REFINITIV

DELTA REPORT

10-Q

JMSB - JOHN MARSHALL BANCORP, IN

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1032
CHANGES	496
DELETIONS	269
ADDITIONS	267

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June September 30, 2023

or

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

For the transition period from ________to ________

Commission File Number: 001-41315

John Marshall Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Virginia	81-5424879
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1943 Isaac Newton Square East
Suite 100
Reston, VA 20190
(Address of Principal Executive Offices)

(703) 584-0840
(Registrant's telephone number)

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

Title of Each Class	Trading symbol	Name of Exchange on which registered
Common Stock, $0.01 par value per share	**JMSB**	**The Nasdaq Stock Market LLC**

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

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

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

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

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

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

As of August 4, 2023 November 3, 2023, there were 14,126,138 14,126,084 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I —FINANCIAL INFORMATION

Item 1. Financial Statements

JOHN MARSHALL BANCORP, INC.

Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 13,938	$ 6,583
Interest-bearing deposits in other banks	115,613	55,016
Total cash and cash equivalents	129,551	61,599
Securities available-for-sale, at fair value	325,271	357,576
Securities held-to-maturity at amortized cost, fair value of $79,634 and $81,161 as of June 30, 2023 and December 31, 2022, respectively	97,453	99,415
Less: Allowance for investment credit losses	—	—
Securities held-to-maturity, net	97,453	99,415
Restricted securities, at cost	4,535	4,425
Equity securities, at fair value	2,695	2,115
Loans, net of unearned income	1,769,801	1,789,508
Less: Allowance for loan credit losses	(20,629)	(20,208)
Loans, net	1,749,172	1,769,300
Bank premises and equipment, net	1,370	1,219
Accrued interest receivable	5,178	5,531
Bank owned life insurance	21,371	21,170
Right of use assets	4,443	4,611
Other assets	23,211	21,274
Total assets	$ 2,364,250	$ 2,348,235
Liabilities and Shareholders' Equity		
Liabilities		

Deposits:		
Non-interest bearing demand deposits	$ 433,931	$ 476,697
Interest-bearing demand deposits	652,638	691,945
Savings deposits	68,013	95,241
Time deposits	891,727	803,857
Total deposits	2,046,309	2,067,740
Federal funds purchased	—	25,500
Federal Reserve Bank borrowings	54,000	—
Subordinated debt	24,666	24,624
Accrued interest payable	2,336	1,035
Lease liabilities	4,733	4,858
Other liabilities	13,236	11,678
Total liabilities	$ 2,145,280	$ 2,135,435
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, par value $0.01 per share; authorized 1,000,000 shares; none issued	$ —	$ —
Common stock, nonvoting, par value $0.01 per share; authorized 1,000,000 shares; none issued	—	—
Common stock, voting, par value $0.01 per share; authorized 30,000,000 shares; issued and outstanding, 14,126,138 shares at June 30, 2023, including 46,291 unvested shares, 14,098,986 shares at December 31, 2022, including 55,185 unvested shares	141	141
Additional paid-in capital	95,380	94,726
Retained earnings	152,024	146,630
Accumulated other comprehensive loss	(28,575)	(28,697)
Total shareholders' equity	$ 218,970	$ 212,800
Total liabilities and shareholders' equity	$ 2,364,250	$ 2,348,235

	September 30, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 7,642	$ 6,583
Interest-bearing deposits in other banks	185,014	55,016
Total cash and cash equivalents	192,656	61,599
Securities available-for-sale, at fair value	169,084	357,576
Securities held-to-maturity at amortized cost, fair value of $75,733 and $81,161 as of September 30, 2023 and December 31, 2022, respectively	96,347	99,415
Less: Allowance for investment credit losses	—	—
Securities held-to-maturity, net	96,347	99,415
Restricted securities, at cost	5,007	4,425
Equity securities, at fair value	2,443	2,115
Loans, net of unearned income	1,820,132	1,789,508
Less: Allowance for loan credit losses	(20,036)	(20,208)
Loans, net	1,800,096	1,769,300
Bank premises and equipment, net	1,264	1,219
Accrued interest receivable	5,701	5,531
Bank owned life insurance	-	21,170
Right of use assets	4,136	4,611
Other assets	21,468	21,274
Total assets	$ 2,298,202	$ 2,348,235
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand deposits	$ 437,880	$ 476,697
Interest-bearing demand deposits	675,819	691,945
Savings deposits	57,408	95,241
Time deposits	810,516	803,857

Total deposits	1,981,623	2,067,740
Federal funds purchased	—	25,500
Federal Reserve Bank borrowings	54,000	—
Subordinated debt	24,687	24,624
Accrued interest payable	2,610	1,035
Lease liabilities	4,415	4,858
Other liabilities	10,300	11,678
Total liabilities	$ 2,077,635	$ 2,135,435
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, par value $0.01 per share; authorized 1,000,000 shares; none issued	$ —	$ —
Common stock, nonvoting, par value $0.01 per share; authorized 1,000,000 shares; none issued	—	—
Common stock, voting, par value $0.01 per share; authorized 30,000,000 shares; issued and outstanding, 14,126,084 shares at September 30, 2023, including 45,871 unvested shares, 14,098,986 shares at December 31, 2022, including 55,185 unvested shares	141	141
Additional paid-in capital	95,510	94,726
Retained earnings	141,886	146,630
Accumulated other comprehensive loss	(16,970)	(28,697)
Total shareholders' equity	$ 220,567	$ 212,800
Total liabilities and shareholders' equity	$ 2,298,202	$ 2,348,235

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.

Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Interest and Dividend Income				
Interest and fees on loans	$ 21,005	$ 17,334	$ 41,430	$ 35,518
Interest on investment securities, taxable	2,140	1,893	4,391	3,273
Interest on investment securities, tax-exempt	15	30	34	60
Dividends	70	64	145	124
Interest on deposits in banks	1,225	234	1,908	325
Total interest and dividend income	$ 24,455	$ 19,555	$ 47,908	$ 39,300
Interest Expense				
Deposits	$ 11,759	$ 1,698	$ 20,318	$ 3,021
Federal funds purchased	—	—	9	—
Federal Home Loan Bank advances	—	12	67	42
Federal Reserve Bank borrowings	338	—	338	—
Subordinated debt	349	537	698	1,013
Total interest expense	$ 12,446	$ 2,247	$ 21,430	$ 4,076

Net interest income	$ 12,009	$ 17,308	$ 26,478	$ 35,224
Provision for (recovery of) credit losses	(868)	—	(1,642)	—
Net interest income after provision for (recovery of) credit losses	$ 12,877	$ 17,308	$ 28,120	$ 35,224
Non-interest Income				
Service charges on deposit accounts	$ 82	$ 84	$ 154	$ 161
Bank owned life insurance	101	95	201	190
Other service charges and fees	314	157	517	294
Losses on sale of available-for-sale securities	—	—	(202)	—
Insurance commissions	50	44	256	265
Gain on sale of government guaranteed loans	23	—	23	—
Other income (loss)	115	(271)	302	(387)
Total non-interest income	$ 685	$ 109	$ 1,251	$ 523
Non-interest Expenses				
Salaries and employee benefits	$ 4,965	$ 4,655	$ 9,877	$ 10,682
Occupancy expense of premises	448	482	918	975
Furniture and equipment expenses	304	341	600	666
Other operating expenses	2,114	2,203	4,206	4,144
Total non-interest expenses	$ 7,831	$ 7,681	$ 15,601	$ 16,467
Income before income taxes	$ 5,731	$ 9,736	$ 13,770	$ 19,280
Income tax expense	1,241	1,854	2,976	3,724
Net income	$ 4,490	$ 7,882	$ 10,794	$ 15,556
Earnings per share, basic	$ 0.32	$ 0.56	$ 0.76	$ 1.11
Earnings per share, diluted	$ 0.32	$ 0.56	$ 0.76	$ 1.10

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Interest and Dividend Income				
Interest and fees on loans	$ 21,925	$ 18,222	$ 63,355	$ 53,740
Interest on investment securities, taxable	1,507	2,323	5,895	5,597
Interest on investment securities, tax-exempt	10	30	45	90
Dividends	75	62	222	185
Interest on deposits in banks	2,746	571	4,654	897
Total interest and dividend income	$ 26,263	$ 21,208	$ 74,171	$ 60,509
Interest Expense				
Deposits	$ 13,273	$ 3,068	$ 33,590	$ 6,090
Federal funds purchased	—	—	10	—
Federal Home Loan Bank advances	—	—	67	42
Federal Reserve Bank borrowings	662	—	1,001	—
Subordinated debt	349	448	1,047	1,461
Total interest expense	$ 14,284	$ 3,516	$ 35,715	$ 7,593
Net interest income	$ 11,979	$ 17,692	$ 38,456	$ 52,916
Provision for (recovery of) credit losses	(829)	—	(2,471)	—
Net interest income after provision for (recovery of) credit losses	$ 12,808	$ 17,692	$ 40,927	$ 52,916
Non-interest Income				
Service charges on deposit accounts	$ 85	$ 79	$ 239	$ 240
Bank owned life insurance	23	255	224	445
Other service charges and fees	160	175	677	469
Losses on sale of available-for-sale securities	(17,114)	—	(17,316)	—
Insurance commissions	54	47	310	312
Gain on sale of government guaranteed loans	27	—	50	—
Non-qualified deferred compensation plan asset gains (losses), net	(60)	(107)	112	(498)
Other income	10	1	140	5
Total non-interest income (loss)	$ (16,815)	$ 450	$ (15,564)	$ 973
Non-interest Expenses				

Salaries and employee benefits	$ 5,052	$ 5,072	$ 14,929	$ 15,754
Occupancy expense of premises	445	461	1,363	1,435
Furniture and equipment expenses	282	323	882	989
Other operating expenses	1,881	2,102	6,087	6,247
Total non-interest expenses	$ 7,660	$ 7,958	$ 23,261	$ 24,425
Income (Loss) before income taxes	$ (11,667)	$ 10,184	$ 2,102	$ 29,464
Income tax expense (benefit)	(1,530)	2,139	1,446	5,863
Net income (loss)	$ (10,137)	$ 8,045	$ 656	$ 23,601
Earnings (loss) per share, basic	$ (0.72)	$ 0.57	$ 0.05	$ 1.69
Earnings (loss) per share, diluted	$ (0.72)	$ 0.57	$ 0.05	$ 1.67

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.

Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net Income	$ 4,490	$ 7,882	$ 10,794	$ 15,556				
Net Income (Loss)					$(10,137)	$ 8,045	$ 656	$ 23,601
Other comprehensive income (loss):								
Unrealized gain (loss) on available-for-sale securities, net of tax of $(893) and $(1,582) for the three months ended June 30, 2023 and June 30, 2022, respectively. Unrealized gain (loss) on available-for-sale securities, net of tax of $6 and $(4,370) for the six months ended June 30, 2023 and June 30, 2022, respectively.	(3,358)	(5,961)	11	(16,449)				
Reclassification adjustment for losses on available-for-sale securities included in net income, net of tax of $(42) for the six months ended June 30, 2023.	—	—	160	—				
Amortization of unrealized gains on securities transferred to held-to-maturity, net of tax of $(6) and $(10) for the three months ended June 30, 2023 and June 30, 2022, respectively. Amortization of unrealized gains on securities transferred to held-to-maturity, net of tax of $(13) and $(21) for the six months ended June 30, 2023 and June 30, 2022, respectively.	(22)	(38)	(49)	(79)				
Unrealized (loss) on available-for-sale securities, net of tax of $(503) and $(3,709) for the three months ended September 30, 2023 and September 30, 2022, respectively. Unrealized (loss) on available-for-sale securities, net of tax of $(500) and $(8,081) for the nine months ended September 30, 2023 and September 30, 2022, respectively.					(1,891)	(13,952)	(1,880)	(30,401)

Reclassification adjustment for losses on available-for-sale securities included in net income, net of tax of $(3,594) for the three months ended September 30, 2023. Reclassification adjustment for losses on available-for-sale securities included in net income, net of tax of $(3,636) for the nine months ended September 30, 2023.					13,520	—	13,680	—
Amortization of unrealized gains on securities transferred to held-to-maturity, net of tax of $(7) and $(10) for the three months ended September 30, 2023 and September 30, 2022, respectively. Amortization of unrealized gains on securities transferred to held-to-maturity, net of tax of $(19) and $(31) for the nine months ended September 30, 2023 and September 30, 2022, respectively.					(24)	(36)	(73)	(115)
Total other comprehensive income (loss)	$ (3,380)	$ (5,999)	$ 122	$ (16,528)	$ 11,605	$(13,988)	$11,727	$(30,516)
Total comprehensive income (loss)	$ 1,110	$ 1,883	$ 10,916	$ (972)	$ 1,468	$ (5,943)	$12,383	$ (6,915)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.

Consolidated Statements of Shareholders' Equity
For the Three Months Ended June 30, 2023 September 30, 2023 and 2022
(In thousands, except share and per share data)
(Unaudited)

	Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accu C Comp (L
Balance, March 31, 2022	13,890,204	$ 139	$ 93,135	$122,510	$ (10,929)	$ 204,855					
Balance, June 30, 2022							13,968,053	$ 140	$ 93,935	$130,383	$
Net income	—	—	—	7,882	—	7,882	—	—	—	8,045	
Other comprehensive loss	—	—	—	—	(5,999)	(5,999)	—	—	—	—	

Cash dividends attributable to changes in common shares through the record date	—	—	—	(9)	—	(9)					
Exercise of stock options	75,562	1	670	—	—	671	43,615	—	492	—	
Restricted stock vesting, net of 43 shares surrendered	2,287	—	—	—	—	—					
Restricted stock vesting, net of 54 shares surrendered							366	—	—	—	
Share-based compensation	—	—	130	—	—	130	—	—	133	—	
Balance, June 30, 2022	13,968,053	$ 140	$ 93,935	$130,383	$ (16,928)	$ 207,530					
Balance, September 30, 2022							14,012,034	$ 140	$ 94,560	$138,428	$
Balance, March 31, 2023	14,076,807	$ 141	$ 95,235	$150,642	$ (25,195)	$ 220,823					
Net income	—	—	—	4,490	—	4,490					
Other comprehensive loss	—	—	—	—	(3,380)	(3,380)					
Balance, June 30, 2023							14,079,847	$ 141	$ 95,380	$152,024	$
Net income (loss)							—	—	—	(10,137)	
Other comprehensive income							—	—	—	—	
Dividend declared on common stock ($0.22 per share)	—	—	—	(3,108)	—	(3,108)	—	—	—	(1)	
Exercise of stock options	750	—	8	—	—	8					
Restricted stock vesting	2,290	—	—	—	—	—					
Restricted stock vesting, net of 54 shares surrendered							366	—	—	—	

Share-based compensation	—	—	137	—	—	137	—	—	130	—	
Balance, June 30, 2023	14,079,847	$ 141	$ 95,380	$152,024	$ (28,575)	$ 218,970					
Balance, September 30, 2023							14,080,213	$ 141	$ 95,510	$141,886	$

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.

Consolidated Statements of Shareholders' Equity

For the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(In thousands, except share and per share data)

(Unaudited)

	Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accu C Comp (L
Balance, December 31, 2021	13,669,772	$ 137	$ 91,107	$117,626	$ (400)	$ 208,470	13,669,772	$ 137	$ 91,107	$117,626	$
Net income	—	—	—	15,556	—	15,556	—	—	—	23,601	
Other comprehensive loss	—	—	—	—	(16,528)	(16,528)	—	—	—	—	(
Dividend declared on common stock ($0.20 per share)	—	—	—	(2,799)	—	(2,799)	—	—	—	(2,799)	
Exercise of stock options	282,034	3	2,559	—	—	2,562	325,649	3	3,051	—	
Restricted stock vesting, net of 43 shares surrendered	16,247	—	—	—	—	—					
Restricted stock vesting, net of 97 shares surrendered							16,613	—	—	—	
Share-based compensation	—	—	269	—	—	269	—	—	402	—	

Balance, June 30, 2022	13,968,053	$ 140	$ 93,935	$130,383	$ (16,928)	$ 207,530					
Balance, September 30, 2022							14,012,034	$ 140	$ 94,560	$138,428	$
Balance, December 31, 2022	14,043,801	$ 141	$ 94,726	$146,630	$ (28,697)	$ 212,800	14,043,801	$ 141	$ 94,726	$146,630	$
Net income	—	—	—	10,794	—	10,794	—	—	—	656	
Adoption of ASC 326 - Financial Instruments - Credit Losses	—	—	—	(2,292)	—	(2,292)	—	—	—	(2,292)	
Other comprehensive income	—	—	—	—	122	122	—	—	—	—	
Dividend declared on common stock ($0.22 per share)	—	—	—	(3,108)	—	(3,108)	—	—	—	(3,108)	
Exercise of stock options	27,375	—	320	—	—	320	27,375	—	320	—	
Restricted stock vesting, net of 33 shares surrendered	8,671	—	—	—	—	—					
Restricted stock vesting, net of 87 shares surrendered							9,037	—	—	—	
Share-based compensation	—	—	334	—	—	334	—	—	464	—	
Balance, June 30, 2023	14,079,847	$ 141	$ 95,380	$152,024	$ (28,575)	$ 218,970					
Balance, September 30, 2023							14,080,213	$ 141	$ 95,510	$141,886	$

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash Flows from Operating Activities		
Net income	$ 10,794	$ 15,556
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	241	298
Right of use asset amortization	616	688
Provision for (recovery of) credit losses	(1,642)	—
Share-based compensation expense	334	269
Net (accretion)/amortization of securities	(131)	146
Fair value adjustment on equity securities	(172)	391
Amortization of debt issuance costs	42	236
Net gains on premises and equipment	(16)	—
Losses on available-for-sale securities	202	—
Deferred tax expense	414	375
Net increase in cash surrender value of life insurance	(201)	(190)
Gain on sale of government guaranteed loans	(23)	—
Changes in assets and liabilities:		
Decrease in accrued interest receivable	353	492
Increase in other assets	(1,774)	(603)
Increase in accrued interest payable	1,301	53
Increase (decrease) in other liabilities	164	(1,124)
Net cash provided by operating activities	$ 10,502	$ 16,587
Cash Flows from Investing Activities		
Net decrease (increase) in loans	$ 19,424	$ (26,184)
Proceeds from sale of government guaranteed loans originally classified as held for investment	288	—
Purchase of available-for-sale securities	—	(173,362)
Purchase of held-to-maturity securities	—	(1,003)
Proceeds from sale of available-for-sale securities	11,511	—
Proceeds from maturities, calls and principal repayments of available-for-sale securities	20,977	26,601
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	1,863	4,109
Net (purchases) redemptions of restricted securities	(110)	534
Net purchases of equity securities	(408)	(620)
Proceeds from sale of premises and equipment	82	—
Purchases of bank premises and equipment	(458)	(121)
Net cash provided by (used in) investing activities	$ 53,169	$ (170,046)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	$ (21,431)	$ 162,188
Net repayment of Federal Home Loan Bank advances	—	(18,000)
Proceeds from Federal Reserve Bank borrowings	54,000	—
Issuance of subordinated debt	—	24,596
Cash dividends paid	(3,108)	(2,799)
Repayment of federal funds purchased	(25,500)	—
Issuance of common stock for share options exercised	320	2,562
Net cash provided by financing activities	$ 4,281	$ 168,547
Net increase in cash and cash equivalents	$ 67,952	$ 15,088
Cash and cash equivalents, beginning of period	61,599	105,799
Cash and cash equivalents, end of period	$ 129,551	$ 120,887

Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 20,088	$ 3,787
Income taxes	4,110	2,360
Supplemental Disclosures of Noncash Transactions		
Unrealized gain (loss) on securities available-for-sale	$ 219	$ (20,819)
Right of use asset obtained in exchange for new operating lease liability	505	56

	Nine months ended September 30,	
	2023	**2022**
Cash Flows from Operating Activities		
Net income	$ 656	$ 23,601
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	364	430
Right of use asset amortization	924	1,033
Provision for (recovery of) credit losses	(2,471)	—
Share-based compensation expense	464	402
Net (accretion)/amortization of securities	(197)	68
Fair value adjustment on equity securities	(112)	498
Amortization of debt issuance costs	63	296
Net gains on premises and equipment	(16)	1
Losses on available-for-sale securities	17,316	—
Deferred tax expense	603	670
Net increase in cash surrender value of life insurance	(224)	(73)
Gain on sale of government guaranteed loans	(50)	—
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(170)	199
Increase in other assets	(3,305)	(732)
Increase (decrease) in accrued interest payable	1,575	(200)
(Decrease) in other liabilities	(2,855)	(1,030)
Net cash provided by operating activities	$ 12,565	$ 25,163
Cash Flows from Investing Activities		
Net (increase) in loans	$ (31,178)	$ (58,645)
Proceeds from sale of government guaranteed loans originally classified as held for investment	586	—
Purchase of available-for-sale securities	—	(206,889)
Purchase of held-to-maturity securities	—	(1,003)
Proceeds from sale of available-for-sale securities	156,011	—
Proceeds from maturities, calls and principal repayments of available-for-sale securities	30,353	41,151
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	2,921	5,712
Net (purchases) redemptions of restricted securities	(582)	530
Net purchases of equity securities	(216)	(542)
Proceeds from bank owned life insurance contracts	21,394	—
Proceeds from sale of premises and equipment	82	—
Purchases of bank premises and equipment	(475)	(142)
Net cash provided by (used in) investing activities	$ 178,896	$ (219,828)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	$ (86,116)	$ 181,788
Net repayment of Federal Home Loan Bank advances	—	(18,000)
Proceeds from Federal Reserve Bank borrowings	54,000	—
Issuance of subordinated debt	—	24,579
Repayment of subordinated debt	—	(25,000)
Cash dividends paid	(3,108)	(2,799)
Repayment of federal funds purchased	(25,500)	—

Issuance of common stock for share options exercised		320		3,054	
Net cash (used in) provided by financing activities	$	(60,404)	$	163,622	
Net increase in cash and cash equivalents	$	131,057	$	(31,043)	
Cash and cash equivalents, beginning of period		61,599		105,799	
Cash and cash equivalents, end of period	$	192,656	$	74,756	
Supplemental Disclosures of Cash Flow Information					
Cash payments for:					
Interest	$	34,076	$	7,497	
Income taxes		4,110		4,387	
Supplemental Disclosures of Noncash Transactions					
Unrealized gain (loss) on securities available-for-sale	$	14,936	$	(38,480)	
Right of use asset obtained in exchange for new operating lease liability		505		56	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

JOHN MARSHALL BANCORP, INC.
Notes to Consolidated Financial Statements
(Dollars in thousands, unless otherwise stated)
(Unaudited)

Note 1— Nature of Business and Summary of Significant Accounting Policies

Nature of Banking Activities

John Marshall Bancorp, Inc. (the “Company”), headquartered in Reston, Virginia, became the registered bank holding company under the Bank Holding Company Act of 1956 for its wholly-owned subsidiary, John Marshall Bank (the “Bank”), on March 1, 2017. This reorganization was completed through a one-for-one share exchange in which the Bank’s shareholders received one share of voting common stock of the Company in exchange for each share of the Bank’s voting common stock. The Company was formed on April 21, 2016 under the laws of the Commonwealth Virginia. The Bank was formed on April 5, 2005 under the laws of the Commonwealth of Virginia and was chartered as a bank on February 9, 2006, by the Virginia Bureau of Financial Institutions. The Bank is a member of the Federal Reserve System and is subject to the rules and regulations of the Virginia Bureau of Financial Institutions, the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and the Federal Deposit Insurance Corporation (“FDIC”). The Bank opened for business on April 17, 2006 and provides banking services to its customers primarily in the Washington, D.C. metropolitan area.

Basis of Presentation

The accounting and reporting policies of John Marshall Bancorp, Inc. conform to generally accepted accounting principles in the United States of America (“GAAP”) and reflect practices of the banking industry. The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and with applicable quarterly reporting regulations of the U.S. Securities and Exchange Commission (“SEC”). They do not include all of the information and notes required by GAAP for complete financial statements. As such, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2022, included in the Company’s 2022 Annual Report on Form 10-K filed with the SEC on March 23, 2023.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions between the Company and the Bank have been eliminated. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan credit losses.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made. The results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results to be expected for any other interim period or for the full year. All amounts and disclosures included in this quarterly report as of December 31, 2022, were derived from the Company's audited consolidated financial statements. Certain items in the prior period financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on prior year net income or shareholders' equity.

Significant Accounting Policies and Estimates

Application of the principles of GAAP and practices within the banking industry requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions, and judgments. Certain policies inherently rely more extensively on the use of estimates, assumptions, and judgments and as such may have a greater possibility of producing results that could be materially different than originally reported.

The Company's significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in Note 1 of the audited financial statements and notes for the year ended December 31, 2022 and are contained in the

Company's 2022 Annual Report on Form 10-K. There have been no significant changes to the application of significant accounting policies since December 31, 2022, except for the following:

Accounting Standards Adopted in 2023

ASU 2016-13: On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326"). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The CECL methodology requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost are presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. At adoption, the after tax impact to retained earnings was a reduction of $(2.3) million based on our evaluation as of that date. This adjustment consisted of increases to the allowance for credit losses on loans, as well as the Company's allowance for unfunded loan commitments.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. The Company did not record an allowance for credit losses for securities classified as available-for-sale or held-to-maturity upon adoption. Refer to Note 2 – Investment Securities for further discussion.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

ASU 2022-02: On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the Financial Accounting Standards Board as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, the amendments require that the Company disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted the standard prospectively and it did not have a material impact on the financial statements.

Allowance for Credit Losses - Held-to-Maturity Securities

The Company estimates expected credit losses on held-to-maturity securities on an individual basis based on a Probability of Default/Loss Given Default ("PD/LGD") methodology primarily using security-level credit ratings. The primary indicators of credit quality for the Company's held-to-maturity portfolio are security type and credit rating, which are influenced by a number of factors including obligor cash flow, geography, seniority, among other factors. The Company's held-to-maturity securities with credit risk are municipal bonds, which had a credit rating of AA or better as of June 30, 2023 September 30, 2023. All other held-to-maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies.

Changes in the allowance for credit loss are recorded as provision for (or recovery of) credit losses in the Consolidated Statements of Income. The Company did not have an allowance for credit losses on held-to-maturity securities as of June 30, 2023 September 30, 2023 or upon adoption of ASC 326. Refer to Note 2 – Investment Securities for further discussion.

Table of Contents

Allowance for Credit Losses - Available-for-Sale Securities

Management evaluates all available-for-sale securities in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specific to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any deficiency is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as a provision for (or recovery of) credit losses in the Consolidated Statements of Income. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At June 30, 2023 September 30, 2023, there was no allowance for credit loss related to the available-for-sale portfolio. Refer to Note 2 – Investment Securities for further discussion.

Accrued interest receivable on available-for-sale securities totaled $864 $535 thousand at June 30, 2023 September 30, 2023 and was excluded from the estimate of credit losses.

Allowance for Credit Losses - Loans

The allowance for loan credit losses represents an amount which, in management's judgment, is adequate to absorb the lifetime expected losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions, and prepayment experience. The allowance for loan credit losses is measured and recorded upon the initial recognition of a financial asset. The allowance for loan credit losses is reduced by charge-offs, net of recoveries of previous losses, and is increased or decreased by a provision for (or recovery of) credit losses, which is recorded in the Consolidated Statements of Income.

The Company is utilizing a discounted cash flow model to estimate its current expected credit losses. For the purposes of calculating its quantitative reserves, the Company has segmented its loan portfolio based on loans which share similar risk characteristics. Within the quantitative portion of the calculation, the Company utilizes at least one or a combination of loss drivers, which may include unemployment rates, home price indices, and/or gross domestic product, to adjust its loss rates over a reasonable and supportable forecast period of one year. A straight-line reversion technique is used for the following four quarters, at which time the Company reverts to historical averages. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider qualitative factors, including but not limited to: variability in the economic forecast, changes in volume and severity of adversely classified loans, changes in concentrations of credit, changes in the nature and volume of the loan segments, factors related to credit administration, and other idiosyncratic risks not embedded in the data used in the model.

Loans that do not share risk characteristics are evaluated on an individual basis. The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The adoption of CECL did not result in a significant change to any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, nonaccrual practices or charge-off policy.

11

Table of Contents

Allowance for Credit Losses – Unfunded Commitments

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. The Company's 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.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for (or recovery of) credit losses in the Consolidated Statements of Income. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the CECL model using the same methodology as the loan portfolio, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

Accrued Interest Receivable

The Company has elected to exclude accrued interest from the amortized cost basis in its determination of the allowance for credit losses for both loans and held-to-maturity securities, as well as elected the policy to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable totaled $4.0 million $4.8 million on loans and $257 $241 thousand on held-to-maturity securities at June 30, 2023 September 30, 2023, and is included in "Accrued Interest Receivable" on the Company's Consolidated Balance Sheets.

12

Table of Contents

Note 2— Investment Securities

Available-for-Sale

Each of the securities in the Company's available-for-sale investment portfolio is either covered by the explicit or implied guarantee of the United States government or one of its agencies or rated investment grade or higher. All available-for-sale securities were current with no securities past due or on nonaccrual as of June 30, 2023 September 30, 2023 or December 31, 2022.

The following tables summarize the amortized cost and fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

(Dollars in thousands)	June 30, 2023 Amortized Cost	June 30, 2023 Gross Unrealized Gains	June 30, 2023 Gross Unrealized (Losses)	June 30, 2023 Fair Value	September 30, 2023 Amortized Cost	September 30, 2023 Gross Unrealized Gains	September 30, 2023 Gross Unrealized (Losses)	September 30, 2023 Fair Value
Available-for-sale								
U.S. Treasuries	$ 53,927	$ —	$ (3,771)	$ 50,156	$ 44,765	$ —	$ (2,571)	$ 42,194
U.S. government and federal agencies	38,812	—	(3,801)	35,011	13,821	—	(940)	12,881
Corporate bonds	3,000	—	(555)	2,445	3,000	—	(594)	2,406
Collateralized mortgage obligations	43,146	—	(6,908)	36,238	41,486	—	(7,964)	33,522
Tax-exempt municipal	2,933	—	(305)	2,628	1,380	—	(224)	1,156
Taxable municipal	607	—	(30)	577	607	—	(27)	580
Mortgage-backed	219,264	—	(21,048)	198,216	85,726	—	(9,381)	76,345
Total Available-for-sale Securities	$ 361,689	$ —	$ (36,418)	$ 325,271	$190,785	$ —	$(21,701)	$169,084

(Dollars in thousands)	December 31, 2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale				
U.S. Treasuries	$ 63,480	$ —	$ (4,270)	$ 59,210
U.S. government and federal agencies	38,748	—	(3,988)	34,760
Corporate bonds	3,000	—	(386)	2,614
Collateralized mortgage obligations	44,732	—	(6,258)	38,474
Tax-exempt municipal	4,993	—	(348)	4,645
Taxable municipal	608	—	(29)	579
Mortgage-backed	238,652	—	(21,358)	217,294
Total Available-for-sale Securities	$394,213	$ —	$ (36,637)	$ 357,576

During the six three months ended June 30, 2023 September 30, 2023, the Company sold available-for-sale securities with a total par value of $12.0 million $161.2 million resulting in a gross pre-tax loss of $202 thousand. The Company did not sell or recognize any gain or loss for any securities for $17.1 million. During the three nine months ended June 30, 2023. On July 17, 2023 September 30, 2023, the Company sold certain lower-yielding available-for-sale investment securities with a total par value of $161.2 million $173.2 million resulting in a gross pre-tax loss of $17.3 million. Refer to Note 15 – Subsequent Events for additional information. The Company did not sell or recognize any gain or loss for any securities for the three or six nine months ended June 30, 2022 September 30, 2022.

Available-for-sale securities having a market value of $119.8 million $87.7 million and $83.4 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, were pledged to secure public deposits and for other purposes required by law. These securities had an amortized cost of $131.1 million $95.4 million and $91.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The following tables summarize the fair value of securities available-for-sale at June 30, 2023 September 30, 2023 and December 31, 2022 and the corresponding amounts of gross unrealized losses. Management uses the valuations as of month-end in determining when securities are

Table of Contents

in an unrealized loss position. Therefore, a security's market value could have exceeded its amortized cost on other days during the prior twelve-month period.

June 30, 2023						September 30, 2023					
Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
Fair	Gross Unrealized	Fair	Gross Unrealized	Fair	Gross Unrealized	Fair	Gross Unrealized	Fair	Gross Unrealized	Fair	Gross Unrealized

(Dollars in thousands)	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses
Available-for-sale												
U.S. Treasuries	$ 2,848	$ (105)	$ 47,308	$ (3,666)	$ 50,156	$ (3,771)	$ —	$ —	$ 42,194	$ (2,571)	$ 42,194	$ (2,571)
U.S. government and federal agencies	2,831	(97)	32,180	(3,704)	35,011	(3,801)	—	—	12,881	(940)	12,881	(940)
Corporate bonds	—	—	2,445	(555)	2,445	(555)	—	—	2,406	(594)	2,406	(594)
Collateralized mortgage obligations	3,366	(123)	32,872	(6,785)	36,238	(6,908)	—	—	33,522	(7,964)	33,522	(7,964)
Tax-exempt municipal	—	—	2,628	(305)	2,628	(305)	—	—	1,156	(224)	1,156	(224)
Taxable municipal	332	(5)	245	(25)	577	(30)	—	—	580	(27)	580	(27)
Mortgage-backed	64,097	(3,562)	134,119	(17,486)	198,216	(21,048)	—	—	76,345	(9,381)	76,345	(9,381)
Total Available-for-sale Securities	$73,474	$ (3,892)	$251,797	$(32,526)	$325,271	$(36,418)	$ —	$ —	$169,084	$(21,701)	$169,084	$(21,701)

	December 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale						
U.S. Treasuries	$ 31,261	$ (1,194)	$ 27,949	$ (3,076)	$ 59,210	$ (4,270)
U.S. government and federal agencies	16,107	(1,078)	18,653	(2,910)	34,760	(3,988)
Corporate bonds	2,614	(386)	—	—	2,614	(386)
Collateralized mortgage obligations	16,746	(1,143)	21,728	(5,115)	38,474	(6,258)
Tax-exempt municipal	4,645	(348)	—	—	4,645	(348)
Taxable municipal	337	(2)	242	(27)	579	(29)
Mortgage-backed	145,795	(9,612)	71,499	(11,746)	217,294	(21,358)
Total Available-for-sale Securities	$ 217,505	$ (13,763)	$ 140,071	$ (22,874)	$ 357,576	$ (36,637)

The Company had 237 158 and 98 securities in an unrealized loss position for 12 months or longer as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The Company has evaluated available-for-sale securities in an unrealized loss position for credit related impairment at June 30, 2023 September 30, 2023 and December 31, 2022 and concluded no impairment existed based on a combination of factors, which included: (1) the securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) the contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the par value of each investment, (4) issuers continue to make timely principal and interest payments, and (5) the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis. As such, there was no allowance for credit losses on available-for-sale securities at June 30, 2023 September 30, 2023.

The table below summarizes the contractual maturities of our available-for-sale investment securities as of June 30, 2023 September 30, 2023. Issuers may have the right to call or prepay certain obligations and as such, the expected maturities of our securities are likely to may differ from the scheduled contractual maturities presented below.

	June 30, 2023		September 30, 2023	
	Amortized	Fair	Amortized	Fair

(Dollars in thousands)	Cost	Value	Cost	Value
Available-for-sale				
Due in one year or less	$ 13,905	$ 13,588	$ 14,322	$ 14,055
Due after one year through five years	90,960	83,437	54,845	51,453
Due after five years through ten years	137,053	126,019	56,992	51,886
Due after ten years	119,771	102,227	64,626	51,690
Total Available-for-sale Securities	$ 361,689	$ 325,271	$190,785	$169,084

Table of Contents

In the prevailing rate environments as of June 30, 2023 September 30, 2023 and December 31, 2022, the Company's available-for-sale investment portfolio had an estimated weighted average remaining life of approximately 3.6 3.2 years and 3.8 years, respectively.

Held-to-Maturity

Each of the securities in the Company's held-to-maturity investment portfolio is either covered by the explicit or implied guarantee of the United States government or one of its agencies or rated investment grade or higher. All held-to-maturity securities were current with no securities past due or on nonaccrual as of June 30, 2023 September 30, 2023 or December 31, 2022.

The following tables summarize the amortized cost and fair value of securities held-to-maturity and the corresponding amounts of gross unrealized losses at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

	June 30, 2023				September 30, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Held-to-maturity								
U.S. Treasuries	$ 6,000	$ —	$ (814)	$ 5,186	$ 6,001	$ —	$ (873)	$ 5,128
U.S. government and federal agencies	35,491	—	(5,820)	29,671	35,463	—	(6,743)	28,720
Collateralized mortgage obligations	20,326	—	(4,391)	15,935	19,773	—	(4,920)	14,853
Taxable municipal	6,065	—	(1,215)	4,850	6,061	—	(1,409)	4,652
Mortgage-backed	29,571	—	(5,579)	23,992	29,049	—	(6,669)	22,380
Total Held-to-maturity Securities	$ 97,453	$ —	$ (17,819)	$ 79,634	$96,347	$ —	$(20,614)	$75,733

	December 31, 2022			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Held-to-maturity				
U.S. Treasuries	$ 6,000	$ —	$ (840)	$ 5,160
U.S. government and federal agencies	35,551	—	(6,135)	29,416
Collateralized mortgage obligations	21,275	—	(4,227)	17,048
Taxable municipal	6,073	—	(1,364)	4,709
Mortgage-backed	30,516	—	(5,688)	24,828
Total Held-to-maturity Securities	$ 99,415	$ —	$(18,254)	$ 81,161

Held-to-maturity securities having a market value of $7.1 million $34.2 million and $31.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, were pledged to secure public deposits and for other purposes required by law. These securities had an amortized cost of $8.9 million $42.3 million and $37.7 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The following table summarizes the fair value of securities held-to-maturity at December 31, 2022 and the corresponding amounts of gross unrealized losses. Management uses the valuations as of month-end in determining when securities are in an unrealized loss position. Therefore, a security's market value could have exceeded its amortized cost on other days during the prior twelve-month period.

	December 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity						
U.S. Treasuries	$ —	$ —	$ 5,160	$ (840)	$ 5,160	$ (840)
U.S. government and federal agencies	—	—	29,416	(6,135)	29,416	(6,135)
Collateralized mortgage obligations	—	—	17,048	(4,227)	17,048	(4,227)
Taxable municipal	—	—	4,709	(1,364)	4,709	(1,364)
Mortgage-backed	825	(159)	24,003	(5,529)	24,828	(5,688)
Total Held-to-maturity Securities	$ 825	$ (159)	$ 80,336	$ (18,095)	$ 81,161	$ (18,254)

Table of Contents

The Company evaluates the credit risk of its held-to-maturity securities on at least a quarterly basis. The Company estimates expected credit losses on held-to-maturity securities on an individual basis based on a PD/LGD methodology primarily using security-level credit ratings. The primary indicators of credit quality for the Company's held-to-maturity portfolio are security type and credit rating, which is influenced by a number of factors including obligor cash flow, geography, seniority, and others. The Company's held-to-maturity securities with credit risk were comprised of municipal bonds and had a credit rating of AA or better as of June 30, 2023 September 30, 2023. All other held-to-maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies. The Company did not have an allowance for credit losses on held-to-maturity securities as of June 30, 2023 September 30, 2023 or upon adoption of ASC 326.

The table below summarizes the contractual maturities of our held-to-maturity investment securities as of June 30, 2023 September 30, 2023. Issuers may have the right to call or prepay certain obligations and as such, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented below.

	June 30, 2023		September 30, 2023	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held-to-maturity				
Due in one year or less	$ —	$ —	$ —	$ —
Due after one year through five years	20,157	17,360	20,163	17,117
Due after five years through ten years	24,495	20,224	24,465	19,496
Due after ten years	52,801	42,050	51,719	39,120
Total Held-to-maturity Securities	$ 97,453	$ 79,634	$96,347	$75,733

In the prevailing rate environments as of June 30, 2023 September 30, 2023 and December 31, 2022, the Company's held-to-maturity investment portfolio had an estimated weighted average remaining life of approximately 7.1 7.0 years and 7.3 years, respectively.

Restricted Securities

The table below summarizes the carrying amount of restricted securities as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022

Federal Reserve Bank Stock	$ 3,303	$ 3,292	$ 3,306	$ 3,292
Federal Home Loan Bank Stock	1,172	1,073	1,641	1,073
Community Bankers' Bank Stock	60	60	60	60
Total Restricted Securities	$ 4,535	$ 4,425	$ 5,007	$ 4,425

Equity Securities

The Company held equity securities with readily determinable fair values totaling $2.7 million $2.4 million and $2.1 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. These securities consist of mutual funds held in a trust and were obtained for the purpose of economically hedging changes in the Company's nonqualified deferred compensation liability. Changes in the fair value of these securities are reflected in earnings. A gain loss of $84 $(60) thousand and a loss of $(273) $(107) thousand were recorded in other non-interest income in the Consolidated Statements of Income for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively. A gain of $172 $112 thousand and a loss of $(391) $(498) thousand was were recorded in other non-interest income in the Consolidated Statements of Income for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively.

Table of Contents

Note 3— Loans

The following table presents the composition of the Company's loan portfolio as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Real Estate Loans:				
Commercial	$ 1,101,543	$ 1,118,127	$ 1,133,069	$ 1,118,127
Construction and land development	179,656	195,027	179,570	195,027
Residential	443,305	426,841	464,509	426,841
Commercial - Non-Real Estate:				
Commercial loans	40,289	44,924	37,925	44,924
Consumer - Non-Real Estate:				
Consumer loans	646	529	467	529
Total Gross Loans	$ 1,765,439	$ 1,785,448	$ 1,815,540	$ 1,785,448
Allowance for loan credit losses	(20,629)	(20,208)	(20,036)	(20,208)
Net deferred loan costs	4,362	4,060	4,592	4,060
Total net loans	$ 1,749,172	$ 1,769,300	$ 1,800,096	$ 1,769,300

Portfolio Segments

The Company currently manages its loan products and the respective exposure to credit losses by the following specific portfolio segments which are levels at which the Company develops and documents its systematic methodology to determine the allowance for loan credit losses attributable to each respective portfolio segment. These segments are:

- ***Real estate - commercial loans*** – The real estate commercial loans category contains commercial mortgage loans secured by owner occupied, non-owner occupied, and multifamily real estate.
- ***Real estate - construction and land development loans*** – The real estate construction and land development loans category contains residential and commercial construction loan financing to builders and developers and to consumers building their own homes.
- ***Real estate - residential loans*** – The real estate residential mortgage loans category contains permanent mortgage loans principally to consumers secured by residential real estate.
- ***Commercial loans*** – The commercial loans category contains business purpose loans made to provide funds for the financing of equipment, receivables, contract administration expenses, and other general corporate needs of commercial businesses.
- ***Consumer loans*** – The consumer loans category contains personal loans such as installment loans and lines of credit.

Note 4— Allowance for Loan Credit Losses

On January 1, 2023, the Company adopted the CECL methodology as required under ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion on the Company's accounting policies and policy elections related to the accounting standard update refer to Note 1 in this Quarterly Report on Form 10-Q. All loan information presented as of June 30, 2023 September 30, 2023 is in accordance with ASC 326. All loan information presented prior to June 30, 2023 September 30, 2023 is in accordance with previous applicable GAAP.

Table of Contents

Allowance for loan credit losses

The following tables present the activity in the allowance for loan credit losses for the six nine months ended June 30, 2023 September 30, 2023.

	June 30, 2023							September 30, 2023					
	Real Estate							Real Estate					
		Construction & Land							Construction & Land				
Dollars in thousands	**Commercial**	**Development**	**Residential**	**Commercial**	**Consumer**	**Unallocated**	**Total**	**Commercial**	**Development**	**Residential**	**Commercial**	**Consumer**	**Unallocated**
Beginning balance, December 31, 2022	$ 13,205	$ 2,860	$ 3,044	$ 456	$ 5	$ 638	$20,208	$ 13,205	$ 2,860	$ 3,044	$ 456	$ 5	$ 638
Adjustment to allowance for adoption of ASC 326	(2,649)	476	4,552	367	57	(638)	2,165	(2,649)	476	4,552	367	57	(638)
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	—	—	—	2	—	—	2	—	—	—	2	—	—
Provision for (recovery of) credit losses	(700)	(110)	(794)	(110)	(32)	—	(1,746)	2,187	(1,148)	(3,014)	(360)	(4)	—
Ending balance, June 30, 2023	$ 9,856	$ 3,226	$ 6,802	$ 715	$ 30	—	$20,629						
Ending balance, September 30, 2023								$ 12,743	$ 2,188	$ 4,582	$ 465	$ 58	—

The following table presents the activity for the allowance for loan losses for the six nine months ended June 30, 2022 September 30, 2022.

	June 30, 2022							September 30, 2022						
	Real Estate							Real Estate						
		Construction & Land							Construction & Land					
Dollars in thousands	**Commercial**	**Development**	**Residential**	**Commercial**	**Consumer**	**Unallocated**	**Total**	**Commercial**	**Development**	**Residential**	**Commercial**	**Consumer**	**Unallocated**	**T**
Allowance for loan losses:														
Beginning Balance, December 31, 2021	$ 13,091	$ 2,824	$ 2,769	$ 711	$ 5	$ 632	$20,032	$ 13,091	$ 2,824	$ 2,769	$ 711	$ 5	$ 632	$2
Charge-offs	(1)	—	—	—	—	—	(1)	(1)	—	—	—	—	—	
Recoveries	—	—	—	—	—	—	—	—	—	—	1	—	—	

Provision for loan losses	581	(23)	(109)	(72)	2	(379)	—							
Ending Balance, June 30, 2022	$ 13,671	$ 2,801	$ 2,660	$ 639	$ 7	$ 253	$20,031							
Provision for (recovery of) loan losses								345	97	(186)	(208)	1	(49)	
Ending Balance, September 30, 2022								$ 13,435	$ 2,921	$ 2,583	$ 504	$ 6	$ 583	$2

The following tables present the balance of the allowance for loan losses, the allowance by impairment methodology, total loans, and loans by impairment methodology as of December 31, 2022 and June 30, 2022 September 30, 2022, respectively. There were no collateral dependent or individually evaluated loans as of June 30, 2023 September 30, 2023.

	December 31, 2022						
	Real Estate						
Dollars in thousands	Commercial	Construction & Land Development	Residential	Commercial	Consumer	Unallocated	Total
Allowance balance attributable to loans:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	13,205	2,860	3,044	456	5	638	20,208
Total allowance	$ 13,205	$ 2,860	$ 3,044	$ 456	$ 5	$ 638	$ 20,208
Loans:							
Individually evaluated for impairment	$ —	$ —	$ 418	$ —	$ —	$ —	$ 418
Collectively evaluated for impairment	1,118,127	195,027	426,423	44,924	529	—	1,785,030
Total loans	$ 1,118,127	$ 195,027	$ 426,841	$ 44,924	$ 529	$ —	$ 1,785,448

Table of Contents

	June 30, 2022							September 30, 2022				
	Real Estate							Real Estate				
Dollars in thousands	Commercial	Construction & Land Development	Residential	Commercial	Consumer	Unallocated	Total	Commercial	Construction & Land Development	Residential	Commercial	C
Allowance balance attributable to loans:												

Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
Collectively evaluated for impairment	13,671	2,801	2,660	639	7	253	20,031	13,435	2,921	2,583	504	
Total allowance	$ 13,671	$ 2,801	$ 2,660	$ 639	$ 7	$ 253	$ 20,031	$ 13,435	$ 2,921	$ 2,583	$ 504	$
Loans:												
Individually evaluated for impairment	$ —	$ —	$ 536	$ —	$ —	$ —	$ 536	$ —	$ —	$ 530	$ —	$
Collectively evaluated for impairment	1,083,194	189,644	367,834	47,878	651	—	1,689,201	1,091,221	199,324	385,166	45,105	
Total loans	$ 1,083,194	$ 189,644	$ 368,370	$ 47,878	$ 651	$ —	$1,689,737	$ 1,091,221	$ 199,324	$ 385,696	$ 45,105	$

Impaired loans

Prior to the adoption of ASC 326, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing TDRs. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value.

The following tables present a summary of impaired loans and the related allowance as of December 31, 2022.

	December 31, 2022						
(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment(1)	Interest Income Recognized(1)
Real Estate Loans							
Commercial	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction and land development	—	—	—	—	—	—	—
Residential	418	418	—	418	—	427	15
Commercial	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
Total Impaired Loans	$ 418	$ 418	$ —	$ 418	$ —	$ 427	$ 15

(1) Amounts shown for the twelve-month period ended December 31, 2022.

Table of Contents

Delinquency Information

The following tables present a summary of past due and nonaccrual loans by segment as of June 30, 2023 September 30, 2023 and December 31, 2022.

	June 30, 2023								September 30,				
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing	Nonaccrual Loans	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Curren
Real Estate Loans													
Commercial	$ —	$ —	$ —	$ —	$1,101,543	$1,101,543	$ —	$ —	$ —	$ —	$ —	$ —	$1,133,0
Construction and land development	—	—	—	—	179,656	179,656	—	—	—	—	—	—	179,5
Residential	—	—	—	—	443,305	443,305	—	—	—	—	—	—	464,5
Commercial	—	—	—	—	40,289	40,289	—	—	—	—	—	—	37,9
Consumer	—	—	—	—	646	646	—	—	—	—	—	—	4
Total Loans	$ —	$ —	$ —	$ —	$1,765,439	$1,765,439	$ —	$ —	$ —	$ —	$ —	$ —	$1,815,5

	December 31, 2022							
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Still Accruing	Nonaccrual Loans
Real Estate Loans								
Commercial	$ —	$ —	$ —	$ —	$ 1,118,127	$ 1,118,127	$ —	$ —
Construction and land development	—	—	—	—	195,027	195,027	—	—
Residential	—	—	—	—	426,841	426,841	—	—
Commercial	—	—	—	—	44,924	44,924	—	—
Consumer	—	—	—	—	529	529	—	—
Total Loans	$ —	$ —	$ —	$ —	$ 1,785,448	$ 1,785,448	$ —	$ —

Credit Quality Indicators

The Company assesses credit quality indicators based on internal risk rating of loans. Each loan is evaluated at least annually with more frequent evaluation of more severely criticized loans. The indicators represent the rating for loans as of the date presented is based on the most recent credit review performed. Internal risk rating definitions are:

Pass: These include satisfactory loans that have acceptable levels of risk.

Special Mention: Loans classified as special mention have a potential weakness that requires close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. These credits do not expose the Company to sufficient risk to warrant further adverse classification.

Substandard: A substandard asset is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be received in the future.

The Company has a portfolio of smaller homogenous loans that are not individually risk rated and include residential permanent and construction mortgages, home equity lines of credit, and consumer installment loans. For these loans, management uses payment status

Table of Contents

as the primary credit quality indicator. The payment status of these loans is then translated into an internal risk rating. The following table summarizes the translation of past due status to risk rating for loans that are not individually risk rated.

Days Past Due	Internal Risk Rating
0 - 29 days	Pass
30-59 days	Special Mention
60-89 days	Substandard
90-119 days	Doubtful
120+ days	Loss

Table of Contents

The following table presents the Company’s recorded investment in loans by credit quality indicator by year of origination as of June 30, 2023 September 30, 2023.

	Term Loans by Year of Origination								Term Loans by Year of Origination						
Dollars in thousands	2023	2022	2021	2020	2019	Prior	Revolving	Total							
(Dollars in thousands)									2023	2022	2021	2020	2019	Prior	Revolvi
Real Estate Loans - Commercial															
Pass	$14,312	$302,444	$208,105	$123,829	$100,580	$347,975	$ 3,061	$1,100,306	$56,696	$303,898	$205,417	$122,694	$97,273	$342,686	$ 3,16
Special mention	—	—	—	1,237	—	—	—	1,237	—	—	—	1,237	—	—	-
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Total Real Estate Loans - Commercial	$14,312	$302,444	$208,105	$125,066	$100,580	$347,975	$ 3,061	$1,101,543	$56,696	$303,898	$205,417	$123,931	$97,273	$342,686	$ 3,16
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ -
Real Estate Loans - Construction and land development															
Pass	$17,432	$ 56,591	$ 46,604	$ 20,516	$ 53	$ 9,727	$ 26,583	$ 177,506	$33,136	$ 58,071	$ 31,471	$ 18,087	$ 30	$ 8,845	$ 27,78
Special mention	—	—	—	—	2,150	—	—	2,150	—	—	—	—	2,150	—	-
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Total Real Estate Loans - Construction and land development	$17,432	$ 56,591	$ 46,604	$ 20,516	$ 2,203	$ 9,727	$ 26,583	$ 179,656	$33,136	$ 58,071	$ 31,471	$ 18,087	$ 2,180	$ 8,845	$ 27,78
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ -
Real Estate Loans - Residential															
Pass	$30,597	$117,526	$136,489	$ 89,708	$ 26,781	$ 24,987	$ 17,217	$ 443,305	$61,683	$115,508	$134,133	$ 88,589	$25,147	$ 22,213	$ 17,23
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-

Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Total Real Estate Loans - Residential	$30,597	$117,526	$136,489	$ 89,708	$ 26,781	$ 24,987	$ 17,217	$ 443,305	$61,683	$115,508	$134,133	$ 88,589	$25,147	$ 22,213	$ 17,23
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ -
Commercial Loans															
Pass	$ 1,651	$ 7,805	$ 2,217	$ 3,589	$ 5,480	$ 6,564	$ 12,983	$ 40,289	$ 3,425	$ 7,354	$ 2,146	$ 3,384	$ 5,245	$ 5,198	$ 11,17
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Total Commercial Loans	$ 1,651	$ 7,805	$ 2,217	$ 3,589	$ 5,480	$ 6,564	$ 12,983	$ 40,289	$ 3,425	$ 7,354	$ 2,146	$ 3,384	$ 5,245	$ 5,198	$ 11,17
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ -
Consumer Loans															
Pass	$ 410	$ 9	$ 35	$ 110	$ —	$ 15	$ 67	$ 646	$ 399	$ 6	$ 29	$ —	$ —	$ 12	$ 2
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	-
Total Consumer Loans	$ 410	$ 9	$ 35	$ 110	$ —	$ 15	$ 67	$ 646	$ 399	$ 6	$ 29	$ -	$ —	$ 12	$ 2
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ -

[Table of Contents](#)

The following table presents the Company’s recorded investment in loans by credit quality indicators as of December 31, 2022.

	December 31, 2022					
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans
Real Estate Loans						
Commercial	$ 1,116,890	$ 1,237	$ —	$ —	$ —	$ 1,118,127
Construction and land development	192,877	2,150	—	—	—	195,027
Residential	426,841	—	—	—	—	426,841
Commercial	44,924	—	—	—	—	44,924
Consumer	529	—	—	—	—	529
Total Loans	$ 1,782,061	$ 3,387	$ —	$ —	$ —	$ 1,785,448

The allowance for loan credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination. The starting point for the estimate of the allowance for loan credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. As part of the Company’s loan modification program to borrowers experiencing financial difficulty, the Company may provide concessions to minimize the economic loss and improve long-term loan performance and collectability. The Company did not make any loan modifications to borrowers experiencing financial difficulty during the three or six nine months ended June 30, 2023 September 30, 2023.

The Company had a recorded investment in TDRs of $418 thousand as of December 31, 2022, all of which were in compliance with their modified terms at December 31, 2022. There were no loans modified in TDRs that subsequently defaulted within 12 months of their modification date during the three or six nine months ended June 30, 2022 September 30, 2022. As of December 31, 2022, none of the Bank's TDRs required a specific reserve. As of December 31, 2022, there were no additional commitments to disburse funds on loans classified TDRs. The Company adopted ASU 2022-02 on January 1, 2023, which eliminated the accounting guidance for TDRs.

Unfunded Commitments

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable by the Company. The allowance for off-balance sheet credit exposures is adjusted as a provision for (or recovery of) credit losses in the Consolidated Statements of Income. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for loan credit losses. The allowance for credit losses for unfunded loan commitments of $1.1 million $908 thousand and $303 thousand at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, is separately classified within Other Liabilities on the Consolidated Balance Sheets.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the six nine months ended June 30, 2023 September 30, 2023.

(Dollars in thousands)	**Allowance for Credit Losses Unfunded Commitments**	**Allowance for Credit Losses Unfunded Commitments**
Beginning balance, December 31, 2022	$ 303	$ 303
Adjustment to allowance for unfunded commitments for adoption of ASC 326	737	737
Provision for (recovery of) credit losses	104	(132)
Ending balance, June 30, 2023	$ 1,144	
Ending balance, September 30, 2023		$ 908

Note 5— Derivatives

The Company enters into interest rate swap agreements ("swaps") with commercial loan customers to provide a facility for customers to manage their interest rate risk. These swaps are matched in exact offsetting terms with swaps that the Company enters into with an independent third party. These swaps qualify as derivatives, but are not designated as hedging instruments.

Table of Contents

The following tables summarize the Company's swaps at June 30, 2023 September 30, 2023 and December 31, 2022.

	June 30, 2023					**September 30, 2023**				
(Dollars in thousands)	**Notional Amount**	**Estimated Fair Value**	**Weighted Average Years to Maturity**	**Receive Rate**	**Pay Rate**	**Notional Amount**	**Estimated Fair Value**	**Weighted Average Years to Maturity**	**Receive Rate**	**Pay Rate**
Interest rate swap agreements:										
Pay fixed/receive variable swaps	$ 19,736	$ 1,273	3.7 years	6.23 %	3.39 %	$ 19,591	$ 1,390	3.5 years	6.60 %	3.39 %
Pay variable/receive fixed swaps	19,736	(1,273)	3.7 years	3.39 %	6.23 %	19,591	(1,390)	3.5 years	3.39 %	6.60 %

Total interest rate swap agreements	$ 39,472	$ —	3.7 years	4.81 %	4.81 %	$ 39,182	$ —	3.5 years	5.00 %	5.00 %

	December 31, 2022				
(Dollars in thousands)	Notional Amount	Estimated Fair Value	Weighted Average Years to Maturity	Receive Rate	Pay Rate
Interest rate swap agreements:					
Pay fixed/receive variable swaps	$ 13,767	$ 1,217	2.8 years	6.02 %	2.59 %
Pay variable/receive fixed swaps	13,767	(1,217)	2.8 years	2.59 %	6.02 %
Total interest rate swap agreements	$ 27,534	$ —	2.8 years	4.31 %	4.31 %

The estimated fair value of the swaps at June 30, 2023 September 30, 2023 and December 31, 2022 were recorded in other assets and liabilities in the Consolidated Balance Sheets. The associated net gains and losses on the swaps are recorded in other income (loss) in the Consolidated Statements of Income.

Note 6— Deposits and Borrowings

The following tables show the components of the Company's funding sources.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Deposits:				
Non-interest bearing demand deposits(1)	$ 433,931	$ 476,697	$ 437,880	$ 476,697
Interest-bearing demand deposits(1)	652,638	691,945	675,819	691,945
Savings deposits	68,013	95,241	57,408	95,241
Time deposits(2)	891,727	803,857	810,516	803,857
Total Deposits	$ 2,046,309	$ 2,067,740	$ 1,981,623	$ 2,067,740

(Dollars in thousands)	Stated Interest Rate	Weighted-Average Interest Rate	June 30, 2023 Carrying Value	December 31, 2022 Carrying Value	Stated Interest Rate	Weighted-Average Interest Rate	September 30, 2023 Carrying Value
Short-term Debt:							
Federal Reserve Bank borrowings	4.80 %	4.80 %	$ 54,000	—	4.80 %	4.80 %	$ 54,000
Total Short-term Debt			$ 54,000	—			$ 54,000
Long-term Debt:							
Subordinated debt	5.25 %	5.25 %	$ 24,666	$ 24,624	5.25 %	5.25 %	$ 24,687
Total Long-term Debt			$ 24,666	$ 24,624			$ 24,687

(1) Overdraft demand deposits reclassified to loans totaled $5 thousand at September 30, 2023 and $1 thousand at both June 30, 2023 and December 31, 2022. , respectively.

(2) The aggregate amount of certificates of deposit with a minimum denomination of $250,000 was $379.1 million $358.6 million and $318.7 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The Company obtains certain deposits through the efforts of third-party brokers. Brokered deposits totaled $346.4 million $288.9 million and $352.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, and were included primarily in time deposits on the Company's Consolidated Balance Sheets. Reciprocal IntraFi certificates of deposit totaled $49.7 million $41.7 million and $25.7 million at June 30, 2023 September 30, 2023 and

December 31, 2022, respectively. Reciprocal IntraFi demand and money market deposits totaled $252.1 million $265.6 million and $197.3 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Table of Contents

At June 30, 2023 September 30, 2023, there were no depositors that represented 5% or more of the Company's total deposits.

The Company completed a private placement of a $25.0 million fixed-to-floating subordinated note on June 15, 2022 ("2022 note"). Subject to limited exceptions permitting earlier redemption, the note is callable, in whole or in part, commencing July 1, 2027. Unless redeemed earlier, the note will mature on July 1, 2032. The note bears interest at a fixed rate of 5.25% to but excluding July 1, 2027, and will bear interest at a floating rate equal to the three-month Secured Overnight Financing Rate plus 245 basis points thereafter. The note is carried at its principal amount, less unamortized issuance costs.

The Company from time to time uses FHLB advances as a source of funding and to manage interest rate risk. FHLB advances are secured by a blanket floating lien on all real estate mortgage loans secured by 1-to-4 family residential, multi-family and commercial real estate properties. At June 30, 2023 September 30, 2023, the Company did not have any outstanding FHLB advances. Available borrowing capacity based on collateral value amounted to approximately $451.1 million $444.7 million as of June 30, 2023 September 30, 2023.

The Company also has the capacity to borrow up to $25.1 million $24.8 million at the Federal Reserve discount window of which $0 had been drawn upon at June 30, 2023 September 30, 2023. The Bank had loans pledged at the Federal Reserve discount window totaling $29.8 million $26.5 million as of June 30, 2023 September 30, 2023.

On March 12, 2023, the Federal Reserve Bank of Richmond ("Reserve Bank") made available the Bank Term Funding Program ("BTFP"), which enhances the ability of banks to borrow against the par value of certain high-quality, unencumbered investments. On May 15, 2023, the Company obtained a $54.0 million BTFP advance to secure lower funding costs relative to wholesale deposits. The BTFP advance has a term of one year, bears interest at a fixed rate of 4.80% and can be prepaid without penalty prior to maturity. At June 30, 2023 September 30, 2023, the Company had pledged as collateral for the BTFP advance held-to-maturity investment securities with an amortized cost and fair value of $55.1 million $55.5 million and $44.3 million $42.6 million, respectively. If the Company were to avail itself of additional BTFP funding, the Company estimates additional borrowing capacity of up to $260.4 million based on the par value of eligible investments as of June 30, 2023.

The Company also has federal funds lines of credit with correspondent banks available for overnight borrowing of $110.0 million, of which $0 had been drawn upon at June 30, 2023 September 30, 2023.

The following table shows the carrying amount of the Company's time deposits by contractual maturity as of June 30, 2023 September 30, 2023.

(Dollars in thousands)	June 30, 2023	September 30, 2023
2023	$ 316,042	$ 146,873
2024	395,962	477,572
2025	137,755	144,346
2026	40,575	40,324
2027	1,111	1,117
Thereafter	282	284
Total	$ 891,727	$ 810,516

Note 7— Commitments and Contingencies

The Company is party to 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, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's 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 and financial guarantees written is represented by the contractual notional amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. Refer to Note 4 – Allowance for Loan Credit Losses for further discussion regarding the Company's estimate of lifetime credit losses for off-balance sheet exposure.

Table of Contents

The following table summarizes the contract or notional amount of the Company's exposure to off-balance sheet risk as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commitments to extend credit	$ 289,289	$ 240,084	$ 288,081	$ 240,084
Standby letters of credit	$ 19,721	$ 14,677	$ 19,804	$ 14,677

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, income-producing commercial properties, and other real estate properties.

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 the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company 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.

Note 8— Fair Value Measurements

Determination of Fair Value

The Company determines the fair values of its financial instruments based on the fair value hierarchy established by Accounting Standards Codification ("ASC") Topic 820 – *Fair Value Measurement*, which defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

The fair value measurements and disclosures topic specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

26

Table of Contents

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets Measured at Fair Value on a Recurring Basis

In accordance with ASC Topic 820, the following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a recurring basis in the financial statements.

Securities Available-for-sale and Equity Securities

Securities available-for-sale and equity securities with readily determinable fair values 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 (Level 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3).

The Company's investment portfolio is primarily valued using fair value measurements that are considered to be Level 2. The Company has contracted with a third party portfolio accounting service vendor for valuation of its portfolio of debt securities. The vendor's primary source for security valuation is ICE Data Services, which evaluates securities based on market data. ICE Data Services utilizes evaluated pricing models that vary by 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.

The vendor utilizes proprietary valuation matrices for valuing all municipals securities. The initial curves for determining the price, movement, and yield relationships within the municipal matrices are derived from industry benchmark curves or sourced from a municipal trading desk. The securities are further broken down according to issuer, credit support, state of issuance and rating to incorporate additional spreads to the industry benchmark curves.

Interest Rate Swap Agreements

Interest rate swap agreements are measured by alternative pricing sources using a discounted cash flow method that incorporates current market interest rates. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These characteristics classify interest rate swap agreements as Level 2 in the fair value hierarchy.

The vendor utilizes proprietary valuation matrices for valuing all municipals securities. The initial curves for determining the price, movement, and yield relationships within the municipal matrices are derived from industry benchmark curves or sourced from a municipal trading desk. The securities are further broken down according to issuer, credit support, state of issuance and rating to incorporate additional spreads to the industry benchmark curves.

27

Table of Contents

The following tables summarize the fair value of assets measured at fair value on a recurring basis as of June 30, 2023 September 30, 2023 and December 31, 2022.

	Fair Value Measurements at June 30, 2023 Using				Fair Value Measurements at September 30, 2023 Using		
Balance as of	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Balance as of	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

(Dollars in thousands)	June 30, 2023	(Level 1)	(Level 2)	(Level 3)	September 30, 2023	(Level 1)	(Level 2)	(Level 3)
Assets:								
Securities available-for-sale:								
U.S. Treasuries	$ 50,156	$ —	$ 50,156	$ —	$ 42,194	$ —	$ 42,194	$ —
U.S. government and federal agencies	35,011	—	35,011	—	12,881	—	12,881	—
Corporate bonds	2,445	—	2,445	—	2,406	—	2,406	—
Collateralized mortgage obligations	36,238	—	36,238	—	33,522	—	33,522	—
Tax-exempt municipal	2,628	—	2,628	—	1,156	—	1,156	—
Taxable municipal	577	—	577	—	580	—	580	—
Mortgage-backed	198,216	—	198,216	—	76,345	—	76,345	—
Equity securities, at fair value	2,695	2,695	—	—	2,443	2,443	—	—
Interest rate swap agreements	1,273	—	1,273	—	1,390	—	1,390	—
Mortgage servicing rights	5	—	—	5	9	—	—	9
Total assets at fair value	$ 329,244	$ 2,695	$ 326,544	$ 5	$ 172,926	$ 2,443	$ 170,474	$ 9
Liabilities:								
Interest rate swap agreements	$ 1,273	$ —	$ 1,273	$ —	$ 1,390	$ —	$ 1,390	$ —
Total liabilities at fair value	$ 1,273	$ —	$ 1,273	$ —	$ 1,390	$ —	$ 1,390	$ —

		Fair Value Measurements at December 31, 2022 Using		
(Dollars in thousands)	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
U.S. Treasuries	$ 59,210	$ —	$ 59,210	$ —
U.S. government and federal agencies	34,760	—	34,760	—
Corporate bonds	2,614	—	2,614	—
Collateralized mortgage obligations	38,474	—	38,474	—
Tax-exempt municipal	4,645	—	4,645	—
Taxable municipal	579	—	579	—
Mortgage-backed	217,294	—	217,294	—

Equity securities, at fair value	2,115	2,115	—	—
Interest rate swap agreement	1,217	—	1,217	—
Total assets at fair value	$ 360,908	$ 2,115	$ 358,793	$ —
Liabilities:				
Interest rate swap agreement	$ 1,217	$ —	$ 1,217	$ —
Total liabilities at fair value	$ 1,217	$ —	$ 1,217	$ —

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Table of Contents

Collateral Dependent Loans

In accordance with ASC 326, loans that do not share risk characteristics are evaluated on an individual basis. The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. The measurement of loss associated with collateral dependent loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction, or if an appraisal of the property is more than one-year-old and not solely based on observable market comparables, or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The Company had no collateral dependent loans with a recorded reserve as of June 30, 2023 September 30, 2023 or December 31, 2022.

Other Real Estate Owned ("OREO")

OREO is carried at the lower of cost or fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value using observable market data, the Company records the property as Level 2. When an appraised value using observable market data is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the property as Level 3 valuation. Any fair value adjustments are recorded in the period incurred and expensed against current earnings. The Company had no OREO as of June 30, 2023 September 30, 2023 or December 31, 2022.

The following tables present the carrying value and estimated fair value, including the level within the fair value hierarchy, of the Company's financial instruments as of September 30, 2023 and December 31, 2022.

		Fair Value Measurements at September 30, 2023 Using			
(Dollars in thousands)	Carrying Value as of September 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of September 30, 2023
Assets:					

Cash and cash equivalents	$	192,656	$	192,656	$	—	$	—	$	192,656
Securities:										
Available-for-sale		169,084		—		169,084		—		169,084
Held-to-maturity		96,347		—		75,733		—		75,733
Equity securities, at fair value		2,443		2,443		—		—		2,443
Restricted securities, at cost		5,007		—		5,007		—		5,007
Loans, net		1,800,096		—		—		1,660,836		1,660,836
Interest rate swap agreements		1,390		—		1,390		—		1,390
Mortgage servicing rights		9		—		—		9		9
Accrued interest receivable		5,701		—		5,701		—		5,701
Liabilities:										
Deposits	$	1,981,623	$	—	$	1,977,757	$	—	$	1,977,757
Federal Reserve Bank borrowings		54,000		—		54,000		—		54,000
Subordinated debt		24,687		—		—		21,269		21,269
Interest rate swap agreements		1,390		—		1,390		—		1,390
Accrued interest payable		2,610		—		2,610		—		2,610

Table of Contents

The following tables present the carrying value and estimated fair value, including the level within the fair value hierarchy, of the Company's financial instruments as of June 30, 2023 and December 31, 2022.

			Fair Value Measurements at December 31, 2022 Using							
(Dollars in thousands)		Carrying Value as of December 31, 2022		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Fair Value as of December 31, 2022
Assets:										
Cash and cash equivalents	$	61,599	$	61,599	$	—	$	—	$	61,599
Securities:										
Available-for-sale		357,576		—		357,576		—		357,576
Held-to-maturity		99,415		—		81,161		—		81,161
Equity securities, at fair value		2,115		2,115		—		—		2,115
Restricted securities, at cost		4,425		—		4,425		—		4,425
Loans, net		1,769,300		—		—		1,676,887		1,676,887
Interest rate swap agreement		1,217		—		1,217		—		1,217
Bank owned life insurance		21,170		—		21,170		—		21,170
Accrued interest receivable		5,531		—		5,531		—		5,531
Liabilities:										
Deposits	$	2,067,740	$	—	$	2,065,248	$	—	$	2,065,248
Subordinated debt		24,624		—		—		22,457		22,457
Federal funds purchased		25,500		—		25,500		—		25,500
Interest rate swap agreement		1,217		—		1,217		—		1,217
Accrued interest payable		1,035		—		1,035		—		1,035

	Fair Value Measurements at June 30, 2023 Using		
	Quoted Prices in Active Markets for Identical	Significant Other	Significant Unobservable

(Dollars in thousands)	Carrying Value as of June 30, 2023	Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)	Fair Value as of June 30, 2023
Assets:					
Cash and cash equivalents	$ 129,551	$ 129,551	$ —	$ —	$ 129,551
Securities:					
Available-for-sale	325,271	—	325,271	—	325,271
Held-to-maturity	97,453	—	79,634	—	79,634
Equity securities, at fair value	2,695	2,695	—	—	2,695
Restricted securities, at cost	4,535	—	4,535	—	4,535
Loans, net	1,749,172	—	—	1,619,778	1,619,778
Interest rate swap agreements	1,273	—	1,273	—	1,273
Mortgage servicing rights	5	—	—	5	5
Bank owned life insurance	21,371	—	21,371	—	21,371
Accrued interest receivable	5,178	—	5,178	—	5,178
Liabilities:					
Deposits	$ 2,046,309	$ —	$ 2,042,439	$ —	$ 2,042,439
Federal Reserve Bank borrowings	54,000	—	54,000	—	54,000
Subordinated debt	24,666	—	—	21,394	21,394
Interest rate swap agreements	1,273	—	1,273	—	1,273
Accrued interest payable	2,336	—	2,336	—	2,336

		Fair Value Measurements at December 31, 2022 Using			
(Dollars in thousands)	Carrying Value as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of December 31, 2022
Assets:					
Cash and cash equivalents	$ 61,599	$ 61,599	$ —	$ —	$ 61,599
Securities:					
Available-for-sale	357,576	—	357,576	—	357,576
Held-to-maturity	99,415	—	81,161	—	81,161
Equity securities, at fair value	2,115	2,115	—	—	2,115
Restricted securities, at cost	4,425	—	4,425	—	4,425
Loans, net	1,769,300	—	—	1,676,887	1,676,887
Interest rate swap agreement	1,217	—	1,217	—	1,217
Bank owned life insurance	21,170	—	21,170	—	21,170
Accrued interest receivable	5,531	—	5,531	—	5,531
Liabilities:					
Deposits	$ 2,067,740	$ —	$ 2,065,248	$ —	$ 2,065,248
FHLB advances	—	—	—	—	—
Subordinated debt	24,624	—	—	22,457	22,457
Federal funds purchased	25,500	—	25,500	—	25,500
Interest rate swap agreement	1,217	—	1,217	—	1,217
Accrued interest payable	1,035	—	1,035	—	1,035

Note 9— Earnings per Common Share

Earnings per common share is calculated in accordance with ASC 260 - *Earnings Per Share*, which provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

Under the two-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of voting common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

Table of Contents

The following table summarizes the computation of earnings per share for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Earnings per common share - basic:								
Income available to common shareholders (in thousands):								
Net income	$ 4,490	$ 7,882	$ 10,794	$ 15,556				
Earnings (Loss) per common share - basic:								
Income (Loss) available to common shareholders (in thousands):								
Net income (loss)					$ (10,137)	$ 8,045	$ 656	$ 23,601
Less: Income attributable to unvested restricted stock awards	(15)	(34)	(38)	(70)	—	(33)	(2)	(103)
Net income available to common shareholders	$ 4,475	$ 7,848	$ 10,756	$ 15,486				
Net income (loss) available to common shareholders					$ (10,137)	$ 8,012	$ 654	$ 23,498
Weighted average shares outstanding:								
Common shares outstanding, including unvested restricted stock	14,125,538	13,992,414	14,199,553	13,920,387	14,126,114	14,047,746	14,174,804	13,963,307
Less: Unvested restricted stock	(47,880)	(60,158)	(49,398)	(62,330)	(46,088)	(58,332)	(48,282)	(60,983)
Weighted-average common shares outstanding - basic	14,077,658	13,932,256	14,150,155	13,858,057	14,080,026	13,989,414	14,126,522	13,902,324
Earnings per common share - basic	$ 0.32	$ 0.56	$ 0.76	$ 1.11				
Earnings (Loss) per common share - basic					$ (0.72)	$ 0.57	$ 0.05	$ 1.69

Earnings per common share - diluted:								
Income available to common shareholders (in thousands):								
Net income	$ 4,490	$ 7,882	$ 10,794	$ 15,556				
Earnings (Loss) per common share - diluted:								
Income (loss) available to common shareholders (in thousands):								
Net income (loss)					$ (10,137)	$ 8,045	$ 656	$ 23,601
Less: Income attributable to unvested restricted stock awards	(15)	(34)	(37)	(69)	—	(33)	(2)	(103)
Net income available to common shareholders	$ 4,475	$ 7,848	$ 10,757	$ 15,487				
Net income (loss) available to common shareholders					$ (10,137)	$ 8,012	$ 654	$ 23,498
Weighted average shares outstanding:								
Common shares outstanding, including unvested restricted stock	14,125,538	13,992,414	14,199,553	13,920,387	14,126,114	14,047,746	14,174,804	13,963,307
Less: Unvested restricted stock	(47,880)	(60,158)	(49,398)	(62,330)	(46,088)	(58,332)	(48,282)	(60,983)
Plus: Effect of dilutive options	65,595	152,904	78,000	184,148	—	118,872	72,656	163,563
Weighted-average common shares outstanding - diluted	14,143,253	14,085,160	14,228,155	14,042,205	14,080,026	14,108,286	14,199,179	14,065,887
Earnings per common share - diluted	$ 0.32	$ 0.56	$ 0.76	$ 1.10				
Earnings (Loss) per common share - diluted					$ (0.72)	$ 0.57	$ 0.05	$ 1.67

Outstanding options to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. No stock options outstanding as of September 30, 2023 were included in computing diluted earnings per share for the three months ended September 30, 2023 as the Company reported a net loss and the impact would have been anti-dilutive. All stock options outstanding as of June 30, 2023 September 30, 2023 were included in computing diluted earnings per share for the nine months ended September 30, 2023, as none had anti-dilutive effects. All stock options outstanding as of September 30, 2022 were included in computing diluted earnings per share for the three and six nine months ended June 30, 2023, as none had anti-dilutive effects. All stock options outstanding as of June 30, 2022 were included in computing diluted earnings per share for the three and six months ended June 30, 2022 September 30, 2022, as none had anti-dilutive effects.

Table of Contents

Note 10— Stock Based Compensation Plan

The Company's share-based compensation plan, approved by stockholders and effective April 28, 2015 (the "2015 Plan"), provides for the grant of share-based awards in the form of incentive stock options, non-incentive stock options, restricted stock and restricted stock units to directors and employees. The Company has reserved 976,211 shares of voting common stock for issuance under the 2015 Plan, which will remain in effect until April 28, 2025. The Company's Compensation Committee administers the 2015 Plan and has the

authority to determine the terms and conditions of each award thereunder. As of June 30, 2023 September 30, 2023, 301,242 shares are available to grant in future periods under the 2015 Plan.

The Company's previous share-based compensation plan, the 2006 Stock Option Plan (the "2006 Plan"), provided for the grant of share-based awards in the form of incentive stock options and non-incentive stock options to directors and employees. As amended, the 2006 Plan provided for awards of up to 1,490,700 shares. In April 2015, the 2006 Plan was terminated and replaced with the 2015 Plan. Options outstanding prior to April 28, 2015 were granted under the 2006 Plan and shall be subject to the provisions of the 2006 Plan.

To date, options granted under the 2015 Plan typically vest over five years and expire 10 years from the grant date. Under the 2015 Plan, the exercise price of options may not be less than 100% of fair market value at the grant date with a maximum term for an option award of 10 years from the date of grant. grant date.

The table below provides a summary of the stock options activity for the six nine months ended June 30, 2023 September 30, 2023.

	June 30, 2023			September 30, 2023		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2023	189,934	$ 11.76		189,934	$ 11.76	
Granted	—	—		—	—	
Exercised	(27,375)	11.75		(27,375)	11.75	
Forfeited or expired	(412)	9.44		(412)	9.44	
Outstanding at June 30, 2023	162,147	11.77	$ 1,348,951			
Exercisable at June 30, 2023	162,147	$ 11.77	$ 1,348,951			
Outstanding at September 30, 2023				162,147	11.77	$ 985,741
Exercisable September 30, 2023				162,147	$ 11.77	$ 985,741

The aggregate intrinsic value of stock options in the table above represents the total 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 Company had all option holders exercised their options on June 30, 2023 September 30, 2023. The intrinsic value of options exercised was $7 thousand and $370 thousand for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, and $1.2 million $693 thousand and $3.7 million $4.4 million for the three and six nine months ended June 30, 2022 September 30, 2022, respectively. There were no options exercised during the three months ended September 30, 2023. These amounts and the intrinsic values noted in the table above change based on changes in the market value of the Company's voting common stock.

The table below provides a summary of the stock options outstanding and exercisable as of June 30, 2023 September 30, 2023.

	June 30, 2023				September 30, 2023			
	Options Outstanding		Options Exercisable		Options Outstanding		Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Remaining Contractual Life in Years	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Remaining Contractual Life in Years
$11.01 - $12.00	161,085	1.82	161,085	1.82	161,085	1.57	161,085	1.57
$12.01 - $13.00	1,062	1.49	1,062	1.49	1,062	1.23	1,062	1.23
Total	162,147	1.82	162,147	1.82	162,147	1.57	162,147	1.57

There were no options granted during the three or six nine months ended June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

The Company did not record any share-based compensation expense applicable to the Company's share-based compensation plans for stock options during the three or six nine months ended June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

The Company does not have any unrecognized share-based compensation expense related to nonvested options as of June 30, 2023 September 30, 2023.

Table of Contents

The table below provides a summary of the restricted stock awards granted under the 2015 plan for the six nine months ended June 30, 2023 September 30, 2023.

	June 30, 2023	
	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2023	55,185	$ 21.80
Granted	180	21.78
Vested	(8,704)	19.20
Forfeited	(370)	15.50
Nonvested at June 30, 2023	46,291	22.34

Table of Contents

	September 30, 2023	
	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2023	55,185	$ 21.80
Granted	180	21.78
Vested	(9,124)	19.15
Forfeited	(370)	15.50
Nonvested at September 30, 2023	45,871	22.37

Compensation expense for restricted stock grants is recognized over the vesting period of the awards based on the fair value of the Company's voting common stock at issue date. The fair value of the stock was determined using the closing stock price on the day of grant. The restricted stock grants vest over two to five years. The Company awarded 500 restricted stock grants during the six nine months ended June 30, 2022 September 30, 2022.

Share-based compensation expense applicable to the Company's share-based compensation plans for restricted stock grants was $137 $130 thousand and $130 $133 thousand for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively. The total fair value of the shares, which vested during the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, was $46 $8 thousand and $65 $10 thousand, respectively.

Share-based compensation expense applicable to the Company's share-based compensation plans for restricted stock grants was $334 $464 thousand and $269 $402 thousand for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively. The total fair value of the shares, which vested during the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, was $210 $218 thousand and $371 $381 thousand, respectively.

Unrecognized share-based compensation expense related to nonvested restricted stock grants amounted to $762 $631 thousand as of June 30, 2023 September 30, 2023. This amount is expected to be recognized over a weighted-average period of 1.5 years.

Note 11— Regulatory Capital

The Company is a bank holding company with less than $3 billion in assets and does not (i) have significant off balance sheet exposure, (ii) engage in significant non-banking activities, or (iii) have a material amount of securities registered under the Securities Exchange Act of 1934, as amended (“Exchange Act”). As a result, the Company qualifies as a small bank holding company under the Federal Reserve’s Small Bank Holding Company Policy Statement and is currently not subject to consolidated regulatory capital requirements.

The Bank is subject to capital adequacy standards adopted by the Federal Reserve, including the capital rules that implemented the Basel III regulatory capital reforms developed by the Basel Committee on Banking Supervision. Failure to meet minimum capital requirements can initiate certain mandatory – possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes that the Bank met all capital adequacy requirements to which it was subject as of June 30, 2023 September 30, 2023 and December 31, 2022.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 to risk-weighted assets, and Tier 1 capital to average assets.

In addition to the minimum regulatory capital required for capital adequacy purposes, the Bank is required to maintain a minimum capital conservation buffer above those minimums in the form of common equity. The capital conservation buffer, which was phased in ratably over a four year period beginning January 1, 2016, is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and discretionary compensation paid to certain officers, based on the amount of the

Table of Contents

shortfall. The capital conservation buffer was 2.5% at June 30, 2023 September 30, 2023, and is applicable for the common equity Tier 1, Tier 1, and total capital ratios.

On January 1, 2023, the Company adopted ASC 326, which replaced the incurred loss methodology with the CECL methodology for estimating credit losses and generally applies to financial assets measured at amortized cost. The Federal Reserve and FDIC have adopted rules to identify which credit loss allowances under the CECL model are eligible for inclusion in regulatory capital and to provide banking organizations the option to phase in over a three-year transition period ending January 1, 2026 the day-one impact on regulatory capital that may result from the adoption of the CECL model. The Company implemented the CECL model on January 1, 2023 and elected to apply the provisions of the CECL deferral transition in the determination of its risk based capital ratios. The impact of the application of this deferral transition on the ratios was not significant.

As of June 30, 2023 September 30, 2023, the most recent notification from the Reserve Bank categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the institution must maintain minimum total risk-based,

33

Table of Contents

common equity Tier 1, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank’s category.

The table below provides a summary of the Bank’s capital ratios as of June 30, 2023 September 30, 2023 and December 31, 2022.

Actual	Minimum Capital Requirement(1)	Minimum To Be Well Capitalized Under Prompt Corrective Action	Actual	Minimum Capital Requirement(1)	Minimum To Be Well Capi Under Prompt Corrective

(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Rat
As of June 30, 2023												
As of September 30, 2023												
Total capital (to risk weighted assets)	$291,262	16.1 %	$ 190,422	10.5 %	$ 181,354	10.0 %	$280,891	15.7 %	$ 188,433	10.5 %	$ 179,460	
Tier 1 capital (to risk weighted assets)	271,209	15.0 %	154,151	8.5 %	145,083	8.0 %	261,666	14.6 %	152,541	8.5 %	143,568	
Common equity tier 1 capital (to risk weighted assets)	271,209	15.0 %	126,948	7.0 %	117,880	6.5 %	261,666	14.6 %	125,622	7.0 %	116,649	
Tier 1 capital (to average assets)	271,209	11.6 %	93,738	4.0 %	117,173	5.0 %	261,666	11.3 %	92,625	4.0 %	115,781	
As of December 31, 2022												
Total capital (to risk weighted assets)	$283,471	15.6 %	$ 190,798	10.5 %	$ 181,712	10.0 %	$283,471	15.6 %	$ 190,798	10.5 %	$ 181,712	
Tier 1 capital (to risk weighted assets)	262,960	14.4 %	155,219	8.5 %	146,089	8.0 %	262,960	14.4 %	155,219	8.5 %	146,089	
Common equity tier 1 capital (to risk weighted assets)	262,960	14.4 %	127,828	7.0 %	118,697	6.5 %	262,960	14.4 %	127,828	7.0 %	118,697	
Tier 1 capital (to average assets)	262,960	11.3 %	93,083	4.0 %	116,354	5.0 %	262,960	11.3 %	93,083	4.0 %	116,354	

(1) Including capital conservation buffer.

Note 12— Revenue

Certain of the Company's non-interest revenue streams are derived from short-term contacts associated with services provided to deposit account holders as well as other ancillary services, which are accounted for in accordance with ASC 606 – *Revenue Recognition*. For most of these revenue streams, the duration of the contract does not extend beyond the services performed. Due to the short duration of most customer contracts that generate non-interest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

Table of Contents

The following table shows the components of non-interest income for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Service charges on deposit accounts (1)								
Overdrawn account fees	$ 21	$ 22	$ 35	$ 41	$ 20	$ 19	$ 55	$ 60
Account service fees	61	62	119	120	65	60	184	180
Other service charges and fees (1)								
Interchange income	104	105	203	198	101	108	304	306
Other charges and fees	210	52	314	96	59	67	373	163
Bank owned life insurance	101	95	201	190	23	255	224	445
Losses on sale of available-for-sale securities	—	—	(202)	—	(17,114)	—	(17,316)	—
Net gains (losses) on premises and equipment (1)	17	—	16	(1)	—	—	16	(1)
Insurance commissions (1)	50	44	256	265	54	47	310	312
Gain on sale of government guaranteed loans	23	—	23	—	27	—	50	—
Other operating income (loss) (2)	98	(271)	286	(386)				
Non-qualified deferred compensation plan asset gains (losses), net					(60)	(107)	112	(498)
Other operating income (2)					10	1	124	6
Total non-interest income	$ 685	$ 109	$ 1,251	$ 523	$(16,815)	$ 450	$(15,564)	$ 973

(1) Income within the scope of ASC 606.

(2) Includes other operating income within the scope of ASC 606 amounting to $14 $10 thousand and $22 $33 thousand for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. Includes a gain other operating income of $84 $91 thousand related to the fair value adjustment swap fee income on equity securities carried at fair value a back-to-back loan swaps for the three nine months ended June 30, 2023 September 30, 2023, which is outside the scope of ASC 606. There was no swap fee income on back-to-back loan swaps for the three months ended September 30, 2023. Includes other operating income within the scope of ASC 606 amounting to $1 thousand and $6 thousand for the three and nine months ended September 30, 2022, respectively.

Table of Contents

income of $91 thousand related to swap fee income on a back-to-back loan swap and a gain of $172 thousand related to the fair value adjustment on equity securities carried at fair value for the six months ended June 30, 2023, both of which are outside the scope of ASC 606. These equity securities consist of mutual funds held in a trust and were obtained for the purpose of economically hedging changes in the nonqualified deferred compensation liability. Includes other operating income within the scope of ASC 606 amounting to $2 thousand and $6 thousand for the three and six months ended June

30, 2022, respectively. Includes other operating losses consisting of a fair value adjustment of $(273) thousand and $(391) thousand outside the scope of ASC 606 for the three and six months ended June 30, 2022, respectively.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service charges on deposit accounts

Service charges on deposit accounts consist of overdrawn account fees and account service fees. Overdrawn account fees are recognized at the point in time that the overdraft occurs. Account service fees consist primarily of account analysis and other maintenance fees and are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts.

Other service charges and fees

Other service charges and fees are primarily comprised of interchange income and other charges and fees. Interchange income is earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. Other charges and fees include revenue from processing wire transfers, cashier's checks, and other transaction based services. The Company's performance obligation for these charges and fees 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.

Net gains (losses) on premises and equipment

The Company records a gain or loss on the disposition of premises and equipment when control of the property transfers or is involuntarily converted to a monetary asset (e.g., insurance proceeds). This income is reflected in other operating income on the Company's Consolidated Statements of Income.

Table of Contents

Insurance commissions

The Company performs the function of an insurance intermediary by introducing the policyholder and insurer and is compensated in the form of a commission for placement of an insurance policy based on a percentage of premiums issued and maintained during the period. Revenue is recognized when received.

Note 13— Other Operating Expenses

The following table shows the components of other operating expenses for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Advertising expense	$ 76	$ 61	$ 153	$ 100	$ 87	$ 47	$ 239	$ 147
Data processing	447	490	881	928	493	484	1,374	1,412
FDIC insurance	283	140	496	270	275	140	771	410
Professional fees	136	297	294	571	(141)	281	154	852
State franchise tax	604	523	1,181	1,047	604	523	1,785	1,570
Director costs	188	203	443	415	186	200	629	615
Other operating expenses	380	489	758	813	377	427	1,135	1,241
Total other operating expenses	$ 2,114	$ 2,203	$ 4,206	$ 4,144	$ 1,881	$ 2,102	$6,087	$6,247

35

[Table of Contents](#)

Note 14— Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss), by category, net of tax for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

(Dollars in thousands)	June 30, 2023 Unrealized Gain (Loss) on Available-for-sale Securities	June 30, 2023 Unrealized Gains on Securities Transferred from Available-for-sale to Held-to-maturity	June 30, 2023 Accumulated Other Comprehensive Income (Loss)	September 30, 2023 Unrealized Gain (Loss) on Available-for-sale Securities	September 30, 2023 Unrealized Gains on Securities Transferred from Available-for-sale to Held-to-maturity	September 30, 2023 Accumulated Other Comprehensive Income (Loss)
Beginning balance, January 1, 2023	$ (28,942)	$ 245	$ (28,697)	$ (28,942)	$ 245	$ (28,697)
Net change during the period	171	(49)	122	11,800	(73)	11,727
Ending balance, June 30, 2023	$ (28,771)	$ 196	$ (28,575)			
Ending balance, September 30, 2023				$ (17,142)	$ 172	$ (16,970)

(Dollars in thousands)	June 30, 2022 Unrealized Loss on Available-for-sale Securities	June 30, 2022 Unrealized Gains on Securities Transferred from Available-for-sale to Held-to-maturity	June 30, 2022 Accumulated Other Comprehensive Loss	September 30, 2022 Unrealized Loss on Available-for-sale Securities	September 30, 2022 Unrealized Gains on Securities Transferred from Available-for-sale to Held-to-maturity	September 30, 2022 Accumulated Other Comprehensive Loss
Beginning balance, January 1, 2022	$ (789)	$ 389	$ (400)	$ (789)	$ 389	$ (400)
Net change during the period	(16,449)	(79)	(16,528)	(30,401)	(115)	(30,516)
Ending balance, June 30, 2022	$ (17,238)	$ 310	$ (16,928)			
Ending Balance, September 30, 2022				$ (31,190)	$ 274	$ (30,916)

Items reclassified out of accumulated other comprehensive income (loss) to net income during the six nine months ended June 30, 2023 September 30, 2023 consisted of losses on securities classified as available-for-sale. The losses on these transactions totaled $202 thousand $17.3 million and the related tax benefit was $42 thousand. $3.6 million. Losses are included in the "Losses on sale of available-for-sale securities" line item and the related tax is presented in the “Income tax expense” line item in the Consolidated Statements of Income. The Company did not have any items reclassified out of accumulated other comprehensive income (loss) to net income during the six nine months ended June 30, 2022 September 30, 2022.

Note 15 – Subsequent Events

On July 17, 2023, the Company sold certain lower-yielding available-for-sale investment securities with a total par value of $161.2 million and surrendered $21.4 million of bank owned life insurance (“BOLI”) contracts (the “restructuring”), resulting in a non-recurring, after-tax loss of $14.6 million. The sale of the available-for-sale securities will not impact book-value-per-share as the after-tax loss of $13.5 million was already reflected in accumulated other comprehensive loss as of June 30, 2023. The remaining $1.1 million after-tax loss stems from the taxation on the gain associated with the expected cash payout from the BOLI policies. The Company believes that the restructuring will positively impact long-term profitability. Refer to Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q for additional information regarding the restructuring.

Table of Contents

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

The following discussion and analysis of the consolidated financial condition and results of operations of the Company and its subsidiary should be read in conjunction with the consolidated financial statements and related notes presented in Item 1, Financial Statements, of this Form 10-Q. Historical results of operations and the percentage relationships among any amounts included, and any trends that may appear, may not indicate results of operations or trends in operations for any future periods.

Use of Non-GAAP Financial Measures

This discussion and analysis contains financial information determined by methods other than in accordance with GAAP. Management believes that the supplemental non-GAAP information provides a better comparison of period-to-period operating performance. Additionally, the Company believes this information is utilized by regulators and market analysts to evaluate a company's financial condition and therefore, such information is useful to investors. Non-GAAP measures used in this report consist of core non-interest income, core income tax expense, core net income, core earnings per share (basic and diluted), core return on average assets (annualized), core return on average equity (annualized) and core non-interest income as a percentage of average assets (annualized) excluding the impact of losses recognized in July 2023 on the sale of available-for-sale securities and taxes paid on the early surrender of bank owned life insurance policies.

These disclosures should not be viewed as a substitute for financial results in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures which may be presented by other companies. Where the non-GAAP financial measure is used, the comparable GAAP financial measure, as well as reconciliation to that comparable GAAP financial measure, as well as a statement of the company's reasons for utilizing the non-GAAP financial measure, can be found within this discussion and analysis.

Cautionary Note on Forward-Looking Statements

In addition to historical information, this Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “will,” “should,” “may,” “view,” “opportunity,” “potential,” or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. These forward-looking statements are based on our beliefs and assumptions and on the information available to us at the time that these disclosures were prepared, and involve known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from any future results expressed or implied by such forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are reasonable, we can give no assurance such expectations will prove to have been correct. Should any known or unknown risks and uncertainties develop into actual events, those developments could have material adverse effects on our business, financial condition and results of operations. Factors that could have a material adverse effect on the operations of the Company and its subsidiary the Bank include, but are not limited to, the following:

- the concentration of our business in the Washington, D.C. metropolitan area and the effect of changes in the economic, political and environmental conditions on this market;
- adequacy of our allowance for loan credit losses, allowance for unfunded commitments credit losses, and allowance for credit losses associated with our held-to-maturity and available-for-sale securities portfolios;
- deterioration of our asset quality;

- future performance of our loan portfolio with respect to recently originated loans;
- the level of prepayments on loans and mortgage-backed securities;
- liquidity, interest rate and operational risks associated with our business;
- changes in our financial condition or results of operations that reduce capital;
- our ability to maintain existing deposit relationships or attract new deposit relationships;
- changes in consumer spending, borrowing and savings habits;
- inflation and changes in interest rates that may reduce our margins or reduce the fair value of financial instruments;
- changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve;
- additional risks related to new lines of business, products, product enhancements or services;
- increased competition with other financial institutions and fintech companies;
- adverse changes in the securities markets;

Table of Contents

- changes in the financial condition or future prospects of issuers of securities that we own;

Table of Contents

- our ability to maintain an effective risk management framework;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory structure and in regulatory fees and capital requirements;
- compliance with legislative or regulatory requirements;
- results of examination of us by our regulators, including the possibility that our regulators may require us to increase our allowance for loan credit losses or to write-down assets or take similar actions;
- potential claims, damages, and fines related to litigation or government actions;
- the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting;
- geopolitical conditions, including acts or threats of terrorism and/or military conflicts, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, negatively impacting business and economic conditions in the U.S. and abroad;
- the potential adverse effects of unusual weather-related or natural disasters, which may negatively affect our operations and/or our loan portfolio and infrequently occurring events, such as weather-related disasters, terrorist acts, geopolitical conflicts (such as the ongoing war between Russia and Ukraine) or increase our cost of conducting business;
- public health events (such as COVID-19), the COVID-19 pandemic) and of governmental and societal responses thereto;
- technological risks and developments, and cyber threats, attacks, or events;
- the additional requirements of being a public company;
- changes in accounting policies and practices;
- our ability to successfully capitalize on growth opportunities;
- our ability to retain key employees;
- deteriorating economic conditions, either nationally or in our market area, including higher unemployment and lower real estate values;
- implications of our status as a smaller reporting company and as an emerging growth company; and
- other factors discussed in Item 1A. Risk Factors in the Company's 2022 Annual Report on Form 10-K filed with the SEC.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary note.

Overview

We are a bank holding company headquartered in Reston, Virginia primarily serving the Washington, D.C. metropolitan area. The material business operations of our organization are performed through the Bank. As a result, the discussion and analysis within this section primarily relate to activities conducted at the Bank.

As with most community banks, the Bank derives a significant portion of its income from interest received on loans and investments. The Bank's primary source of funding is deposits, both interest-bearing and non-interest-bearing. To account for credit risk inherent in all loans, the Bank maintains an allowance for loan credit losses to absorb lifetime losses on existing loans. The Bank establishes and

Table of Contents

maintains this allowance by recording a provision for credit losses against earnings. In addition to net interest income, the Bank also generates income through service charges on deposits, insurance commission income, income from bank owned life insurance, merchant services fee income, swap fee income and gain on sale of the guaranteed portion of Small Business Administration ("SBA") 7(a) loans. In order to maintain its operations, the Bank incurs various operating expenses which are further described within the "Results of Operations" later in this section.

As of June 30, 2023 September 30, 2023, the Company had total consolidated assets of $2.36 $2.30 billion, total loans net of unearned income of $1.77 billion $1.82 billion, total deposits of $2.05 $1.98 billion and total shareholders' equity of $219.0 $220.6 million.

Critical Accounting Policies and Estimates

The Company's accounting and reporting policies conform to GAAP, as well as general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as

Table of Contents

of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions, and judgments. Certain policies inherently rely more extensively on the use of estimates, assumptions, and judgments and as such may have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are described in Item 7. Management's Discusion and Analysis of Financial Condition and Results of Operations and Note 1 to our audited financial statements for the year ended December 31, 2022, included in the Company's 2022 Annual Report on Form 10-K filed with the SEC and in Note 1 to our unaudited financial statements, which are included elsewhere in this Quarterly Report on Form 10-Q.

Table of Contents

Selected Financial Data

The following table contains selected historical consolidated financial data as of the dates and for the periods shown. The selected balance sheet data as of June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 and the selected income statement data for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 have been derived from our consolidated financial statements.

(Dollars in thousands, except per share data)	As of or for the Three Months Ended		As of or for the Six Months Ended		As of or for the Three Months Ended		As of or for the Nine Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022

Balance Sheet Data:								
Loans, net of unearned income	$ 1,769,801	$ 1,692,652	$ 1,769,801	$ 1,692,652	$ 1,820,132	$ 1,725,114	$ 1,820,132	$ 1,725,114
Allowance for loan credit losses	20,629	20,031	20,629	20,031	20,036	20,032	20,036	20,032
Total assets	2,364,250	2,316,374	2,364,250	2,316,374	2,298,202	2,305,540	2,298,202	2,305,540
Deposits	2,046,309	2,043,741	2,046,309	2,043,741	1,981,623	2,063,341	1,981,623	2,063,341
Shareholders' equity	218,970	207,530	218,970	207,530	220,567	202,212	220,567	202,212
Asset Quality Data:								
Net (charge-offs) recoveries to average total loans, net of unearned income (annualized)	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Allowance for loan credit losses to nonperforming loans	NM	NM	NM	NM	NM	NM	NM	NM
Allowance for loan credit losses to total gross loans net of unearned income	1.17 %	1.18 %	1.17 %	1.18 %	1.10 %	1.16 %	1.10 %	1.16 %
Non-performing assets to total assets	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Non-performing loans to total loans	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Capital Ratios (Bank level):								
Equity-to-total assets ratio	10.2 %	9.9 %	10.2 %	9.9 %	10.6 %	9.7 %	10.6 %	9.7 %
Total risk-based capital ratio	16.1 %	15.1 %	16.1 %	15.1 %	15.7 %	15.4 %	15.7 %	15.4 %
Tier 1 risk-based capital ratio	15.0 %	14.0 %	15.0 %	14.0 %	14.6 %	14.3 %	14.6 %	14.3 %
Common equity tier 1 ratio	15.0 %	14.0 %	15.0 %	14.0 %	14.6 %	14.3 %	14.6 %	14.3 %
Leverage ratio	11.6 %	11.0 %	11.6 %	11.0 %	11.3 %	11.0 %	11.3 %	11.0 %

Income Statement Data:								
Interest and dividend income	$ 24,455	$ 19,555	$ 47,908	$ 39,300	$ 26,263	$ 21,208	$ 74,171	$ 60,509
Interest expense	12,446	2,247	21,430	4,076	14,284	3,516	35,715	7,593
Net interest income	$ 12,009	$ 17,308	$ 26,478	$ 35,224	$ 11,979	$ 17,692	$ 38,456	$ 52,916
Provision for (recovery of) credit losses	(868)	—	(1,642)	—	(829)	—	(2,471)	—
Non-interest income	685	109	1,251	523				
Non-interest income (loss)					(16,815)	450	(15,564)	973
Non-interest expense	7,831	7,681	15,601	16,467	7,660	7,958	23,261	24,425
Income before taxes	$ 5,731	$ 9,736	$ 13,770	$ 19,280				
Income tax expense	1,241	1,854	2,976	3,724				
Net income	$ 4,490	$ 7,882	$ 10,794	$ 15,556				
Income (loss) before taxes					$ (11,667)	$ 10,184	$ 2,102	$ 29,464
Income tax expense (benefit)					(1,530)	2,139	1,446	5,863
Net income (loss)					$ (10,137)	$ 8,045	$ 656	$ 23,601
Per Share Data and Shares Outstanding:								
Weighted average common shares (basic)	14,077,658	13,932,256	14,150,155	13,858,057	14,080,026	13,989,414	14,126,522	13,902,324
Weighted average common shares (diluted)	14,143,253	14,085,160	14,228,155	14,042,205	14,080,026	14,108,286	14,199,179	14,065,887
Common shares outstanding	14,126,138	14,026,589	14,126,138	14,026,589	14,126,084	14,070,080	14,126,084	14,070,080
Earnings per share, basic	$ 0.32	$ 0.56	$ 0.76	$ 1.11				
Earnings per share, diluted	$ 0.32	$ 0.56	$ 0.76	$ 1.10				
Book value	$ 15.50	$ 14.80	$ 15.50	$ 14.80				
Earnings (loss) per share, basic					$ (0.72)	$ 0.57	$ 0.05	$ 1.69

Earnings (loss) per share, diluted					$ (0.72)	$ 0.57	$ 0.05	$ 1.67
Book value per share					$ 15.61	$ 14.37	$ 15.61	$ 14.37
Performance Ratios:								
Return on average assets ("ROAA")(1)	0.77 %	1.41 %	0.93 %	1.41 %	(1.73)%	1.38 %	0.04 %	1.40 %
Return on average equity ("ROAE")(2)	8.13 %	15.28 %	9.85 %	15.02 %	(18.24)%	15.07 %	0.40 %	15.03 %
Net interest margin(3)	2.10 %	3.16 %	2.33 %	3.25 %	2.08 %	3.10 %	2.25 %	3.19 %
Non-interest expense to average assets (annualized)(4)	1.34 %	1.38 %	1.34 %	1.49 %	1.30 %	1.36 %	1.33 %	1.45 %
Efficiency ratio(5)	61.7 %	44.1 %	56.3 %	46.1 %	(158.4)%	43.9 %	101.6 %	45.3 %

NM – Not meaningful

(1) ROAA is calculated by dividing year-to-date net income annualized by year-to-date average assets.
(2) ROAE is calculated by dividing year-to-date net income annualized by year-to-date average equity.

Table of Contents

(3) Net interest margin for all periods presented are reported on a tax-equivalent basis using the federal statutory tax rate of 21%.
(4) Non-interest expense to average assets is calculated by dividing year-to-date annualized non-interest expense by year-to-date average assets.
(5) The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income and non-interest income.

Table of Contents

Results of Operations – Six Nine Months Ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022

Overview

Net income for the six months ended June 30, 2023 decreased $4.8 million or 30.6% to $10.8 million compared to $15.6 million for the same period of 2022. Diluted earnings per share for the six months ended June 30, 2023 were $0.76, a 31.3% decrease when compared to the $1.10 reported for the six months ended June 30, 2022.

Net interest income for the six months ended June 30, 2023 decreased $8.7 million or 24.8% compared to the same period of 2022, driven primarily by the increase in costs of interest-bearing liabilities outpacing the increase in yield on interest-earning assets.

The Company recorded a $1.6 million recovery reported net income of provision for credit losses $656 thousand for the six nine months ended June 30, 2023 compared to no provision for the six month ended June 30, 2022. Additional discussion September 30, 2023, a decrease of the provision for credit losses is included below under the heading *Provision for Credit Losses.*

Non-interest income increased $728 thousand during the six months ended June 30, 2023 compared to the same period of 2022. The increase in non-interest income was primarily due to an increase of $563 thousand as a result of mark-to-market adjustments on investments related to the Company's nonqualified deferred compensation plan. The Company also had an increase in other service charges and fee income of $223 thousand primarily as a result of penalty fee income recognized on the early withdrawal of certificates of deposit, as well as a $91 thousand increase in customer interest rate swap fee income. These increases were partially offset by losses of $202 thousand recognized on the sale of $12.0 million of investment securities during six months ended June 30, 2023. The sales were executed to manage the Company's interest rate risk position and allow for the reinvestment of proceeds into higher yielding assets.

Non-interest expense decreased $866 thousand or 5.3% for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The decrease in non-interest expense was primarily due to decreases in salaries and employee benefits expense, professional fees, occupancy expense of premises and furniture and equipment expense. The decrease in salaries and employee benefits was primarily due to a reduction in incentive compensation accruals $22.9 million when compared to the same period in 2022. As disclosed in our second quarter Form 10-Q filed August 9, 2023, during July the Company sold certain lower-yielding available-for-sale investment securities with a total par value of $161.2 million and agreed to surrender $21.4 million of bank owned life insurance ("BOLI") contracts, resulting in a non-recurring, after-tax loss of $14.6 million that was recorded during the third quarter of 2023 (the "Restructuring"). Core net income (Non-GAAP) defined as reported net income excluding the non-recurring after-tax loss and taxes paid in conjunction with the surrender of the prior year. Incentive compensation accruals can fluctuate materially Bank's BOLI policies resulting from quarter to quarter, based upon the Company's financial performance and conditions measured against, among other evaluation criteria, our strategic plan and budget. At the end of each year, the ultimate determination of the incentive compensation is approved by the Board of Directors. The decrease in professional fees Restructuring was due to non-recurring professional fees incurred in the first half of 2022 as part of our registration with the SEC and timing of projects. The decrease in occupancy expense of premises was due to $15.3 million, a decrease in office rent as a result of the renegotiation of certain leases. The decrease in furniture and equipment expense was due to lower depreciation expense on fixed assets. The decrease in non-interest expense was partially offset by increases in FDIC insurance expense, franchise tax expense and director compensation expense. The increase in FDIC insurance expense was attributable $8.3 million when compared to the FDIC increasing the base assessment rate for all insured depository institutions. same period in 2022. The increase in franchise tax expense was due following table reconciles net income to an increase in the Bank's equity core net income, which is a non-GAAP measure, and outlines reported (GAAP) and core (Non-GAAP) diluted earnings per share, annualized ROAA and annualized ROAE as that is the basis the Commonwealth of Virginia uses to assess taxes on banking institutions. The increase in director compensation expense was primarily due to the accelerated vesting of restricted stock awards as a result of the death of a director during the first quarter of 2023. follows:

The ROAA for the six months ended June 30, 2023 and June 30, 2022 was 0.93% and 1.41%, respectively. The ROAE for the six months ended June 30, 2023 and June 30, 2022 was 9.85% and 15.02%, respectively.

	For the Nine Months Ended	
(Dollars in thousands except per share amounts)	**September 30, 2023**	**September 30, 2022**
Net income (GAAP)	$ 656	$ 23,601
Add: Loss on securities sale, net of tax	13,520	-
Add: Non-recurring tax and 10% modified endowment contract penalty on early surrender of BOLI policies	1,101	-
Core net income (Non-GAAP)(1)	$ 15,277	$ 23,601
Earnings per share - diluted (GAAP)	$ 0.05	$ 1.67
Core earnings per share - diluted (Non-GAAP)(2)	$ 1.08	$ 1.67
Return on average assets (annualized) (GAAP)	0.04 %	1.40 %
Core return on average assets (annualized) (Non-GAAP)(3)	0.87 %	1.40 %
Return on average equity (annualized) (GAAP)	0.40 %	15.03 %
Core return on average equity (annualized) (Non-GAAP)(4)	9.25 %	15.03 %

(1) Core net income reflects net income adjusted for the non-recurring tax effected loss recognized on the sale of available-for-sale securities and non-recurring tax expense associated with the surrender of the Company's BOLI policies in July 2023. Tax benefit (expense) is calculated using the federal statutory tax rate of 21%.

(2) Core earnings per share – diluted is calculated by dividing core net income by basic weighted average shares outstanding and diluted weighted average shares outstanding, respectively, for each period presented.

(3) Core return on average assets (annualized) is calculated by dividing annualizing core net income by average assets for each period presented.

(4) Core return on average equity (annualized) is calculated by dividing annualizing core net income by average equity for each period presented.

Net Interest Income and Net Interest Margin

Net interest income is the excess of interest earned on loans and investments over the interest paid on deposits and borrowings, and is the Company's primary revenue source. Net interest income is affected by overall balance sheet growth, changes in interest rates and changes in the mix of investments, loans, deposits and borrowings. The Company's interest-earning assets include loans, investment securities and interest-bearing deposits in other banks, while our interest-bearing liabilities include interest-bearing deposits and borrowings. Net interest margin represents the difference between interest received and interest paid as a percentage of average total interest-earning assets. Management seeks to maximize net interest income without exposing the Company to an excessive level of interest rate risk through management's asset and liability management policies. Interest rate risk is managed by monitoring the pricing, maturity, and repricing options of all classes of interest-bearing assets and liabilities. Management expects net interest income and net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of the Company's interest-earning assets and interest-bearing liabilities.

Table of Contents

The following table presents the average balance for each principal balance sheet category, and the amount of interest income or expense associated with that category, as well as corresponding average yields earned and rates paid for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

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

	June 30, 2023			June 30, 2022			September 30, 2023			Septembe	
(Dollars in thousands)	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Inter E
Assets:											
Securities:											
Taxable	$ 449,272	$ 4,536	2.04 %	$ 407,341	$ 3,397	1.68 %	$ 401,623	$ 6,117	2.04 %	$ 433,128	$
Tax-exempt(1)	3,184	43	2.72 %	5,004	76	3.06 %	2,678	56	2.80 %	5,002	
Total securities	$ 452,456	$ 4,579	2.04 %	$ 412,345	$ 3,473	1.70 %	$ 404,301	$ 6,173	2.04 %	$ 438,130	$
Loans, net of unearned income(2):											
Taxable	1,741,915	40,969	4.74 %	1,611,916	35,209	4.40 %	1,748,904	62,664	4.79 %	1,626,661	
Tax-exempt(1)	28,447	584	4.14 %	19,367	391	4.07 %	28,319	875	4.13 %	22,656	
Total loans, net of unearned income	$ 1,770,362	$ 41,553	4.73 %	$ 1,631,283	$ 35,600	4.40 %	$ 1,777,223	$ 63,539	4.78 %	$ 1,649,317	$
Interest-bearing deposits in other banks	$ 77,571	$ 1,908	4.96 %	$ 150,734	$ 325	0.43 %	$ 119,002	$ 4,654	5.23 %	$ 134,874	$
Total interest-earning assets	$ 2,300,389	$ 48,040	4.21 %	$ 2,194,362	$ 39,398	3.62 %	$ 2,300,526	$ 74,366	4.32 %	$ 2,222,321	$
Total non-interest earning assets	39,342			33,830			36,572			35,066	
Total assets	$ 2,339,731			$ 2,228,192			$ 2,337,098			$ 2,257,387	
Liabilities & Shareholders' Equity:											
Interest-bearing deposits											

Interest-bearing deposits:											
NOW accounts	$ 272,872	$ 2,245	1.66 %	$ 323,546	$ 424	0.26 %	$ 291,217	$ 4,484	2.06 %	$ 325,647	$
Money market accounts	390,511	4,951	2.56 %	395,532	789	0.40 %	374,053	7,560	2.70 %	389,535	
Savings accounts	81,025	475	1.18 %	111,312	177	0.32 %	75,273	673	1.20 %	109,740	
Time deposits	858,027	12,647	2.97 %	635,359	1,631	0.52 %	855,076	20,873	3.26 %	658,897	
Total interest-bearing deposits	$ 1,602,435	$ 20,318	2.56 %	$ 1,465,749	$ 3,021	0.42 %	$ 1,595,619	$ 33,590	2.81 %	$ 1,483,819	$
Federal funds purchased	392	9	4.63 %	—	—	0.00	294	10	4.55 %	—	
Subordinated debt	24,643	698	5.71 %	27,007	1,013	7.56 %	24,653	1,047	5.68 %	27,476	
Other borrowed funds	17,023	405	4.80 %	12,453	42	0.68 %	29,483	1,068	4.84 %	8,257	
Total interest-bearing liabilities	$ 1,644,493	$ 21,430	2.63 %	$ 1,505,209	$ 4,076	0.55 %	$ 1,650,049	$ 35,715	2.89 %	$ 1,519,552	$
Demand deposits	456,445			497,899			447,778			511,504	
Other liabilities	17,845			16,161			18,483			16,321	
Total liabilities	$ 2,118,783			$ 2,019,269			$ 2,116,310			$ 2,047,377	
Shareholders' equity	$ 220,948			$ 208,923			$ 220,788			$ 210,010	
Total liabilities and shareholders' equity	$ 2,339,731			$ 2,228,192			$ 2,337,098			$ 2,257,387	
Net interest spread			1.58 %			3.07 %			1.43 %		
Net interest income and margin		$ 26,610	2.33 %		$ 35,322	3.25 %		$ 38,651	2.25 %		$

(1) Income and yields for all periods presented are reported on a tax-equivalent basis using the federal statutory tax rate of 21%.

(2) The Company did not have any loans on non-accrual as of June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

Net interest margin as presented above is calculated by dividing tax-equivalent net interest income by total average earning assets. Net interest income, on a tax equivalent basis, is a financial measure that the Company believes provides a more accurate picture of the interest margin for comparative purposes. Tax-equivalent net interest income is calculated by adding the tax benefit on certain securities and loans, whose interest is tax-exempt, to total interest income then subtracting total interest expense. The following table, "Tax-Equivalent Net Interest Income," reconciles net interest income to tax-equivalent net interest income, which is a non-GAAP measure.

Tax-Equivalent Net Interest Income

(Dollars in thousands)	Six months ended June 30, 2023	Six months ended June 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
GAAP Financial Measurements:				
Interest Income - Loans	$ 41,430	$ 35,518	$63,355	$53,740
Interest Income - Securities and Other Interest-Earning Assets	6,478	3,782	10,816	6,769
Interest Expense - Deposits	20,318	3,021	33,590	6,090
Interest Expense - Borrowings	1,112	1,055	2,125	1,503
Total Net Interest Income	$ 26,478	$ 35,224	$38,456	$52,916
Non-GAAP Financial Measurements:				
Add: Tax Benefit on Tax-Exempt Interest Income - Loans	123	82	184	146
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	9	16	11	24
Total Tax Benefit on Tax-Exempt Interest Income (1)	$ 132	$ 98	$ 195	$ 170
Tax-Equivalent Net Interest Income	$ 26,610	$ 35,322	$38,651	$53,086

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

Net interest income decreased $8.7 million $14.4 million or 24.7% 27.2% on a fully tax-equivalent basis for the six nine months ended June 30, 2023 September 30, 2023, compared to the six nine months ended June 30, 2022 September 30, 2022. The decrease in net interest income was driven by the increase in the costs of interest-bearing liabilities outpacing the increase in yield on interest-earning assets.

On a fully tax-equivalent basis, the net interest margin was 2.33% 2.25% for the six nine months ended June 30, 2023 September 30, 2023, compared to 3.25% 3.19% for the six nine months ended June 30, 2022 September 30, 2022. The decrease in net interest margin was primarily due to increases in the cost of interest-bearing deposits and other borrowed funds outpacing the increase in yield on loans and securities. The cost of interest-bearing liabilities increased 2.08% 2.22% from 0.55% 0.67% for the six nine months ended June 30, 2022 September 30, 2022 to 2.63% 2.89% for the six nine months ended June 30, 2023 September 30, 2023. The increase in the cost of interest-bearing liabilities was primarily due to higher interest expense on deposits and other borrowings. The increase in the overall cost of interest-bearing liabilities in during the first half of 2023 nine months ended September 30, 2023 relative to the same period of the prior year is largely due to rate hikes totaling 5.00% 5.25% by the Federal Reserve Bank since the beginning of 2022, which is increasing cost of funds and compressing net interest margins broadly across the banking industry.

The loan portfolio's yield for the six nine months ended June 30, 2023 September 30, 2023 was 4.73% 4.78% compared to 4.40% 4.37% for the six nine months ended June 30, 2022 September 30, 2022. The increase of 0.33% 0.41% was primarily attributable to an increase in yield on the Company's variable rate loans as a result of an increase in interest rates subsequent to June 30, 2022 September 30, 2022 coupled with a higher weighted average yield on loans originated since the second third quarter of 2022.

The investment securities portfolio's yield for the six nine months ended June 30, 2023 September 30, 2023 was 2.04% compared to 1.70% 1.80% for the six nine months ended June 30, 2022 September 30, 2022. The increase of 0.34% 0.24% was primarily due to the Company realizing the full benefit of higher yields on investment securities purchased subsequent to June 30, 2022. during the latter part of the second quarter of 2022.

The yield on interest-bearing deposits due from banks for the six nine months ended June 30, 2023 September 30, 2023 was 4.96% 5.23% compared to 0.43% 0.89% for the six nine months ended June 30, 2022 September 30, 2022. The increase of 4.53% 4.34% was primarily due to a higher federal funds rate during the six nine months ended June 30, 2023 September 30, 2023 when compared to the same period of 2022.

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

Rate/Volume Analysis

	For the Six Months Ended June 30, 2023 and 2022			For the Nine Months Ended September 30, 2023 and 2022		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest-earning Assets:						
Securities:						
Taxable	$ 402	$ 737	$ 1,139	$ (506)	$ 841	$ 335
Tax-exempt(1)	(27)	(6)	(33)	(53)	(5)	(58)
Total securities	$ 375	$ 731	$ 1,106	$ (559)	$ 836	$ 277
Loans, net of unearned income:						
Taxable	3,058	2,702	5,760	4,381	5,091	9,472
Tax-exempt(1)	187	6	193	174	7	181
Total loans, net of unearned income(2)	$ 3,245	$ 2,708	$ 5,953	$4,555	$ 5,098	$ 9,653
Interest-bearing deposits in other banks	$ (1,746)	$ 3,329	$ 1,583	$ (480)	$ 4,237	$ 3,757
Total interest-earning assets	$ 1,874	$ 6,768	$ 8,642	$3,516	$ 10,171	$ 13,687
Interest-bearing Liabilities:						
Interest-bearing deposits:						
NOW accounts	$ (517)	$ 2,338	$ 1,821	$ (546)	$ 4,201	$ 3,655
Money market accounts	(143)	4,305	4,162	(375)	6,419	6,044
Savings accounts	(178)	476	298	(308)	697	389
Time deposits	3,242	7,774	11,016	4,716	12,696	17,412
Total interest-bearing deposits	$ 2,404	$ 14,893	$ 17,297	$3,487	$ 24,013	$ 27,500
Federal funds purchased	9	—	9	10	—	10
Subordinated debt	(67)	(248)	(315)	(120)	(294)	(414)
Other borrowed funds	127	236	363	790	236	1,026
Total interest-bearing liabilities	$ 2,473	$ 14,881	$ 17,354	$4,167	$ 23,955	$ 28,122
Change in net interest income	$ (599)	$ (8,113)	$ (8,712)	$ (651)	$(13,784)	$ (14,435)

(1) Income and yields for all periods presented are reported on a tax-equivalent basis using the federal statutory tax rate of 21%.

(2) The Company did not have any loans on non-accrual as of June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

Interest Income

Interest income increased by $8.6 million $13.7 million or 21.9% 22.6% to $48.0 million $74.4 million on a fully tax-equivalent basis for the six nine months ended June 30, 2023 September 30, 2023 compared to $39.4 million $60.7 million for the six nine months ended June 30, 2022 September 30, 2022, driven by both an increase in volume rates and rates volume on interest-earning assets. The increase in rate on interest-earning assets was primarily attributable to the Company's loan portfolio and interest-bearing deposits due from banks. The increase in volume of average interest-earning assets was primarily attributable to the Company's loan portfolio. The increase in rate on interest-earning assets was primarily attributable to interest-bearing deposits due from banks, as well as the Company's loan portfolio.

Fully tax-equivalent interest income on loans increased by approximately $6.0 million $9.7 million as a result of volume and an increase in rate. Average loans for the comparative six nine month period increased approximately $139.1 million $127.9 million between June 30, 2023 September 30, 2022 and June 30, 2022 September 30, 2023, which was primarily attributable to origination volume in the commercial real estate and residential real estate portfolios subsequent to June 30, 2022 September 30, 2022.

Fully tax-equivalent interest income on investment securities increased by approximately $1.1 million $277 thousand as a result of rate increases, partially offset by volume growth as a result of the Restructuring that took place in July 2023, and rate increases. to a lesser extent, the amortization of securities. Average investment securities for the comparative six nine month period increased decreased approximately $40.1 million $33.8 million between the six months ended June 30, 2023 September 30, 2022 and June 30, 2022 September 30, 2023. The increase in investment securities was due to purchases and funded primarily by Paycheck Protection Program loan payoffs.

The increase in rates on loans, investment securities, and interest-bearing deposits in other banks was primarily attributable to an increase in benchmark interest rates since June 30, 2022 September 30, 2022.

Table of Contents

Interest Expense

Interest expense increased by $17.3 million $28.1 million to $21.4 million $35.7 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $4.1 million $7.6 million for the six nine months ended June 30, 2022 September 30, 2022, primarily due to an increase in rates and, to a lesser extent, volume of deposits. The increase in rates was primarily a result of the repricing of the Company's time deposits coupled with an increase in rates offered on deposit accounts subsequent to June 30, 2022 September 30, 2022 as a result of an increase in benchmark interest rates.

Provision for Credit Losses

The Company recorded a $1.6 million $2.5 million recovery of provision for credit losses for the six nine months ended June 30, 2023 September 30, 2023 compared to no provision for the six nine months ended June 30, 2022 September 30, 2022. The recovery of provision for credit losses for the current period that is directly attributable to the loan portfolio was $1.7 million. The current period net recovery of provision for credit losses also contains a $104 thousand provision expense and associated with unfunded loan commitments which partially offset the recovery of provision for credit losses directly attributable to the loan portfolio. was $2.3 million and $0.2 million, respectively.

The recovery of provision for credit losses during the six nine months ended June 30, 2023 directly attributable to September 30, 2023 was primarily a result of changes in the Company's loss driver analysis, resulting from a periodic review of our assumptions. The review resulted in a lower modeled probability of default, changes in prepayment and curtailment rates, and an assessment of management's considerations of existing economic versus historical conditions combined with the continued strong credit performance of our loan portfolio was primarily due to an improvement in the forecasted housing price index used in the quantitative component of the CECL model, changes in qualitative factors and a decrease in loan balances during the first half of the year.

The provision for credit losses during the six months ended June 30, 2023 directly attributable to unfunded loan commitments was primarily due to an increase in unfunded loan commitment balances during the first half of 2023.

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

Non-interest Income

The Company's recurring sources of non-interest income consist primarily of bank owned life insurance income, service charges on deposit accounts, interchange income and insurance commissions. Generally speaking, loan fees are included in interest income on the loan portfolio and not reported as non-interest income.

The following table summarizes non-interest income for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Six months ended June 30,		Nine months ended September 30,	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Service charges on deposit accounts				
Overdrawn account fees	$ 35	$ 41	$ 55	$ 60
Account service fees	119	120	184	180
Other service charges and fees				
Interchange income	203	198	304	306
Other charges and fees	314	96	373	163
Bank owned life insurance	201	190	224	445
Losses on sale of available-for-sale securities	(202)	—	(17,316)	—
Net gains (losses) on premises and equipment	16	(1)	16	(1)
Insurance commissions	256	265	310	312
Gain on sale of government guaranteed loans	23	—	50	—
Other operating income (loss)	286	(386)		
Total non-interest income	$ 1,251	$ 523		
Non-qualified deferred compensation plan asset gains (losses), net			112	(498)
Other operating income			124	6

Total non-interest income (loss)	$(15,564)	$ 973

Non-interest income increased $728 thousand decreased $16.5 million during the six nine months ended June 30, 2023 September 30, 2023 compared to the same period of in 2022. The increase decrease in non-interest income was primarily due to an increase the Restructuring that resulted in a loss of $563 $17.1 million. Core non-interest income (Non-GAAP) defined as reported non-interest income excluding the $17.1 million loss stemming from the bond sale portion of the Restructuring, increased $577 thousand primarily due to favorable variances of $610 thousand as a result of mark-to-market adjustments on investments related to the Company’s nonqualified deferred compensation plan. The Company also had an increase in other service charges and fee income of $223 $208 thousand primarily as a result of penalty fee income recognized on the early withdrawal of certificates of deposit, as well as a $91 thousand increase in customer interest rate swap fee income. income and gains recorded on the sale of the guaranteed portion of SBA 7(a) loans totaling $50 thousand. These increases were partially offset by losses a decrease in BOLI income of $202 $221 thousand recognized on due to the sale surrender of $12.0 million all BOLI policies as part of investment securities during six months ended June 30, 2023. The sales the Restructuring.

were executed to manage the Company’s interest rate risk position, allow for the reinvestment of proceeds into higher yielding assets and as a risk management strategy to reduce the Company’s exposure to municipalities. Excluding mark-to-market adjustments on nonqualified deferred compensation plan investments and the loss on securities sold, non-interest income increased $367 thousand or 40.2% when compared to the same period in 2022.

Non-interest Expense

Generally, non-interest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing banking services. The largest component of non-interest expense is salaries and employee benefits. Non-interest expense also includes operational expenses, such as occupancy and equipment expenses, data processing expenses, professional fees, advertising expenses and other general and administrative expenses, including FDIC assessments, and Virginia state franchise taxes.

The following table summarizes non-interest expense for the the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Six months ended June 30,		Nine months ended September 30,	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Salaries and employee benefits expense	$ 9,877	$ 10,682	$14,929	$15,754
Occupancy expense of premises	918	975	1,363	1,435
Furniture and equipment expenses	600	666	882	989
Advertising expense	153	100	239	147
Data processing	881	928	1,374	1,412
FDIC insurance	496	270	771	410
Professional fees	294	571	154	852
State franchise tax	1,181	1,047	1,785	1,570
Bank insurance	114	90	174	147
Vendor services	273	301	407	452
Supplies, printing, and postage	62	61	103	97
Director costs	443	415	629	615
Other operating expenses	309	361	451	545
Total non-interest expense	$ 15,601	$ 16,467	$23,261	$24,425

Non-interest expense decreased $866 thousand $1.2 million or 5.3% for 4.8% during the six nine months ended June 30, 2023 September 30, 2023 compared to the six months ended June 30, 2022. The decrease same period in non-interest expense was 2022 primarily due to decreases in salaries and employee benefits expense and professional fees, occupancy expense of premises and furniture and equipment expense. fees. The decrease in salaries and employee benefits was primarily due to a reduction in incentive compensation accruals when compared to the same period of the prior year. Incentive compensation accruals can fluctuate materially from quarter to quarter, based upon the Company’s financial performance and conditions measured against, among other evaluation criteria, our strategic plan and budget. At the end of each year, the ultimate determination of the incentive compensation is approved by the Board of Directors. The decrease in professional fees was due to non-recurring professional fees incurred in the first half reversal of 2022 a litigation reserve totaling

$322 thousand as parta result of our registration witha favorable verdict received by the SECCompany on a multi-year legal matter that was resolved during the quarter and lower legal and consulting expenses due to timing of strategic projects. The decrease in occupancy expense of premises was due to a decrease in office rent as a result of the renegotiation of certain leases. The decrease in furniture and equipment expense was due to lower depreciation expense on fixed assets.

The decrease in non-interest expense wasThese decreases were partially offset by increases in FDIC insurance expense, franchise tax expense and director compensation expense. The increase in FDIC insurance expense was attributable to the FDIC increasing the base assessment rate for all insured depository institutions. The increase in franchise tax expense was due to an increase in the Bank's equity as that is the basis the Commonwealth of Virginia uses to assess taxes on banking institutions. The increase in director compensation expense was primarily due to the accelerated vesting of restricted stock awards as a result of the death of a director during the first quarter of 2023.

Income Taxes

Income tax expense decreased $748 thousand or 20.1% to $3.0 million for the six months ended June 30, 2023 compared to $3.7 million for the six months ended June 30, 2022. Our effective tax rate for the six months ended June 30, 2023 was 21.6%, compared to 19.3% for the same period of 2022. The increase in our effective tax rate was primarily due to non-recurring tax benefits realized in connection with the exercise of certain nonqualified stock options during the six months ended June 30, 2022.

Table of Contents

Results of Operations – Three Months Ended June 30, 2023 and June 30, 2022

Overview

Net income for the three months ended June 30, 2023 decreased $3.4 million or 43.0% to $4.5 million compared to $7.9 million for the three months ended June 30, 2022. Diluted earnings per share for the three months ended June 30, 2023 were $0.32, a 42.9% decrease when compared to the $0.56 reported for the three months ended June 30, 2022.

Net interest income for the three months ended June 30, 2023 decreased $5.3 million or 30.6% compared to the three months ended June 30, 2022, driven primarily by the increase in costs of interest-bearing liabilities outpacing the increase in yield on interest-earning assets.

The Company recorded a $868 thousand recovery of provision for credit losses for the three months ended June 30, 2023 compared to no provision for the three months ended June 30, 2022. Additional discussion of the provision for credit losses is included below under the heading *Provision for Credit Losses.*

Non-interest income increased $576 thousand during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. The increase in non-interest income was primarily due to an increase of $357 thousand as a result of mark-to-market adjustments on investments related to the Company's nonqualified deferred compensation plan. The Company also had an increase in other service charges and fee income of $157 thousand primarily as a result of penalty fee income recognized on the early withdrawal of certificates of deposit. The increase in non-interest income was also attributable to a $23 thousand gain recorded as a result of the Company's first sale of the guaranteed portion of a SBA 7(a) loan.

Non-interest expense increased $150 thousand or 2.0% during the second quarter of 2023 compared to the three months ended June 30, 2022. The increase in non-interest expense was primarily due to an increase in salaries and employee benefit expense as a result of lower offsetting direct loan origination costs as a result of lower loan origination volume in the second quarter of 2023 when compared to the same period of the prior year. Salaries and employee benefit expense is reduced to account for the portion of salary costs incurred to originate a loan and are subsequently amortized into net interest income to match the costs incurred with the economic benefit derived from originating a loan. The increase in non-interest expense was also attributable to increases in FDIC insurance expense and franchise taxadvertising expense. The increase in FDIC insurance expense resulted from the FDIC increasing the base assessment rate for all insured depository institutions. The increase in franchise tax expense was due to an increase in the Bank's equity as that is the basis the Commonwealth of Virginia uses to assess taxes on banking institutions. The increase in non-interest expense was partially offset by decreases in professional fees, occupancy expense of premises and furniture and equipment expense. The decrease in professional fees was due to non-recurring professional fees incurred in the second quarter of 2022 as part of our registration with the SEC and timing of projects. The decrease in occupancy expense of premises was due to a decrease in office rent as a result of the renegotiation of certain leases. The decrease in furniture and equipmentadvertising expense was due to lower depreciationincreased marketing and promotional activity.

Income Taxes

Income tax expense on fixed assets. The Company continues decreased $4.4 million or 75.3% to analyze cost savings opportunities on existing leases and material contracts.

The ROAA $1.4 million for the nine months ended September 30, 2023 compared to $5.9 million for the nine months ended September 30, 2022. Excluding the impact of the Restructuring, the effective tax rate for the three months ended June 30, 2023 September 30, 2023 was 20.5% compared to 21.0% for the same period ended September 30, 2022.

Results of Operations – Three Months Ended September 30, 2023 and June 30, 2022 was 0.77% and 1.41%, respectively. September 30, 2022

Overview

The ROAE Company reported a net loss of $10.1 million for the three months ended June 30, 2023 September 30, 2023, a decrease of $18.2 million when compared to the three months ended September 30, 2022. This decrease was primarily attributable to the Restructuring, as previously

Table of Contents

discussed, that resulted in an after-tax loss of $14.6 million. Core net income (Non-GAAP) was $4.5 million for the three months ended September 30, 2022, a decrease of $3.6 million when compared to the same period in 2022. Reported (GAAP) and June 30, 2022 was 8.13% core (Non-GAAP) diluted earnings per share, ROAA and 15.28%, respectively. ROAE were as follows:

	For the Three Months Ended	
(Dollars in thousands except per share amounts)	**September 30, 2023**	**September 30, 2022**
Net income (loss) (GAAP)	$ (10,137)	$ 8,045
Add: Loss on securities sale, net of tax	13,520	-
Add: Non-recurring tax and 10% modified endowment contract penalty on early surrender of BOLI policies	1,101	-
Core net income (Non-GAAP)(1)	$ 4,484	$ 8,045
Earnings per share - diluted (GAAP)	$ (0.72)	$ 0.57
Core earnings per share - diluted (Non-GAAP)(2)	$ 0.32	$ 0.57
Return on average assets (annualized) (GAAP)	(1.73)%	1.38 %
Core return on average assets (annualized) (Non-GAAP)(3)	0.76 %	1.38 %
Return on average equity (annualized) (GAAP)	(18.24)%	15.07 %
Core return on average equity (annualized) (Non-GAAP)(4)	8.07 %	15.07 %

(1) Core net income reflects net income adjusted for the non-recurring tax effected loss recognized on the sale of available-for-sale securities and non-recurring tax expense associated with the surrender of the Company's BOLI policies in July 2023. Tax benefit (expense) is calculated using the federal statutory tax rate of 21%.

(2) Core earnings per share – diluted is calculated by dividing core net income by basic weighted average shares outstanding and diluted weighted average shares outstanding, respectively, for each period presented.

(3) Core return on average assets (annualized) is calculated by dividing annualizing core net income by average assets for each period presented.

(4) Core return on average equity (annualized) is calculated by dividing annualizing core net income by average equity for each period presented.

Table of Contents

Net Interest Income and Net Interest Margin

The following table presents the average balance for each principal balance sheet category, and the amount of interest income or expense associated with that category, as well as corresponding average yields earned and rates paid for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

Table of Contents

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

	June 30, 2023			June 30, 2022			September 30, 2023			Septembe	
(Dollars in thousands)	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Inter E
Assets:											
Securities:											
Taxable	$ 438,845	$ 2,210	2.02 %	$ 442,686	$ 1,957	1.77 %	$ 308,723	$ 1,582	2.03 %	$ 483,861	$
Tax-exempt[1]	2,933	20	2.74 %	5,002	38	3.05 %	1,684	13	3.06 %	4,999	
Total securities	$ 441,778	$ 2,230	2.02 %	$ 447,688	$ 1,995	1.79 %	$ 310,407	$ 1,595	2.04 %	$ 488,860	$
Loans, net of unearned income[2]:											
Taxable	1,739,511	20,775	4.79 %	1,622,666	17,180	4.25 %	1,762,653	21,695	4.88 %	1,655,670	
Tax-exempt[1]	28,320	292	4.14 %	19,248	195	4.06 %	28,067	292	4.13 %	29,126	
Total loans, net of unearned income	$ 1,767,831	$ 21,067	4.78 %	$ 1,641,914	$ 17,375	4.24 %	$ 1,790,720	$ 21,987	4.87 %	$ 1,684,796	$
Interest-bearing deposits in other banks	$ 95,441	$ 1,225	5.15 %	$ 115,107	$ 234	0.82 %	$ 200,515	$ 2,746	5.43 %	$ 103,669	$
Total interest-earning assets	$ 2,305,050	$ 24,522	4.27 %	$ 2,204,709	$ 19,604	3.57 %	$ 2,301,642	$ 26,328	4.54 %	$ 2,277,325	$
Total non-interest earning assets	39,662			35,410			29,761			37,500	
Total assets	$ 2,344,712			$ 2,240,119			$ 2,331,403			$ 2,314,825	
Liabilities & Shareholders' Equity:											
Interest-bearing deposits											
Interest-bearing deposits:											
NOW accounts	$ 287,094	$ 1,483	2.07 %	$ 322,255	$ 222	0.28 %	$ 327,309	$ 2,239	2.71 %	$ 329,780	$
Money market accounts	352,373	2,476	2.82 %	398,641	439	0.44 %	341,672	2,609	3.03 %	377,736	
Savings accounts	74,483	231	1.24 %	114,216	89	0.31 %	63,956	198	1.23 %	106,647	

Time deposits	901,104	7,569	3.37 %	633,273	948	0.60 %	849,270	8,227	3.84 %	705,206	
Total interest-bearing deposits	$ 1,615,054	$ 11,759	2.92 %	$ 1,468,385	$ 1,698	0.46 %	$ 1,582,207	$ 13,273	3.33 %	$ 1,519,369	$
Federal funds purchased	—	—	0.00 %	—	—	0.00 %	99	—	— %	—	
Subordinated debt	24,653	349	5.68 %	29,222	537	7.37 %	24,674	349	5.61 %	28,397	
Other borrowed funds	27,890	338	4.86 %	6,967	12	0.69 %	54,000	662	4.86 %	—	
Total interest-bearing liabilities	$ 1,667,597	$ 12,446	2.99 %	$ 1,504,574	$ 2,247	0.60 %	$ 1,660,980	$ 14,284	3.41 %	$ 1,547,766	$
Demand deposits	436,648			511,846			430,727			538,271	
Other liabilities	18,859			16,732			19,223			16,641	
Total liabilities	$ 2,123,104			$ 2,033,152			$ 2,110,930			$ 2,102,678	
Shareholders' equity	$ 221,608			$ 206,967			$ 220,473			$ 212,247	
Total liabilities and shareholders' equity	$ 2,344,712			$ 2,240,119			$ 2,331,403			$ 2,314,925	
Net interest spread			1.28 %			2.97 %			1.13 %		
Net interest income and margin		$ 12,076	2.10 %		$ 17,357	3.16 %		$ 12,044	2.08 %		$

(1) Income and yields for all periods presented are reported on a tax-equivalent basis using the federal statutory tax rate of 21%.

(2) The Company did not have any loans on nonaccrual as of June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

Net interest margin as presented above is calculated by dividing tax-equivalent net interest income by total average earning assets. Net interest income, on a tax equivalent basis, is a financial measure that the Company believes provides a more accurate picture of the interest margin for comparative purposes. Tax-equivalent net interest income is calculated by adding the tax benefit on certain securities and loans, whose interest is tax-exempt, to total interest income then subtracting total interest expense. The following table, "Tax-Equivalent Net Interest Income," reconciles net interest income to tax-equivalent net interest income, which is a non-GAAP measure.

Table of Contents

Tax-Equivalent Net Interest Income

	Three months ended June 30,		Three months ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
GAAP Financial Measurements:				
Interest Income - Loans	$ 21,005	$ 17,334	$21,925	$18,222
Interest Income - Securities and Other Interest-Earning Assets	3,450	2,221	4,338	2,986
Interest Expense - Deposits	11,759	1,698	13,273	3,068
Interest Expense - Borrowings	687	549	1,011	448

Total Net Interest Income	$ 12,009	$ 17,308	$11,979	$17,692
Non-GAAP Financial Measurements:				
Add: Tax Benefit on Tax-Exempt Interest Income - Loans	62	41	62	63
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	5	8	3	8
Total Tax Benefit on Tax-Exempt Interest Income (1)	$ 67	$ 49	$ 65	$ 71
Tax-Equivalent Net Interest Income	$ 12,076	$ 17,357	$12,044	$17,763

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

Net interest income decreased $5.3 million $5.7 million or 30.4% 32.2% on a fully tax-equivalent basis for the three months ended June 30, 2023 September 30, 2023, compared to the three months ended June 30, 2022 September 30, 2022. The decrease in net interest income was driven by the increase in the costs of interest-bearing liabilities outpacing the increase in yield on interest-earning assets.

On a fully tax-equivalent basis, the net interest margin was 2.10% 2.08% for the three months ended June 30, 2023 September 30, 2023, compared to 3.16% 3.10% for the three months ended June 30, 2022 September 30, 2022. The decrease in net interest margin was primarily due to an increase in the cost of interest-bearing liabilities, which more than offset the increase in yields on loans, investments, and interest-bearing deposits in other banks. The cost of interest-bearing liabilities was 2.99% 3.41% for the second third quarter of 2023 compared to 0.60% 0.90% for the same quarter of the prior year. The increase in the cost of interest-bearing liabilities was primarily due to a 2.46% 2.53% increase in the cost of interest-bearing deposits as a result of the repricing of the Company's time deposits coupled with an increase in rates offered on deposit accounts subsequent to June 30, 2022 September 30, 2022 as a result of higher market interest rates.

The loan portfolio's yield for the three months ended June 30, 2023 September 30, 2023 was 4.78% 4.87% compared to 4.24% 4.31% for the three months ended June 30, 2022 September 30, 2022. The increase of 0.54% 0.56% was primarily attributable to an increase in yield on the Company's variable rate loans as a result of an increase in interest rates subsequent to June 30, 2022 September 30, 2022 coupled with a higher weighted average yield on loans originated since the second third quarter of 2022.

The investment securities portfolio's yield for the three months ended June 30, 2023 September 30, 2023 was 2.02% 2.04% compared to 1.79% 1.97% for the three months ended June 30, 2022 September 30, 2022. The increase of 0.23% 0.07% was primarily due to the Company realizing the full benefit of higher yields on investment securities purchased subsequent to June 30, 2022. during the latter part of the second quarter of 2022.

The yield on interest-bearing deposits due from banks for the three months ended June 30, 2023 September 30, 2023 was 5.15% 5.43% compared to 0.82% 2.19% for the three months ended June 30, 2022 September 30, 2022. The increase of 4.33% 3.24% was primarily due to a higher federal funds rate during the three months ended June 30, 2023 September 30, 2023 when compared to the same period of 2022.

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

Table of Contents

Rate/Volume Analysis

	For the Three Months Ended June 30, 2023 and 2022			For the Three Months Ended September 30, 2023 and 2022		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest-earning Assets:						
Securities:						
Taxable	$ (17)	$ 270	$ 253	$ (892)	$ 89	$ (803)
Tax-exempt(1)	(14)	(4)	(18)	(25)	—	(25)
Total securities	$ (31)	$ 266	$ 235	$ (917)	$ 89	$ (828)

Loans, net of unearned income:						
Taxable	1,396	2,199	3,595	1,317	2,395	3,712
Tax-exempt(1)	94	3	97	(10)	—	(10)
Total loans, net of unearned income(2)	$ 1,490	$ 2,202	$ 3,692	$1,307	$ 2,395	$ 3,702
Interest-bearing deposits in other banks	$ (252)	$ 1,243	$ 991	$1,327	$ 848	$ 2,175
Total interest-earning assets	$ 1,207	$ 3,711	$ 4,918	$1,717	$ 3,332	$ 5,049
Interest-bearing Liabilities:						
Interest-bearing deposits:						
NOW accounts	$ (163)	$ 1,424	$ 1,261	$ 81	$ 1,754	$ 1,835
Money market accounts	(426)	2,463	2,037	(253)	2,135	1,882
Savings accounts	(123)	265	142	(132)	223	91
Time deposits	2,232	4,389	6,621	1,400	4,997	6,397
Total interest-bearing deposits	$ 1,520	$ 8,541	$ 10,061	$1,096	$ 9,109	$ 10,205
Federal funds purchased	—	—	—	—	—	—
Subordinated debt	(64)	(124)	(188)	(53)	(46)	(99)
Other borrowed funds	338	(12)	326	662	—	662
Total interest-bearing liabilities	$ 1,794	$ 8,405	$ 10,199	$1,705	$ 9,063	$ 10,768
Change in net interest income	$ (587)	$ (4,694)	$ (5,281)	$ 12	$(5,731)	$ (5,719)

(1) Income and yields for all periods presented are reported on a tax-equivalent basis using the federal statutory tax rate of 21%.

(2) The Company did not have any loans on nonaccrual as of June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

Interest Income

Interest income increased by $4.9 million $5.0 million or 25.1% 23.7% to $24.5 million $26.3 million on a fully tax-equivalent basis for the three months ended June 30, 2023 September 30, 2023 compared to $19.6 million $21.3 million for the three months ended June 30, 2022 September 30, 2022, driven by both an increase in volume rates and rates volume on interest-earning assets. The increase in rate and volume of average interest-earning assets was primarily attributable to the Company's loan portfolio. The increase in rate on interest-earning assets was primarily attributable to the loan portfolio and interest-bearing deposits due from banks.

Fully tax-equivalent interest income on loans increased by approximately $3.7 million as a result of volume growth and an increase in rate. rate and originations. Average loans increased approximately $125.9 million $105.9 million between the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, which was primarily attributable to origination volume in the commercial real estate and residential real estate portfolios subsequent to June 30, 2022 September 30, 2022.

Fully tax-equivalent interest income on investment securities increased decreased by approximately $266 $828 thousand as a result of rate increases, which was a decrease in volume, partially offset by a decrease increase in fully tax-equivalent interest income of $31 thousand due to a decrease in volume. rate. Average investment securities decreased approximately $5.9 million $178.5 million between the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022. The decrease in investment securities was primarily due to the Restructuring and sale of certain low-yielding investment securities in July 2023, and to a lesser extent, the amortization of securities coupled with securities.

Interest income on interest-bearing deposits in other banks increased by $2.2 million as a result of an increase in volume and rate. Average interest-bearing deposits in other banks increased approximately $96.8 million between the sale of securities during the six three months ended June 30, 2023 September 30, 2023 and September 30, 2022. The increase in interest-bearing deposits in other banks was primarily due to the redeployment of proceeds from the Restructuring to interest-bearing deposits in other banks.

Table of Contents

The increase in rates on loans, investment securities, and interest-bearing deposits in other banks was primarily attributable to an increase in benchmark interest rates since June 30, 2022 September 30, 2022.

Table of Contents

Interest Expense

Interest expense increased by $10.2 million $10.8 million to $12.4 million $14.3 million for the three months ended June 30, 2023 September 30, 2023 compared to $2.2 million $3.5 million for the three months ended June 30, 2022 September 30, 2022, primarily due to an increase in rates and, to a lesser extent, volume of deposits. The increase in rates was primarily a result of the repricing of the Company's time deposits coupled with an increase in rates offered on deposit accounts subsequent to June 30, 2022 September 30, 2022 as a result of an increase in benchmark interest rates.

Provision for Credit Losses

The Company recorded a $868 $829 thousand recovery of provision for credit losses for the second third quarter of 2023 compared to no provision for the second same quarter of 2022. The recovery of provision for credit losses for the current period that is directly attributable to the loan portfolio was $990 thousand. The current period net recovery of provision for credit losses also contains a $122 thousand provision expense and associated with unfunded loan commitments which partially offset the recovery of provision for credit losses directly attributable to the loan portfolio. was $593 thousand and $236 thousand, respectively.

The recovery of provision for credit losses during the second quarter three months ended September 30, 2023 was primarily a result of 2023 directly attributable to changes in the Company's loss driver analysis, resulting from a periodic review of our assumptions. The review resulted in a lower modeled probability of default, changes in prepayment and curtailment rates, and an assessment of management's considerations of existing economic versus historical conditions combined with the continued strong credit performance of our loan portfolio was primarily due to an improvement in the forecasted housing price index used in the quantitative component of the CECL model, changes in qualitative factors and a decrease in loan balances during the second quarter of 2023.

The provision for credit losses during the second quarter of 2023 directly attributable to unfunded loan commitments was primarily due to an increase in unfunded loan commitment balances during the second quarter of 2023. segments.

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

Non-interest Income

The following table summarizes non-interest income for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Three months ended June 30,		Three months ended September 30,	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Service charges on deposit accounts				
Overdrawn account fees	$ 21	$ 22	$ 20	$ 19
Account service fees	61	62	65	60
Other service charges and fees				
Interchange income	104	105	101	108
Other charges and fees	210	52	59	67
Bank owned life insurance	101	95	23	255
Net gains on premises and equipment	17	—		
Losses on sale of available-for-sale securities			(17,114)	—
Insurance commissions	50	44	54	47
Gain on sale of government guaranteed loans	23	—	27	—
Other operating income (loss)	98	(271)		
Total non-interest income	$ 685	$ 109		
Non-qualified deferred compensation plan asset gains (losses), net			(60)	(107)
Other operating income			10	1
Total non-interest income (loss)			$(16,815)	$ 450

Non-interest income increased $576 thousand decreased $17.3 million during the second third quarter of 2023 compared to the second third quarter of 2022. The increase decrease in non-interest income was primarily due to an increase the Restructuring that resulted in a loss of $357 $17.1 million. Core non-interest income (Non-GAAP) decreased $151 thousand primarily as a result of a decrease in bank owned life insurance income of $232 thousand due to the surrender of all BOLI policies as part of the Restructuring. This decrease was partially offset by favorable variances of $47 thousand related to mark-to-market adjustments on investments related to the Company's nonqualified deferred compensation plan. The Company also had an increase in other service charges plan and fee income of $157 thousand primarily as a result of penalty fee income recognized gains recorded on the early withdrawal of certificates of deposit. The increase in non-interest income was also attributable to a $23 thousand gain recorded as a result of the Company's first sale of the guaranteed portion of a Small Business Administration SBA 7(a) loan. Excluding mark-to-market adjustments on nonqualified deferred compensation plan investments, non-interest income increased $219 loans totaling $27 thousand or 57.3% when compared to the same period in third quarter of 2022.

Table of Contents

Non-interest Expense

The following table summarizes non-interest expense for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	Three months ended June 30,		Three months ended September 30,	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Salaries and employee benefits expense	$ 4,965	$ 4,655	$ 5,052	$ 5,072
Occupancy expense of premises	448	482	445	461
Furniture and equipment expenses	304	341	282	323
Advertising expense	76	61	87	47
Data processing	447	490	493	484
FDIC insurance	283	140	275	140
Professional fees	136	297	(141)	281
State franchise tax	604	523	604	523
Bank insurance	57	45	60	57
Vendor services	129	149	135	151
Supplies, printing, and postage	37	40	41	36
Director costs	188	203	186	200
Other operating expenses	157	255	141	183
Total non-interest expense	$ 7,831	$ 7,681	$ 7,660	$ 7,958

Non-interest expense increased $150 decreased $298 thousand or 2.0% 3.7% during the second third quarter of 2023 compared to the three months ended June 30, 2022. The increase in non-interest expense was third quarter of 2022 primarily due to an increase a decrease in professional fees as a result of the reversal of a litigation reserve previously discussed, decrease in furniture and equipment expense due to lower depreciation expense on fixed assets, decrease in salaries and employee benefits due to lower benefit costs incurred by the Company, and decrease in occupancy expense of premises due to a decrease in office rent as a result of lower offsetting direct loan origination costs as a result the renegotiation of lower loan origination volume in the second quarter of 2023 when compared to the same period of the prior year. Salaries and employee benefit expense is reduced to account for the portion of salary costs incurred to originate a loan and are subsequently amortized into net interest income to match the costs incurred with the economic benefit derived from originating a loan. The increase in non-interest expense was also attributable to certain leases.

These decreases were partially offset by increases in FDIC insurance expense and franchise tax expense. The increase in FDIC insurance expense resulted from the FDIC increasing the base assessment rate for all insured depository institutions. The increase in franchise tax expense was due to an increase in the Bank's equity as that is the basis the Commonwealth of Virginia uses to assess taxes on banking institutions.

The increase in non-interest expense was partially offset by decreases in professional fees, occupancy expense of premises, furniture and equipment expense, data processing fees and other operating expenses. The decrease in professional fees was due to non-recurring professional fees incurred in the second quarter of 2022 as part of our registration with the SEC and timing of projects. The decrease in occupancy expense of premises was due to a decrease in office rent as a result of the renegotiation of certain leases. The decrease in furniture and equipment expense was due to lower depreciation expense on fixed assets. The decrease in data processing fees due to contract renegotiations. The Company continues to analyze cost savings opportunities on existing leases and material contracts.

Income Taxes

Income tax expense decreased $613 thousand or 33.1% to $1.2 million for For the three months ended June 30, 2023 compared to $1.9 million for September 30, 2023, the three months ended June 30, 2022. Our effective Company recorded a tax rate for the three months ended June 30, 2023 was 21.7%, compared to 19.0% for the same period ended June 30, 2022. The increase in our effective tax rate was benefit of $1.5 million primarily due to non-recurring tax benefits realized in connection with the exercise Restructuring. Excluding the impact of certain nonqualified stock options during the second quarter of 2022. Restructuring, the effective tax rate for the three months ended September 30, 2023 was 17.7% compared to 21.0% for the same period ended September 30, 2022. The decrease in effective tax rate between the comparative periods was due to changes in temporary differences.

Discussion and Analysis of Financial Condition

Assets, Liabilities, and Shareholders' Equity

The Company's total assets increased $16.0 million decreased $50.0 million or 0.7% 2.1% to $2.36 billion $2.30 billion at June 30, 2023 September 30, 2023 compared to $2.35 billion at December 31, 2022. The increase decrease in total assets is primarily attributable to an increase a decrease in available-for-sale securities of $188.5 million, partially offset by increases in interest-bearing deposits in banks of $60.6 million, partially offset from decreases in available-for-sale securities and loans net of unearned income of $32.3 $130.0 million and $19.7 million $30.6 million, respectively.

The Company's total liabilities increased $9.8 million decreased $57.8 million or 0.5% 2.7% to $2.15 billion $2.08 billion at June 30, 2023 September 30, 2023 compared to $2.14 billion at December 31, 2022. The increase decrease in total liabilities was primarily attributable to an $86.1 million decrease in deposits, primarily driven by a $54.0 million $73.7 million decrease in wholesale deposits (Brokered and QwickRate CDs), and $25.5 million decrease in federal funds purchased, partially offset by an increase in borrowings as a result of the BTFP advance obtained during the second quarter of 2023. The Company reduced wholesale deposits (i.e., Brokered and QwickRate CDs) by $58.7 million, increased non-interest bearing deposits by $3.9 million, and increased non-maturing deposits by $16.5 million during the three months ended September 30, 2023.

52

Table of Contents

advance obtained during the second quarter of 2023. The increase in total liabilities was partially offset by a decrease in federal funds purchased and deposits of $25.5 million and $21.4 million, respectively.

Shareholders' equity increased $6.2 million $7.8 million or 2.9% 3.6% to $219.0 million $220.6 million at June 30, 2023 September 30, 2023 compared to $212.8 million at December 31, 2022. The increase in shareholders' equity was primarily attributable to net income for the six months ended June 30, 2023, a decrease in accumulated other comprehensive loss during the period as a result of changes in fair value in the Company's available-for-sale realization of losses on the sale of certain low-yielding investment portfolio, securities as part of the Restructuring and an increase in additional paid-in capital as a result of option exercises during the six nine months ended June 30, 2023 September 30, 2023. The increase was These increases were partially offset by the impact a decrease in net income, and decreases to retained earnings as a result of the Company's adoption of ASC 326 on January 1, 2023 and dividends declared. Book value per share was $15.50 $15.61 as of June 30, 2023 September 30, 2023 compared to $15.09 as of December 31, 2022.

Investment Securities

The Company maintains a primarily fixed income investment securities portfolio that had a total carrying value of $422.7 million $265.4 million at June 30, 2023 September 30, 2023 and $457.0 million at December 31, 2022. The investment portfolio is used as a source of liquidity, interest income, and credit risk diversification, as well as to manage rate sensitivity and provide collateral for secured public funds and secured credit lines. Investment securities are classified as available-for-sale or held-to-maturity based on management's investment strategy and management's assessment of the intent and ability to hold the securities until maturity. Investment securities that we may sell prior to maturity in response to changes in management's investment strategy, liquidity needs, interest rate risk profile or for other reasons are classified as available-for-sale. The Company also had restricted stock and equity securities within its investment securities portfolio with total carrying values of $4.5 million $5.0 million and $2.7 million $2.4 million, respectively, as of June 30, 2023 September 30, 2023 and $4.4 million and $2.1 million, respectively, as of December 31, 2022.

The Company did not purchase investment securities during the six nine months ended June 30, 2023 September 30, 2023. During the six nine months ended June 30, 2023 September 30, 2023, the Company sold available-for-sale securities with a total par value of $12.0 million $173.2 million, which were comprised of $10.0 million $124.7 million of mortgage-backed securities, $25.1 million of U.S. government and federal agencies, $19.3 million of U.S. Treasuries, and $2.0 million $3.5 million of municipal bonds. bonds and $0.6 million of collateralized mortgage obligations. The sale resulted in a pre-tax loss of $202 thousand. $17.3 million. The Company had $22.8 million $33.3 million in maturities calls and principal repayments on securities during the six nine months ended June 30, 2023 September 30, 2023, which was comprised of $20.3 million $29.2 million of mortgage-backed securities and $2.5 million $4.1 million of collateralized mortgage obligation securities.

The following table summarizes the amortized cost and fair value of the Company's fixed income investment portfolio as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held-to-maturity								
U.S. Treasuries	$ 6,000	$ 5,186	$ 6,000	$ 5,160	$ 6,001	$ 5,128	$ 6,000	$ 5,160
U.S. government and federal agencies	35,491	29,671	35,551	29,416	35,463	28,720	35,551	29,416
Collateralized mortgage obligations	20,326	15,935	21,275	17,048	19,773	14,853	21,275	17,048
Taxable municipal	6,065	4,850	6,073	4,709	6,061	4,652	6,073	4,709
Mortgage-backed	29,571	23,992	30,516	24,828	29,049	22,380	30,516	24,828
Total Held-to-maturity Securities	$ 97,453	$ 79,634	$ 99,415	$ 81,161	$ 96,347	$ 75,733	$ 99,415	$ 81,161
Available-for-sale								
U.S. Treasuries	$ 53,927	$ 50,156	$ 63,480	$ 59,210	$ 44,765	$ 42,194	$ 63,480	$ 59,210
U.S. government and federal agencies	38,812	35,011	38,748	34,760	13,821	12,881	38,748	34,760
Corporate bonds	3,000	2,445	3,000	2,614	3,000	2,406	3,000	2,614
Collateralized mortgage obligations	43,146	36,238	44,732	38,474	41,486	33,522	44,732	38,474
Tax-exempt municipal	2,933	2,628	4,993	4,645	1,380	1,156	4,993	4,645
Taxable municipal	607	577	608	579	607	580	608	579
Mortgage-backed	219,264	198,216	238,652	217,294	85,726	76,345	238,652	217,294
Total Available-for-sale Securities	$ 361,689	$ 325,271	$ 394,213	$ 357,576	$190,785	$169,084	$394,213	$357,576

In the prevailing rate environments as of June 30, 2023 September 30, 2023 and December 31, 2022, the Company's investment portfolio had an estimated weighted average remaining life of approximately 4.4 years and 4.5 years, respectively. The available-for-sale investment portfolio had an estimated weighted average remaining life of approximately 3.6 3.2 years and 3.8 years as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The held-to-maturity investment portfolio had an estimated weighted average remaining life of approximately 7.1 7.0 years and 7.3 years as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Table of Contents

The following table summarizes the maturity composition of our fixed income investment securities as of June 30, 2023 September 30, 2023, including the weighted average yield of each maturity band. Maturities are based on the final contractual payment date, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. The weighted-average yield below represents the effective yield for the investment securities and is calculated based on the amortized cost of each security.

	June 30, 2023			September 30, 2023		
(Dollars in thousands)	Amortized Cost	Fair Value	Weighted-Average Yield	Amortized Cost	Fair Value	Weighted-Average Yield
Held-to-maturity						
Due in one year or less	$ —	$ —	—	$ —	$ —	—
Due after one year through five years	20,157	17,360	1.01 %	20,163	17,117	1.01 %
Due after five years through ten years	24,495	20,224	1.48 %	24,465	19,496	1.48 %
Due after ten years	52,801	42,050	1.39 %	51,719	39,120	1.39 %
Total Held-to-maturity Securities	$ 97,453	$ 79,634	1.33 %	$ 96,347	$ 75,733	1.33 %
Available-for-sale						
Due in one year or less	$ 13,905	$ 13,588	2.31 %	$ 14,322	$ 14,055	2.31 %
Due after one year through five years	90,960	83,437	1.63 %	54,845	51,453	1.63 %
Due after five years through ten years	137,053	126,019	2.33 %	56,992	51,886	2.33 %
Due after ten years	119,771	102,227	1.74 %	64,626	51,690	1.74 %

Total Available-for-sale Securities	$ 361,689	$ 325,271	1.96 %	$190,785	$169,084	1.93 %

On July 17, 2023, the Company sold certain lower-yielding available-for-sale investment securities with a total par value of $161.2 million. The sale of the available-for-sale securities will not impact book-value-per-share as the after-tax loss associated with the investment securities was already reflected in accumulated other comprehensive loss as of June 30, 2023. The proceeds from the restructuring will be reinvested in higher yielding assets with an expected after-tax loss earn back of less than 3 years. The restructuring is expected to improve the Company's earnings, while maintaining strong capital ratios on a GAAP basis and continuing to meaningfully exceed well-capitalized ratios on a regulatory basis. Upon completion of the sale, the Company's available-for-sale and held-to-maturity fixed income securities portfolio has an estimated weighted average life of 4.6 years and the available-for-sale portfolio has an estimated weighted average life of 3.2 years. Nearly 65% of the remaining portfolio is invested in amortizing bonds and is expected to return, on average, $2.5 million in cash flows each month. The Company believes that the restructuring will positively impact long-term profitability.

Loan Portfolio

Gross loans, net of unearned income, decreased $19.7 million increased $30.6 million or 1.1% 1.7% to $1.77 billion $1.82 billion as of June 30, 2023 September 30, 2023 compared to $1.79 billion as of December 31, 2022. The Company continues to maintain its disciplined underwriting standards while prudently pursuing loan growth opportunities that provide acceptable risk-adjusted returns. Management believes the Company's loan pipeline headed into the third fourth quarter of 2023 is robust and gaining momentum. We as we are seeing increased lending opportunities that meet our underwriting standards and, in many cases, fewer competitors for those loans as some market participants have scaled back lending efforts.

54

Table of Contents

The following table presents the Company's composition of loans held for investment, net of deferred fees and costs, in dollar amounts and as a percentage of total gross loans as of June 30, 2023 September 30, 2023 and December 31, 2022.

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Real Estate Loans:								
Commercial	$ 1,101,543	62.39 %	$ 1,118,127	62.62 %	$1,133,069	62.41 %	$1,118,127	62.62 %
Construction and land development	179,656	10.18 %	195,027	10.92 %	179,570	9.89 %	195,027	10.92 %
Residential	443,305	25.11 %	426,841	23.91 %	464,509	25.58 %	426,841	23.91 %
Commercial - Non Real Estate:								
Commercial loans	40,289	2.28 %	44,924	2.52 %	37,925	2.09 %	44,924	2.52 %
Consumer - Non-Real Estate:								
Consumer loans	646	0.04 %	529	0.03 %	467	0.03 %	529	0.03 %
Total Gross Loans	$ 1,765,439	100.00 %	$ 1,785,448	100.00 %	$1,815,540	100.00 %	$1,785,448	100.00 %
Allowance for loan credit losses	(20,629)		(20,208)		(20,036)		(20,208)	
Net deferred loan costs	4,362		4,060		4,592		4,060	
Total net loans	$ 1,749,172		$ 1,769,300		$1,800,096		$1,769,300	

54

Table of Contents

The following table summarizes the contractual maturities of the loans as of June 30, 2023 September 30, 2023 by loan type. Maturities are based on the final contractual payment date, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. The table also summarizes the fixed and floating rate composition of loans held for investment for contractual maturities greater than one year.

	June 30, 2023	September 30, 2023

(Dollars in thousands)	Within 1 Year	After 1 Year Within 5 Years	After 5 years Within 15 Years	Maturing After 15 Years	Total	Within 1 Year	After 1 Year Within 5 Years	After 5 years Within 15 Years	Maturing After 15 Years	Total
Real Estate Loans:										
Residential	$ 5,792	$ 40,500	$ 39,205	$ 357,808	$ 443,305	$ 6,751	$ 39,053	$ 39,470	$379,235	$ 464,509
Commercial	41,973	253,329	794,580	11,661	1,101,543	42,515	314,135	764,869	11,550	1,133,069
Construction and land development	91,985	56,869	29,804	998	179,656	99,562	51,199	27,811	998	179,570
Commercial - Non-Real Estate:										
Commercial loans	12,039	17,001	10,347	902	40,289	13,178	14,074	9,771	902	37,925
Consumer - Non-Real Estate:										
Consumer loans	531	95	—	20	646	351	96	—	20	467
Total Gross Loans	$ 152,320	$ 367,794	$ 873,936	$ 371,389	$ 1,765,439	$162,357	$418,557	$841,921	$392,705	$1,815,540
For Maturities Over One Year:										
Floating rate loans		$ 146,857	$ 299,487	$ 359,470	$ 805,814		$155,677	$293,288	$380,900	$ 829,865
Fixed rate loans		220,937	574,449	11,919	807,305		262,880	548,633	11,805	823,318
		$ 367,794	$ 873,936	$ 371,389	$ 1,613,119		$418,557	$841,921	$392,705	$1,653,183

Asset Quality

The Company maintains policies and procedures to promote sound underwriting and mitigate credit risk. The Chief Credit Officer is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of the Company's lending-related transactions.

The Company's asset quality remained strong through the second third quarter of 2023. The Company did not have any nonperforming assets, which includes nonperforming loans and OREO, as of June 30, 2023 September 30, 2023 or December 31, 2022. As a result, the Company did not have any nonperforming loans, which consists of loans that are 90 days or more past due or loans placed on nonaccrual as of June 30, 2023 September 30, 2023 or December 31, 2022.

The Company did not have any nonaccrual loans as of June 30, 2023 September 30, 2023 or December 31, 2022 nor were there any loans placed on nonaccrual during those periods. A loan is placed on nonaccrual status when (i) the Company is advised by the borrower that scheduled principal or interest payments cannot be met, (ii) when management's best judgment indicates that payment in full of principal and

Table of Contents

interest can no longer be expected, or (iii) when any such loan or obligation becomes delinquent for 90 days, unless it is both well-secured and in the process of collection. As a result, the Company did not have any interest income that would have been recognized on nonaccrual loans for the three or six nine months ended June 30, 2023 September 30, 2023 or the three or six nine months ended June 30, 2022 September 30, 2022.

The Company did not make any loan modifications to borrowers experiencing financial difficulty during the three or six nine months ended June 30, 2023 September 30, 2023. The Company had a recorded investment in TDRs of $418 thousand as of December 31, 2022, all of which were in compliance with their modified terms at December 31, 2022. The Company adopted ASU 2022-02 on January 1, 2023, which eliminated the accounting guidance for TDRs.

Table of Contents

The following table summarizes the Company's asset quality as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands)	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Nonaccrual loans	$ —	$ —	$ —	$ —
Loans past due 90 days and accruing interest	—	—	—	—
Other real estate owned and repossessed assets	—	—	—	—
Total nonperforming assets	$ —	$ —	$ —	$ —
Allowance for loan credit losses to nonperforming assets	NM	NM	NM	NM
Nonaccrual loans to gross loans	0.00 %	0.00 %	0.00 %	0.00 %
Nonperforming assets to period end loans and OREO	0.00 %	0.00 %	0.00 %	0.00 %

NM – Not meaningful

Allowance for Loan Credit Losses

Refer to the discussion in Note 1 in Item 1 of this Form 10-Q for management's approach to estimating the allowance for loan credit losses.

The Company recorded net recoveries of $1 thousand during the three months ended June 30, 2023 compared to no charge-offs or recoveries during the three months ended June 30, 2022 September 30, 2023 or September 30, 2022. The Company recorded net recoveries of $2 thousand during the six nine months ended June 30, 2023 September 30, 2023 compared to no net charge-offs of $1 thousand during the six nine months ended June 30, 2022 September 30, 2022. At June 30, 2023 September 30, 2023, the allowance for loan credit losses was $20.6 million $20.0 million or 1.17% 1.10% of outstanding loans, net of unearned income, compared to $20.2 million or 1.13% of outstanding loans, net of unearned income, at December 31, 2022. The increase decrease in the allowance as a percentage of outstanding loans, net of unearned income, was primarily a result of changes in the Company recognizing Company's loss driver analysis, resulting from a periodic review of our assumptions. The review resulted in a lower modeled probability of default, changes in prepayment and curtailment rates, and an incremental allowance upon adoption assessment of ASC 326 on January 1, 2023. The Company previously accounted for its allowance for management's considerations of existing economic versus historical conditions combined with the continued strong credit performance of our loan losses under the incurred loss model. portfolio segments.

The following table summarizes the Company's loan loss experience by loan portfolio for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

(Dollars in thousands)	June 30, 2023 Net (charge-offs) recoveries	June 30, 2023 Net (charge-off) recovery rate (1)	June 30, 2022 Net (charge-offs) recoveries	June 30, 2022 Net (charge-off) recovery rate (1)	September 30, 2023 Net (charge-offs) recoveries	September 30, 2023 Net (charge-off) recovery rate (1)	September 30, 2022 Net (charge-offs) recoveries	September 30, 2022 Net (charge-off) recovery rate (1)
Real estate loans:								
Commercial	$ —	—	$ —	—	$ —	—	$ —	—
Construction and land development	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—
Commercial loans	1	0.00 %	—	—	—	0.00 %	1	0.01 %
Consumer loans	—	—	—	—	—	—	—	—
Total	$ 1		$ —		$ —		$ 1	
Average loans outstanding during the period	$ 1,767,831		$ 1,641,914		$1,790,720		$1,684,796	
Allowance coverage ratio (2)		1.17 %		1.18 %		1.10 %		1.16 %
Total net (charge-off) recovery rate		0.00 %		— %		0.00 %		0.00 %
Allowance to nonaccrual loans ratio(3)		NM		NM		NM		NM

Table of Contents

NM – Not meaningful

(1) The net (charge-off) recovery rate is calculated by dividing annualized total net (charge-offs) recoveries during the period by average gross loans outstanding during the period.

(2) The allowance coverage ratio is calculated by dividing the allowance for loan credit losses at the end of the period by gross loans, net of unearned income at the end of the period.

(3) The allowance to nonaccrual loans ratio is calculated by dividing the allowance for loan credit losses at the end of the period by nonaccrual loans at the end of the period.

Table of Contents

The following table summarizes the Company's loan loss experience by loan portfolio for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	June 30, 2023		June 30, 2022		September 30, 2023		September 30, 2022	
(Dollars in thousands)	Net (charge-offs) recoveries	Net (charge-off) recovery rate (1)	Net (charge-offs) recoveries	Net (charge-off) recovery rate (1)	Net (charge-offs) recoveries	Net (charge-off) recovery rate (1)	Net (charge-offs) recoveries	Net (charge-off) recovery rate (1)
Real estate loans:								
Commercial	$ —	—	$ (1)	(0.00)%	$ —	—	$ (1)	(0.00)%
Construction and land development	—	—	—	—	—	—	—	—
Residential	—	—	—	—	—	—	—	—
Commercial loans	2	0.01 %	—	—	2	0.01 %	1	0.00 %
Consumer loans	—	—	—	—	—	—	—	—
Total	$ 2		$ (1)		$ 2		$ —	
Average loans outstanding during the period	$ 1,770,362		$ 1,631,283		$1,777,223		$1,649,317	
Allowance coverage ratio (2)		1.17 %		1.18 %		1.10 %		1.16 %
Total net (charge-off) recovery rate		0.00 %		(0.00)%		0.00 %		(0.00)%
Allowance to nonaccrual loans ratio (3)		NM		NM		NM		NM

NM – Not meaningful

(1) The net (charge-off) recovery rate is calculated by dividing annualized total net (charge-offs) recoveries during the period by average gross loans outstanding during the period.

(2) The allowance coverage ratio is calculated by dividing the allowance for loan credit losses at the end of the period by gross loans, net of unearned income at the end of the period.

(3) The allowance to nonaccrual loans ratio is calculated by dividing the allowance for loan credit losses at the end of the period by nonaccrual loans at the end of the period.

The following tables summarize the allowance for loan credit losses by portfolio with a comparison of the percentage composition in relation to total allowance for loan credit losses and total loans as of June 30, 2023 September 30, 2023 and December 31, 2022.

(Dollars in thousands)	June 30, 2023 Allowance for Loan Credit Losses	June 30, 2023 Percent of Allowance in Each Category to Total Allocated Allowance	June 30, 2023 Percent of Loans in Each Category to Total Loans	September 30, 2023 Allowance for Loan Credit Losses	September 30, 2023 Percent of Allowance in Each Category to Total Allocated Allowance	September 30, 2023 Percent of Loans in Each Category to Total Loans
Real Estate Loans:						
Commercial	$ 9,856	47.78 %	62.39 %	$ 12,743	63.60 %	62.41 %
Construction and land development	3,226	15.64 %	10.18 %	2,188	10.92 %	9.89 %
Residential	6,802	32.97 %	25.11 %	4,582	22.87 %	25.58 %
Commercial - Non-Real Estate:						
Commercial loans	715	3.47 %	2.28 %	465	2.32 %	2.09 %
Consumer - Non-Real Estate:						
Consumer loans	30	0.14 %	0.04 %	58	0.29 %	0.03 %
Total	$ 20,629	100.00 %	100.00 %	$ 20,036	100.00 %	100.00 %

Table of Contents

(Dollars in thousands)	December 31, 2022 Allowance for Loan Losses	December 31, 2022 Percent of Allowance in Each Category to Total Allocated Allowance	December 31, 2022 Percent of Loans in Each Category to Total Loans
Real Estate Loans:			
Commercial	$ 13,205	67.48 %	62.62 %
Construction and land development	2,860	14.61 %	10.92 %
Residential	3,044	15.55 %	23.91 %
Commercial - Non-Real Estate:			
Commercial loans	456	2.33 %	2.52 %
Consumer - Non-Real Estate:			
Consumer loans	5	0.03 %	0.03 %
Unallocated	638	—	—
Total	$ 20,208	100.00 %	100.00 %

Management believes that the allowance for loan credit losses is adequate to absorb lifetime credit losses inherent in the portfolio as of June 30, 2023 September 30, 2023. There can be no assurance, however, that adjustments to the provision for (recovery of) credit losses will not be required in the future. Changes in the economic assumptions underlying management's estimates and judgments; adverse developments in the economy, on a national basis or in the Company's market area; or changes in the circumstances of particular borrowers are criteria that could change and make adjustments to the provision for (recovery of) credit losses necessary.

Deposits

Total deposits decreased $21.4 million $86.1 million or 1.0% 4.2% to $2.05 billion $1.98 billion as of June 30, 2023 September 30, 2023 compared to $2.07 billion as of December 31, 2022.

Non-interest bearing demand deposits decreased $42.8 million $38.8 million or 9.0% 8.1% to $433.9 million $437.9 million as of June 30, 2023 September 30, 2023 compared to $476.7 million at December 31, 2022. Non-interest bearing demand deposits represented 21.2% 22.1% and 23.1% of total deposits at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Interest-bearing deposits, which include NOW accounts, regular savings accounts, money market accounts, and time deposits, increased $21.3 million decreased $47.3 million or 1.3% 3.0% to $1.61 billion $1.54 billion as of June 30, 2023 September 30, 2023 compared to $1.59 billion as of December 31, 2022. Interest-bearing deposits represented 78.8% 77.9% and 76.9% of total deposits at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The Company focuses on funding asset growth with deposit accounts, with an emphasis on core deposit growth, as its primary source of deposits. Core deposits consist of checking accounts, NOW accounts, money market accounts, regular savings accounts, time deposits, reciprocal IntraFi Demand® deposits, IntraFi Money Market® deposits and IntraFi CD® deposits. Core deposits totaled $1.69 billion $1.68 billion or 82.5% 84.8% of total deposits and $1.69 billion or 81.9% of total deposits at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The following table sets forth the average balances of deposits and the average interest rates paid for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	June 30, 2023		June 30, 2022		September 30, 2023		September 30, 2022	
(Dollars in thousands)	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate
Non-interest bearing	$ 436,648		$ 511,846		$ 430,727		$ 538,271	
Interest bearing:								
NOW accounts	287,094	2.07 %	322,255	0.28 %	327,309	2.71 %	329,780	0.49 %
Money market accounts	352,373	2.82 %	398,641	0.44 %	341,672	3.03 %	377,736	0.76 %
Savings accounts	74,483	1.24 %	114,216	0.31 %	63,956	1.23 %	106,647	0.40 %
Time deposits	901,104	3.37 %	633,273	0.60 %	849,270	3.84 %	705,206	1.03 %
Total interest-bearing	1,615,054	2.92 %	1,468,385	0.46 %	1,582,207	3.33 %	1,519,369	0.80 %
Total	$ 2,051,702		$ 1,980,231		$2,012,934		$2,057,640	

Table of Contents

The following table sets forth the average balances of deposits and the average interest rates paid for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

	June 30, 2023		June 30, 2022		September 30, 2023		September 30, 2022	
(Dollars in thousands)	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate
Non-interest bearing	$ 456,445		$ 497,899		$ 447,778		$ 511,504	
Interest bearing:								
NOW accounts	272,872	1.66 %	323,546	0.26 %	291,217	2.06 %	325,647	0.34 %
Money market accounts	390,511	2.56 %	395,532	0.40 %	374,053	2.70 %	389,535	0.52 %
Savings accounts	81,025	1.18 %	111,312	0.32 %	75,273	1.20 %	109,740	0.35 %
Time deposits	858,027	2.97 %	635,359	0.52 %	855,076	3.26 %	658,897	0.70 %
Total interest-bearing	1,602,435	2.56 %	1,465,749	0.42 %	1,595,619	2.81 %	1,483,819	0.55 %
Total	$ 2,058,880		$ 1,963,648		$2,043,397		$1,995,323	

The following table sets forth the maturity ranges of certificates of deposit with balances of $250,000 or more as of June 30, 2023 September 30, 2023.

	June 30, 2023		September 30, 2023	
(Dollars in thousands)	Total	Uninsured	Total	Uninsured
Three months or less	$ 70,217	$ 55,467	$ 58,634	$ 44,384
Over three through 6 months	153,209	110,709	118,416	83,166
Over 6 through 12 months	56,990	42,490	84,976	65,226
Over 12 months	98,733	87,483	96,596	88,346

Total	$ 379,149	$ 296,149	$358,622	$281,122

The total amount of our uninsured deposits (deposits in excess of $250,000, as calculated in accordance with FDIC regulations) was estimated at $869.1 million $864.8 million at June 30, 2023 September 30, 2023 and $963.9 million at December 31, 2022. Included in these amounts were $172.1 million $167.2 million and $162.2 million of public fund deposits that are collateralized by securities as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Deposits that were not insured or not collateralized by securities represented 34% 35% and 39% of total deposits, respectively, as of June 30, 2023 September 30, 2023 and December 31, 2022.

Capital Resources

The Company is a bank holding company with less than $3 billion in assets and does not (i) have significant off balance sheet exposure, (ii) engage in significant non-banking activities, or (iii) have a material amount of securities registered under the Exchange Act. As a result, the Company qualifies as a small bank holding company under the Federal Reserve's Small Bank Holding Company Policy Statement and is currently not subject to consolidated regulatory capital requirements.

The Bank is subject to capital adequacy standards adopted by the Federal Reserve, including the capital rules that implemented the Basel III regulatory capital reforms developed by the Basel Committee on Banking Supervision.

Note 11 to the Consolidated Financial Statements, included in Item 1 of this Form 10-Q, contains additional discussion and analysis regarding the Company and Bank's regulatory capital requirements.

Shareholders' equity increased $6.2 million $7.8 million or 2.9% 3.6% to $219.0 million $220.6 million at June 30, 2023 September 30, 2023 compared to $212.8 million at December 31, 2022. The increase in shareholders' equity was primarily attributable to net income for the six months ended June 30, 2023, a decrease in accumulated other comprehensive loss during the period as a result of changes in fair value in the Company's available-for-sale realization of losses on the sale of certain low-yielding investment portfolio, securities as part of the Restructuring and an increase in additional paid-in capital as a result of option exercises during the six nine months ended June 30, 2023 September 30, 2023. The increase was These increases were partially offset by the impact a decrease in net income, and decreases to retained earnings as a result of the Company's adoption of ASC 326 on January 1, 2023 and dividends declared.

In August of 2022, 2023, the Company's Board of Directors authorized the extension of the Company's stock repurchase program that was originally adopted in August of 2021. Under the stock repurchase program, the Company may repurchase up to 700,000 shares of its outstanding common stock, or 5.0% of outstanding shares as of June 30, 2023 September 30, 2023. The stock repurchase program will expire on August 31, 2023 August 31, 2024 or earlier if all the authorized shares have been repurchased. The Company has not repurchased any of its outstanding common stock under the program as of June 30, 2023 September 30, 2023.

Table of Contents

Liquidity

Liquidity reflects a financial institution's ability to fund assets and meet current and future financial obligations. Liquidity is essential in all banks to meet customer withdrawals, compensate for balance sheet fluctuations, and provide funds for growth. Monitoring and managing both liquidity measurements is critical in developing prudent and effective balance sheet management. Management conducts liquidity stress testing on a quarterly basis to prepare for unexpected adverse scenarios and contemporaneously develops mitigating strategies to reduce losses in the event of an economic downturn.

The Company's principal source of liquidity and funding is its deposit base. The level of deposits necessary to support the Company's lending and investment activities is determined through monitoring loan demand. In addition to the liquidity provided by balance sheet cash flows, the Company supplements its liquidity with additional sources such as secured borrowing credit lines with the FHLB and the Reserve Bank. Specifically, the Company has pledged a portion of its commercial real estate and residential real estate loan portfolios to the FHLB and the Reserve Bank. Based on collateral pledged as of June 30, 2023 September 30, 2023, the total FHLB available borrowing capacity was $451.1 million $444.7 million. Additional borrowing capacity with the Reserve Bank was approximately $25.1 million $24.8 million as of June 30, 2023 September 30, 2023.

On March 12, 2023, the Reserve Bank made available the BTFP, which enhances the ability of banks to borrow against the par value of certain high-quality, unencumbered investments. On May 15, 2023, the Company obtained a $54.0 million BTFP advance to secure lower funding costs relative to wholesale deposits. The BTFP advance has a term of one year and bears interest at a fixed rate of 4.80%.

Total liquidity, defined as cash and cash equivalents, unencumbered securities at fair value, and available secured borrowing capacity, was $839.4 million $742.5 million at June 30, 2023 September 30, 2023 compared to $763.5 million at December 31, 2022. The Company's liquidity position represented 120% 106% of uninsured, non-collateralized deposits at June 30, 2023. If the Company were to avail itself of additional BTFP funding, we estimate an incremental increase in our liquidity position of approximately $29.1 million, increasing our potential liquidity to $868.5 million and representing 125% of uninsured, non-collateralized deposits as of June 30, 2023 September 30, 2023.

In addition to available secured borrowing capacity, the Company had available federal funds lines with correspondent banks of $110.0 million at June 30, 2023 September 30, 2023.

Liquidity is a core pillar of the Company's operations. Conditions may arise in the future that could negatively impact the Company's future liquidity position resulting in funding mismatches. These include market constraints on the ability to convert assets into cash or accessing sources of funds (i.e., market liquidity) and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputation risks also can affect a bank's liquidity. Management believes that the Company has a strong liquidity position, but any of the factors referenced above could materially impact that in the future.

Off-Balance Sheet Arrangements

The Company enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of its customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit and financial guarantees which would impact the Company's liquidity and capital resources to the extent customers accept and or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. With the exception of these off-balance sheet arrangements, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors. For further information, see Note 7 to the Consolidated Financial Statements, included in Item 1 of this Form 10-Q, for further discussion of the nature, business purpose and elements of risk involved with these off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

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

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the second third fiscal quarter of 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our operations, the Company and its subsidiary are parties to various claims and lawsuits. Currently, we are not party to any material legal proceedings, and no such proceedings are, to management's knowledge, threatened against us. Although the ultimate outcome of legal proceedings cannot be ascertained at this time, it is the opinion of management that the liabilities (if any) resulting from such legal proceedings will not have a material adverse effect on the Company's business, including its consolidated financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors that were disclosed in Item 1A, under the caption "Risk Factors" in our 2022 Annual Report on Form 10-K, which we filed with the SEC on March 23, 2023.

Item 2. Unregistered Sales of Equity Securities, and Use of Proceeds, and Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0†	Interactive data files formatted in Inline eXtensible Business Reporting Language pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2023 September 30, 2023 and December 31, 2022 (unaudited), (ii) the Consolidated Statements of Income for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (unaudited), (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (unaudited), (iv) the Consolidated Statements of Shareholders' Equity for the three months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (unaudited), (v) the Consolidated Statements of Shareholders' Equity for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (unaudited), (vi) the Consolidated Statements of Cash Flows for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022 (unaudited) and (vii) the Notes to the Consolidated Financial Statements.
104†	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101.0)

† Filed herewith.

Table of Contents

SIGNATURES

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

Date: August 9, 2023 November 8, 2023

JOHN MARSHALL BANCORP, INC.

By:	/s/ Christopher W. Bergstrom
Name:	Christopher W. Bergstrom
Title:	President, Chief Executive Officer
	(Principal Executive Officer)
By:	/s/ Kent D. Carstater
Name:	Kent D. Carstater
Title:	Senior Executive Vice President, Chief Financial Officer
	(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Section 302 Certification

I, Christopher W. Bergstrom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall Bancorp, Inc.;

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

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

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

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

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

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

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

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

/s/ Christopher W. Bergstrom Date: August 9, 2023 November 8, 2023

Christopher W. Bergstrom

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Section 302 Certification

I, Kent D. Carstater, certify that:

1. I have reviewed this quarterly report on Form 10-Q of John Marshall Bancorp, Inc.;

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

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

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

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

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

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

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

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

/s/ Kent D. Carstater Date: August 9, 2023 November 8, 2023

Kent D. Carstater

Senior Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of John Marshall Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ Christopher W. Bergstrom

Christopher W. Bergstrom
President and Chief Executive Officer

/s/ Kent D. Carstater

Kent D. Carstater
Senior Executive Vice President and Chief Financial Officer

August 9, November 8, 2023

DISCLAIMER

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