â %Certificate of deposits, $100,000 to $249,99989,145Â 4.97Â %81,470Â 4.30Â %Certificate of deposits, $250,000 or more204,746Â 11.42Â %266,502Â 14.07Â %Wholesale deposits277,619Â 15.49Â %314,706Â 16.61Â %Total$1,792,705Â 100.00Â %$1,894,343Â 100.00Â %Total deposits increased

$123.5Â million, or 7%, to $1.97Â billion at JuneÂ 30, 2024 from $1.85Â billion at DecemberÂ 31, 2023. Non-interest-bearing deposits were $373.8Â million at JuneÂ 30, 2024, or 19% of total deposits. At JuneÂ 30, 2024, core deposits, which exclude wholesale deposits, increased $118.9 million from December 31, 2023, or 7%. Time deposits decreased $31.7Â million, or 16%, to $274.7 million at JuneÂ 30, 2024 from DecemberÂ 31, 2023, and were 16% of core deposits. Wholesale deposits were $249.9 million at JuneÂ 30, 2024 compared to $245.3 million at DecemberÂ 31, 2023, an increase of $4.6 million, or 2%. Wholesale deposits are partially fixed at a weighted average rate of 3.40% as we have executed $200.0 million in pay-fixed/receive-floating interest rate swaps to reduce funding costs. In addition, we are a member of the IntraFi Network (â€œIntraFiâ€), which gives us the ability to offer Certificates of Deposit Account Registry Service (â€œCDARSâ€) and Insured Cash Sweep (â€œICSâ€) products to our customers who seek to maximize FDIC insurance protection. When a customer places a large deposit with us for IntraFi, funds are placed into certificates of deposit or other deposit products with other banks in the CDARS and ICS networks in increments of less than $250 thousand so that principal and interest are eligible for FDIC insurance protection. These deposits are part of our core deposit base. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, we had $255.4 million and $254.1 million, respectively, in CDARS reciprocal and ICS reciprocal products. As of JuneÂ 30, 2024, the estimated amount of total uninsured deposits (excluding collateralized deposits) was $643.9 million, or 32.7%, of total deposits. The estimate of uninsured deposits generally represents the portion of deposit accounts that exceed the FDIC insurance limit of $250,000 and is calculated based on the same methodologies and assumptions used for purposes of the Bank's regulatory reporting requirements.60The following table reports maturities of the estimated amount of uninsured certificates of deposit at JuneÂ 30, 2024.Certificates of Deposit Greater than $250,000At JuneÂ 30, 2024(Dollars in thousands)June 30, 2024Three months or less$34,573Over three months through six months26,107Over six months through twelve months19,219Over twelve months83,891$163,790Other borrowed funds, which include federal funds purchased, FHLB advances and Bank Term Funding Program ("BTFP") borrowings, were $57.0 million at JuneÂ 30, 2024 compared to $85.0 million at DecemberÂ 31, 2023, a decrease of $28.0Â million, or 33%. Subordinated debt, net of unamortized issuance costs, totaled $19.7Â million and $19.6 million as of JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, we did not have any federal funds purchased. During the first quarter of 2024, we borrowed $7.0 million from the BTFP. We did not access this facility during 2023. FHLB advances totaled $50.0 million and $85.0Â million, respectively. All of our FHLB advances have pay-fixed/receive-floating interest rate swaps to reduce our funding costs. The weighted average rate of these FHLB advances are 3.60% and 3.21% at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. Total wholesale funding (which includes wholesale deposits, BTFP, and FHLB advances) decreased $23.4 million, or 7%, during 2024 to $306.9 million from $330.3 million at DecemberÂ 31, 2023. Capital ResourcesCapital adequacy is an important measure of financial stability and performance. Our objectives are to maintain a level of capitalization that is sufficient to sustain asset growth and promote depositor and investor confidence.Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profile of the financial institution. The minimum capital requirements for the Bank are: (i) a common equity Tier 1 ("CET1") capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. Additionally, a capital conservation buffer requirement of 2.5% of risk-weighted assets is designed to absorb losses during periods of economic stress and is applicable to the Bankâ€™s CET1 capital, Tier 1 capital and total capital ratios. Including the conservation buffer, we currently consider the Bankâ€™s minimum capital ratios to be as follows: 7.00% for CET1; 8.50% for Tier 1 capital; and 10.50% for total capital. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the minimum plus the conservation buffer will face constraints on dividends, equity repurchases, and compensation. Stockholders' equity at JuneÂ 30, 2024 was $226.5Â million, an increase of $9.4Â million, compared to $217.1Â million at DecemberÂ 31, 2023. Net income for the period ended June 30, 2024 contributed $5.5 million to the increase in stockholder's equity. Accumulated other comprehensive loss decreased $2.0 million during the period ended June 30, 2024, which is primarily related to the improvement in the market value of our interest rate swaps.Total stockholders' equity to total assets for JuneÂ 30, 2024 and DecemberÂ 31, 2023 were each 9.9%. Tangible book value per share (a non-GAAP financial measure which is defined in the table below) at JuneÂ 30, 2024 and DecemberÂ 31, 2023 was $12.04 and $11.77, respectively. As noted above, regulatory capital levels for the Bank meets those established for "well capitalized" institutions. While we are currently considered "well capitalized," we may from time to time find it necessary to access the capital markets to meet our growth objectives or capitalize on specific business opportunities.As the Company is a bank holding company with less than $3.00 billion in assets, and which does not (i) conduct significant off-balance sheet activities, (ii) engage in significant non-banking activities, or (iii) have a material amount of securities registered under the Securities Exchange Act of 1934 (the â€œExchange Actâ€), it is not currently subject to risk-61based capital requirements adopted by the Federal Reserve, pursuant to the small bank holding company policy statement. The Federal Reserve has not historically deemed a bank holding company ineligible for application of the small bank holding company policy statement solely because its common stock is registered under the Exchange Act. There can be no assurance that the Federal Reserve will continue this practice.On January 1, 2020, the federal banking agencies adopted a â€œCommunity Bank Leverage Ratio" ("CBLR"), which is calculated by dividing tangible equity capital by average consolidated total assets. If a â€œqualified community bank,â€ generally a depository institution or depository institution holding company with consolidated assets of less than $10.00 billion, opts into the CBLR framework and has a leverage ratio that exceeds the CBLR threshold, which was initially set at 9%, then such bank will be considered to have met all generally applicable leverage and risk based capital requirements under Basel III, the capital ratio requirements for â€œwell capitalizedâ€ status under Section 38 of the Federal Deposit Insurance Act, and any other leverage or capital requirements to which it is subject. A bank or holding company may be excluded from qualifying community bank status based on its risk profile, including consideration of its off-balance sheet exposures; trading assets and liabilities; total notional derivatives exposures; and such other facts as the appropriate federal banking agencies determine to be appropriate. At January 1, 2020, we qualified and adopted this simplified capital structure. Effective September 30, 2022, we opted out of the CBLR framework. A banking organization that opts out of the CBLR framework can subsequently opt back into the CBLR framework if it meets the criteria listed above. We believe that the Bank met all capital adequacy requirements to which it was subject as of JuneÂ 30, 2024 and DecemberÂ 31, 2023.The following tables shows the minimum capital requirements and our capital position at JuneÂ 30, 2024 and December 31, 2023 for the Bank.Bank Capital ComponentsAt JuneÂ 30, 2024 and DecemberÂ 31, 2023(Dollars in thousands)ActualMinimum Capital Requirement (1)Minimum to be Well Capitalized Under Prompt Corrective ActionAmountRatioAmountRatioAmountRatioAt June 30, 2024Total risk-based capital$267,956Â 14.13Â %$199,057Â >10.50Â %$189,578Â >10.00Â %Tier 1 risk-based capital248,242Â 13.09Â %161,141Â >8.50Â %151,662Â >8.00Â %Common equity tier 1 capital248,242Â 13.09Â %132,704Â >7.00Â %123,226Â >6.50Â %Leverage capital ratio248,242Â 11.31Â %86,612Â >4.00Â %108,264Â >5.00Â %At December 31, 2023Total risk-based capital$261,403Â 13.83Â %$198,413Â >10.50Â %$188,965Â >10.00Â %Tier 1 risk-based capital241,930Â 12.80Â %160,620Â >8.50Â %151,172Â >8.00Â %Common equity tier 1 capital241,930Â 12.80Â %132,275Â >7.00Â %122,827Â >6.50Â %Leverage capital ratio241,930Â 10.77Â %89,842Â >4.00Â %112,302Â >5.00Â %_______________________(1).Includes capital conservation buffer.62Reconciliation of Book Value (GAAP) to Tangible Book Value (non-GAAP)At JuneÂ 30, 2024 and DecemberÂ 31, 2023(Dollars in thousands, except per share data)20242023Total stockholders' equity (GAAP)$226,491$217,117Less: goodwill and intangibles, net(7,497)(7,585)Tangible Common Equity (non-GAAP)$218,994$209,532Book value per common share (GAAP)$12.45$12.19Less: intangible book value per common share (0.41)(0.42)Tangible book value per common share (non-GAAP)$12.04$11.77LiquidityLiquidity in the banking industry is defined as the ability to meet the demand for funds of both depositors and borrowers. We must be able to meet these needs by obtaining funding from depositors or other lenders or by converting non-cash items into cash. The objective of our liquidity management program is to ensure that we always have sufficient resources to meet the demands of our depositors and borrowers. Stable core deposits and a strong capital position provide the base for our liquidity position. We believe we have demonstrated our ability to attract deposits because of our convenient branch locations, personal service, technology and pricing. As of JuneÂ 30, 2024, estimated uninsured deposits (excluding collateralized deposits) for the Bank increased to 32.7% of total deposits from 31.1% at DecemberÂ 31, 2023. In addition to deposits, we have access to the various wholesale funding markets. These markets include the brokered certificate of deposit market and the federal funds market. We are a member of the IntraFi Network, which allows banking customers to access FDIC insurance protection on deposits through the Bank which exceed FDIC insurance limits. As part of our membership with the IntraFi Network, we have one-way authority for both their CDARs and ICS products which provides the Bank the ability to access additional wholesale funding as needed. We also maintain secured lines of credit with the FRB and the FHLB for which we can borrow up to the allowable amount for the collateral pledged. Having diverse funding alternatives reduces our reliance on any one source for funding. Liquid assets, which include cash and due from banks, federal funds sold and investment securities available for sale, totaled $326.7 million at JuneÂ 30, 2024, or 14% of total assets, an increase from $232.1 million, or 11% of total assets, at DecemberÂ 31, 2023. As of JuneÂ 30, 2024 and DecemberÂ 31, 2023, $16.7 million and $7.2 million, respectively, in investment securities available for sale were pledged as collateral for municipal deposits and BTFP. Cash flow from amortizing assets or maturing assets also provides funding to meet the needs of depositors and borrowers.Secondary Liquidity Available and In UseAt JuneÂ 30, 2024(Dollars in millions)Liquidity in UseLiquidity AvailableFHLB secured borrowings (1)$130$541FRB discount window secured borrowings (2)â€”Â 161BTFP (3)7Â 7Unsecured federal fund purchase linesâ€”Â 185Total$137$894_______________________(1) The Bank has pledged a portion of the commercial real estate and residential loan portfolio to the FHLB to secure the line of credit. The Bank has obtain a letter of credit of $80 million to secure public funds.63(2) The Bank has pledged a portion of the commercial and industrial loan portfolio to the FRB to secure the line of the credit. (3) The Bank has pledged a portion of the securities portfolio to the FRB to secure the line of credit. The BTFP program ended in March 2024.We have established a formal liquidity contingency plan which establishes a liquidity management team and provides guidelines for liquidity management. For our liquidity management program, we first determine our current liquidity position and then forecast liquidity based on anticipated changes in the balance sheet. In this forecast, we expect to maintain a liquidity cushion. We also stress test our liquidity position under several different stress scenarios, from moderate to severe. Guidelines for the forecasted liquidity cushion and for liquidity cushions for each stress scenario have been established. We believe that we have sufficient resources to meet our liquidity needs.Liquidity is essential to our business. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash, including deposits. This situation may arise due to circumstances that we may be unable to control, such as general market disruption, negative views about the financial services industry generally, or an operational problem that affects a third party or us. Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events. While we believe we have a healthy liquidity position and do not anticipate the loss of deposits of any of the significant deposit customers, any of the factors discussed above could materially impact our liquidity position in the future.Financial Instruments with Off-Balance-Sheet Risk and Credit RiskWe are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.The Bankâ€™s maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. We evaluate each customerâ€™s credit worthiness on a case-by-case basis and require collateral to support financial instruments when deemed necessary. The amount of collateral obtained upon extension of credit is based on our evaluation of the counterparty. Collateral held varies but may include deposits held by us, marketable securities, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates up to one year or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. These instruments represent obligations to extend credit or guarantee borrowings and are not recorded on the consolidated statements of financial condition. The rates and terms of these instruments are competitive with others in the market in which we do business.Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which we have committed.Standby letters of credit are conditional commitments we issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. We hold certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.With the exception of these off-balance sheet arrangements, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, changes in financial condition, revenue, expenses, capital expenditures, or capital resources, that is material to our business. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, unused commitments to fund loans and lines of credit totaled $208.2Â million and $252.5Â million, respectively. Commercial and standby letters of credit totaled $25.8Â million at JuneÂ 30, 2024 and $26.0 million at DecemberÂ 31, 2023, respectively.64Item 3. Quantitative and Qualitative Disclosures About Market RiskNot required.Item 4. Controls and ProceduresThe Company maintains disclosure controls and procedures (as defined in Rule 13a - 15(e) under the Exchange Act). As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Companyâ€™s disclosure controls and procedures was carried out under the supervision and with the participation of the Companyâ€™s management, including its chief executive officer and chief financial officer. Based on and as of the date of such evaluation, these officers concluded that the Companyâ€™s disclosure controls and procedures were effective.The Company also maintains a system of internal accounting controls that is designed to provide assurance that assets are safeguarded and that transactions are executed in accordance with managementâ€™s authorization and are properly recorded. This system is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel, and an internal audit program to monitor its effectiveness. There were no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that materially affected, or are likely to materially affect, our internal controls over financial reporting.PART II â€” OTHER INFORMATIONItem 1. Legal ProceedingsIn the ordinary course of our operations, we become party to various legal proceedings. Currently, we are not party to any material legal proceedings, and no such proceedings are, to managementâ€™s knowledge, threatened against us. Item 1A. Risk FactorsThere have been no material changes in the risk factors from those disclosed in our Annual Report on Form 10-K for the year ended DecemberÂ 31, 2023.65Item 2. Unregistered Sales of Equity Securities and Use of Proceeds(a)Not applicable.(b)On March 21, 2024, we publicly announced that the Board of Directors had renewed the share repurchase program (the "Repurchase Program") that was initiated in 2020. Under the renewed Repurchase Program, we may purchase up to 1,300,000 shares of our common stock, or approximately 8% of our outstanding shares of common stock at December 31, 2023. The Repurchase Program will expire on March 31, 2025, subject to earlier termination of the program by the Board of Directors. No shares were purchased during the three months ended June 30, 2024. Item 3. Defaults Upon Senior Securities(a)None.(b)None.Item 4. Mine Safety DisclosuresNone.Item 5. Other Information(a)None.(b)None.(c)During the fiscal quarter ended June 30, 2024, none of the Companyâ€™s directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408(a) of Regulation S-K).67Item 6. Exhibits31.1Rule 13a-14(a) Certification of Principal Executive Officer31.2Rule 13a-14(a) Certification of Principal Financial Officer32.1Statement of Principal Executive Officer Pursuant to 18 U.S.C. Section 135032.2Statement of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350101The following materials from the Registrantâ€™s Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholdersâ€™ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes.104The cover page from the Companyâ€™s Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in Inline Extensible Business Reporting Language (included with Exhibit 101).68SIGNATURESPursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.FVCBankcorp, Inc.(Registrant)Date: August 13, 2024/s/ David W. PijorDavid W. PijorChairman and Chief Executive Officer(Principal Executive Officer)Date: August 13, 2024/s/ Jennifer L. DeaconJennifer L. DeaconExecutive Vice President and Chief Financial Officer(Principal Financial Officer and Principal Accounting Officer)69DocumentExhibit 31.1CERTIFICATIONI, David W. Pijor, certify that:1.Â Â Â Â I have reviewed this Quarterly Report on Form 10-Q of FVCBankcorp, Inc. for the quarter ended JuneÂ 30, 2024;2.Â Â Â Â 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.Â Â Â Â 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.Â Â Â Â The registrantâ€™s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:(a)Â Â Â Â 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)Â Â Â Â designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;(c)Â Â Â Â evaluated the effectiveness of the registrantâ€™s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and(d)Â Â Â Â disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting; and5.Â Â Â Â The registrantâ€™s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of the registrantâ€™s board of directors (or persons performing the equivalent functions):(a)Â Â Â Â 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 registrantâ€™s ability to record, process, summarize and report financial information; and(b)Â Â Â Â any fraud, whether or not material, that involves management or other employees who have a significant role in the registrantâ€™s internal control over financial reporting.Date: AugustÂ 13, 2024/s/ David W. PijorDavid W. PijorChairman and Chief Executive OfficerDocumentExhibit 31.2CERTIFICATIONI, Jennifer L. Deacon, certify that:1.I have reviewed this Quarterly Report on Form 10-Q of FVCBankcorp, Inc. for the quarter ended JuneÂ 30, 2024;2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material Â Â Â Â Â Â Â Â 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 registrantâ€™s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:a.designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;b.designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;c.evaluated the effectiveness of the registrantâ€™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; andd.disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting; and5.The registrantâ€™s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of the registrantâ€™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 registrantâ€™s ability to record, process, summarize and report financial information; andb.any fraud, whether or not material, that involves management or other employees who have a significant role in the registrantâ€™s internal control over financial reporting.Date: AugustÂ 13, 2024/s/ Jennifer L. DeaconJennifer L. DeaconExecutive Vice President and Chief Financial OfficerDocumentExhibit 32.1STATEMENT OF CHIEF EXECUTIVE OFFICERPURSUANT TO 18 U.S.C. SECTION 1350In connection with the Quarterly Report on Form 10-Q for the quarter ended JuneÂ 30, 2024 (the â€œForm 10-Qâ€) of FVCBankcorp, Inc., I, David W. Pijor, Chairman and Chief Executive Officer, hereby certify pursuant to 18 U.S.C. Â§ 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:(a)Â Â Â Â the Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and(b)Â Â Â Â the information contained in the Form 10-Q fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries as of, and for, the periods presented in the Form 10-Q.Date: AugustÂ 13, 2024/s/ David W. PijorDavid W. PijorChairman and Chief Executive OfficerDocumentExhibit 32.2STATEMENT OF CHIEF FINANCIAL OFFICERPURSUANT TO 18 U.S.C. SECTION 1350In connection with the Quarterly Report on Form 10-Q for the quarter ended JuneÂ 30, 2024 (the â€œForm 10-Qâ€) of FVCBankcorp, Inc., I, Jennifer L. Deacon, Executive Vice President and Chief Financial Officer, hereby certify pursuant to 18 U.S.C. Â§ 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:(a)Â Â Â Â the Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and(b)Â Â Â Â the information contained in the Form 10-Q fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company and its subsidiaries as of, and for, the periods presented in the Form 10-Q.Date: AugustÂ 13, 2024/s/ Jennifer L. DeaconJennifer L. DeaconExecutive Vice President and Chief Financial Officer