

Federal Deposit Insurance Corporation
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

or

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

For the transition period from _____ to _____

FDIC Certificate Number: 58481

FIRST BANK

(Exact Name of Registrant as Specified in its Charter)

New Jersey

(State or Other Jurisdiction of
Incorporation or Organization)

20-8164471

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

2465 Kuser Road, Hamilton, New Jersey

(Address of Principal Executive Offices)

08690

(Zip Code)

(877) 821-2265

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$5.00 per share	FRBA	NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, 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 November 10, 2022, there were 19,443,288 shares of the registrant's Common Stock, par value \$5.00 per share, outstanding.

TABLE OF CONTENTS

	<u>Page</u>
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements.	
Consolidated Statements of Financial Condition as of September 30, 2022 (unaudited) and December 31, 2021	1
Consolidated Statements of Income (unaudited)–Three and Nine Months Ended September 30, 2022 and 2021	2
Consolidated Statements of Comprehensive Income (unaudited)–Three and Nine Months Ended September 30, 2022 and 2021	3
Consolidated Statements of Changes in Stockholders’ Equity (unaudited)–Three and Nine Months Ended September 30, 2022 and 2021	4
Consolidated Statements of Cash Flows (unaudited)– Nine Months Ended September 30, 2022 and 2021	5
Notes to Consolidated Financial Statements (unaudited)	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3. Quantitative and Qualitative Disclosures about Market Risk	55
Item 4. Controls and Procedures	56
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	57
Item 1A. Risk Factors	57
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3. Defaults Upon Senior Securities	57
Item 4. Mine Safety Disclosures	57
Item 5. Other Information	57
Item 6. Exhibits	58
Signatures	59

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.**

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	September 30, 2022 (unaudited)	December 31, 2021 (as revised)
Assets		
Cash and due from banks	\$ 50,888	\$ 25,076
Federal funds sold	25,000	-
Interest bearing deposits with banks	31,629	129,431
Cash and cash equivalents	107,517	154,507
Interest bearing time deposits with banks	1,293	2,170
Investment securities available for sale, at fair value	98,305	94,584
Investment securities held to maturity (fair value of \$39,674 at September 30, 2022 and \$39,718 at December 31, 2021)	43,910	39,547
Restricted investment in bank stocks	6,439	5,856
Other investments	8,335	8,062
Loans, net of deferred fees and costs	2,263,377	2,125,437
Less: Allowance for loan losses	24,545	23,746
Net loans	2,238,832	2,101,691
Premises and equipment, net	10,140	9,883
Other real estate owned, net	293	772
Accrued interest receivable	6,898	5,681
Bank-owned life insurance	57,745	56,633
Goodwill	17,826	17,826
Other intangible assets, net	1,773	2,145
Deferred income taxes	13,544	11,081
Other assets	25,210	13,306
Total assets	<u>\$ 2,638,060</u>	<u>\$ 2,523,744</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 584,024	\$ 558,775
Interest bearing deposits	1,606,168	1,555,827
Total deposits	2,190,192	2,114,602
Borrowings	103,654	95,281
Subordinated debentures	29,703	29,620
Accrued interest payable	900	399
Other liabilities	32,862	17,176
Total liabilities	2,357,311	2,257,078
Commitments and Contingencies (see note 12)	-	-
Stockholders' Equity:		
Preferred stock, par value \$2 per share; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$5 per share; 40,000,000 shares authorized; 21,072,290 shares issued and 19,447,206 shares outstanding at September 30, 2022 and 20,851,506 shares issued and 19,472,364 shares outstanding at December 31, 2021	104,481	103,704
Additional paid-in capital	80,368	79,563
Retained earnings	119,598	95,924
Accumulated other comprehensive loss	(7,939)	(206)
Treasury stock, 1,625,084 shares at September 30, 2022 and 1,379,142 shares at December 31, 2021	(15,759)	(12,319)
Total stockholders' equity	280,749	266,666
Total liabilities and stockholders' equity	<u>\$ 2,638,060</u>	<u>\$ 2,523,744</u>

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except for share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest and Dividend Income				
Investment securities—taxable	\$ 788	\$ 571	\$ 2,053	\$ 1,596
Investment securities—tax-exempt	39	40	109	133
Interest bearing deposits with banks, Federal funds sold and other	498	168	888	524
Loans, including fees	26,673	22,150	72,697	66,345
Total interest and dividend income	27,998	22,929	75,747	68,598
Interest Expense				
Deposits	2,737	1,266	5,008	4,579
Borrowings	258	442	796	1,449
Subordinated debentures	440	440	1,321	1,321
Total interest expense	3,435	2,148	7,125	7,349
Net interest income	24,563	20,781	68,622	61,249
Provision for loan losses	216	158	2,156	(1,057)
Net interest income after provision for loan losses	24,347	20,623	66,466	62,306
Non-Interest Income				
Service fees on deposit accounts	236	173	731	514
Loan fees	(33)	139	314	954
Income from bank-owned life insurance	369	378	1,112	1,050
Gains on sale of loans	2	651	292	1,500
Gains on recovery of acquired loans	122	170	456	681
Other non-interest income	248	390	769	844
Total non-interest income	944	1,901	3,674	5,543
Non-Interest Expense				
Salaries and employee benefits	6,880	6,477	20,122	18,175
Occupancy and equipment	1,477	1,260	4,282	4,497
Legal fees	188	139	502	639
Other professional fees	619	451	1,998	1,510
Regulatory fees	252	189	678	685
Directors' fees	172	220	570	655
Data processing	674	537	1,859	1,680
Marketing and advertising	164	150	505	525
Travel and entertainment	91	44	290	83
Insurance	187	191	538	483
Other real estate owned expense, net	72	16	269	97
Merger-related expenses	-	145	-	145
Other expense	961	703	2,655	2,153
Total non-interest expense	11,737	10,522	34,268	31,327
Income Before Income Taxes	13,554	12,002	35,872	36,522
Income tax expense	3,348	2,966	8,685	8,932
Net Income	\$ 10,206	\$ 9,036	\$ 27,187	\$ 27,590
Basic earnings per common share	\$ 0.52	\$ 0.46	\$ 1.39	\$ 1.40
Diluted earnings per common share	\$ 0.52	\$ 0.46	\$ 1.38	\$ 1.39
Cash dividends per common share	\$ 0.06	\$ 0.03	\$ 0.18	\$ 0.09
Basic weighted average common shares outstanding	19,451,189	19,629,134	19,523,069	19,659,227
Diluted weighted average common shares outstanding	19,668,133	19,842,817	19,742,399	19,851,429

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net income	\$ 10,206	\$ 9,036	\$ 27,187	\$ 27,590
Other comprehensive (loss) income:				
Unrealized holding losses on investments arising during the period	(3,523)	(383)	(10,195)	(713)
Income tax effect	864	97	2,462	180
Total other comprehensive loss, net of tax	(2,659)	(286)	(7,733)	(533)
Total comprehensive income	<u>\$ 7,547</u>	<u>\$ 8,750</u>	<u>\$ 19,454</u>	<u>\$ 27,057</u>

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except for share data, unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance—June 30, 2022	\$ 104,390	\$ 80,039	\$ 110,559	\$ (5,280)	\$ (15,006)	\$ 274,702
Net income	-	-	10,206	-	-	10,206
Other comprehensive loss, net of tax	-	-	-	(2,659)	-	(2,659)
Vesting of restricted stock, 247 shares	1	(1)	-	-	-	-
Exercise of stock options, 17,898 shares	90	10	-	-	-	100
Stock-based compensation expense	-	320	-	-	-	320
Cash dividends - common, \$0.06 per share	-	-	(1,167)	-	-	(1,167)
Purchase of 53,905 shares of common stock	-	-	-	-	(753)	(753)
Balance—September 30, 2022	<u>\$ 104,481</u>	<u>\$ 80,368</u>	<u>\$ 119,598</u>	<u>\$ (7,939)</u>	<u>\$ (15,759)</u>	<u>\$ 280,749</u>
Balance—December 31, 2021	\$ 103,704	\$ 79,563	\$ 95,924	\$ (206)	\$ (12,319)	\$ 266,666
Net income	-	-	27,187	-	-	27,187
Other comprehensive loss, net of tax	-	-	-	(7,733)	-	(7,733)
Vesting of restricted stock, 64,306 shares	321	(321)	-	-	-	-
Exercise of stock options, 91,190 shares	456	219	-	-	-	675
Stock-based compensation expense	-	907	-	-	-	907
Cash dividends - common, \$0.18 per share	-	-	(3,513)	-	-	(3,513)
Purchase of 245,942 shares of common stock	-	-	-	-	(3,440)	(3,440)
Balance—September 30, 2022	<u>\$ 104,481</u>	<u>\$ 80,368</u>	<u>\$ 119,598</u>	<u>\$ (7,939)</u>	<u>\$ (15,759)</u>	<u>\$ 280,749</u>
Balance—June 30, 2021	\$ 103,569	\$ 79,080	\$ 80,806	\$ 592	\$ (9,476)	\$ 254,571
Net income	-	-	9,036	-	-	9,036
Other comprehensive income, net of tax	-	-	-	(286)	-	(286)
Exercise of stock options, 11,763 shares	58	21	-	-	-	79
Stock-based compensation expense	-	211	-	-	-	211
Cash dividends - common, \$0.03 per share	-	-	(589)	-	-	(589)
Purchase of 19,391 shares of common stock	-	-	-	-	(2,843)	(2,843)
Balance—September 30, 2021	<u>\$ 103,627</u>	<u>\$ 79,312</u>	<u>\$ 89,253</u>	<u>\$ 306</u>	<u>\$ (12,319)</u>	<u>\$ 260,179</u>
Balance — December 31, 2020	\$ 103,135	\$ 78,887	\$ 63,431	\$ 839	\$ (8,184)	\$ 238,108
Net income	-	-	27,590	-	-	27,590
Other comprehensive loss, net of tax	-	-	-	(533)	-	(533)
Vesting of restricted stock, 69,452 shares	348	(348)	-	-	-	-
Exercise of stock options, 17,167 shares	144	40	-	-	-	184
Stock-based compensation expense	-	733	-	-	-	733
Cash dividends - common, \$0.06 per share	-	-	(1,768)	-	-	(1,768)
Purchase of 126,375 shares of common stock	-	-	-	-	(4,135)	(4,135)
Balance—September 30, 2021	<u>\$ 103,627</u>	<u>\$ 79,312</u>	<u>\$ 89,253</u>	<u>\$ 306</u>	<u>\$ (12,319)</u>	<u>\$ 260,179</u>

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

FIRST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine Months Ended September 30,	
	2022	2021
		(as revised)
Cash flows from operating activities:		
Net income	\$ 27,187	\$ 27,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,156	(1,057)
Depreciation and amortization of premises and equipment	918	1,014
Amortization and accretion of premiums/discounts on investment securities, net	197	382
Amortization and accretion of fair value adjustments, net	(238)	(560)
Amortization and accretion of deferred loan fees and costs, net	(3,030)	(5,845)
Amortization of core deposit intangible assets	224	208
Amortization of subordinated debentures issuance cost	83	84
Stock-based compensation	907	733
Originations of loans held for sale	(4,546)	(17,222)
Proceeds from sale of loans originated for sale	6,294	17,911
Gains on sale of loans	(292)	(1,500)
Gains on sale of other real estate owned, net	-	(13)
Gains on sale of premises and equipment	-	(159)
Losses on disposal of premises and equipment	-	312
Income from bank-owned life insurance	(1,112)	(1,050)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(1,217)	1,181
Decrease (increase) in intangible assets	148	(130)
Decrease (increase) in other assets	8	(1,253)
Increase in accrued interest payable	501	258
Increase in other liabilities	3,773	1,023
Net cash provided by operating activities	<u>31,961</u>	<u>21,907</u>
Cash flows from investing activities:		
Net decrease in interest bearing time deposits with banks	877	899
Net (increase) decrease in loans	(137,573)	44,719
Proceeds from sale of loans not originated for sale	-	6,076
Purchases of investment securities available for sale	(23,251)	(51,346)
Purchases of investment securities held to maturity	(10,481)	(11,430)
Proceeds from maturities, calls and paydowns of investment securities available for sale	9,230	18,314
Proceeds from maturities, calls and paydowns of investment securities held to maturity	6,026	9,641
Net (purchases) redemptions of restricted stocks	(583)	2,452
Purchases of other investments	(273)	(47)
Proceeds from sales of other real estate owned	479	109
Purchases of bank-owned life insurance	-	(5,000)
Proceeds from sale of premises and equipment	-	745
Purchases of premises and equipment	(1,156)	(145)
Net cash (used in) provided by investing activities	<u>(156,705)</u>	<u>14,987</u>
Cash flows from financing activities:		
Net increase in deposits	75,659	142,405
Proceeds from borrowings	75,000	-
Repayments of borrowings	(66,627)	(74,420)
Proceeds from stock option exercises	675	184
Cash dividends paid on common stock	(3,513)	(1,768)
Purchase of treasury stock	(3,440)	(4,135)
Net cash provided by financing activities	<u>77,754</u>	<u>62,266</u>
Net (decrease) increase in cash and cash equivalents	<u>(46,990)</u>	<u>99,160</u>
Cash and cash equivalents at beginning of year	<u>154,507</u>	<u>95,473</u>
Cash and cash equivalents at end of period	<u>\$ 107,517</u>	<u>\$ 194,633</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	\$ 2,920	\$ 7,063
Cash paid for income taxes	\$ 8,273	\$ 8,730
Supplemental schedule of non-cash activities:		
Vesting of restricted stock	\$ 321	\$ 348

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

Note 1 – Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accompanying consolidated financial statements of First Bank and Subsidiaries (collectively, the “Company”), include the accounts of First Bank, a New Jersey commercial bank, and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (“U.S. GAAP”) and general practices within the financial services industry. As used in this Quarterly Report on Form 10-Q, “the Bank” and “the Company” refer to First Bank and its consolidated subsidiaries unless otherwise noted.

The consolidated statement of financial condition as of September 30, 2022, the consolidated statements of income, the consolidated statements of comprehensive income and the consolidated statements of changes in stockholders’ equity for the three and nine months ended September 30, 2022 and 2021, and the consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021 are unaudited. The consolidated statement of financial condition as of December 31, 2021 was derived from the audited consolidated statement of financial condition as of that date.

In the opinion of management, all adjustments and disclosures which are generally routine and recurring in nature and necessary for a fair presentation of interim results have been made. In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the determination of the fair value of acquired loans; the allowance for loan losses; the evaluation of investment securities for other than temporary impairment; the evaluation of goodwill for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual results could differ from those estimates.

The interim unaudited consolidated financial statements included herein have been prepared in accordance with instructions for the Quarterly Report on Form 10-Q and the rules and regulations of the Securities and Exchange Commission (“SEC”) incorporated by reference into the regulations of the Federal Deposit Insurance Corporation (“FDIC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted from interim reporting pursuant to SEC rules. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results which may be expected for the entire year. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements in this Quarterly Report on Form 10-Q were available to be issued. Interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021 as filed with the FDIC.

Correction of Immaterial Error

The Company identified an immaterial error pertaining to the accounting of certain loan participations sold impacting its consolidated balance sheet and its consolidated statement of cash flows as of September 30, 2021 and December 31, 2021 which have been revised within this Quarterly Report on Form 10-Q. The error also impacts the March 30, 2022 and June 30, 2022 consolidated balance sheet and consolidated statement of cash flows. The correction of the error will be presented prospectively in future filings when these periods are presented. Due to the rights retained on certain loan participations sold, the Company is deemed to have retained effective control over these loans under FASB ASC 860 Transfers and Servicing, and therefore these participations sold must be accounted for as a secured borrowing. The Company reviewed the impact of this error on the prior periods and determined that the error was not material to the prior period consolidated financial statements. The Company has corrected the immaterial error in the consolidated balance sheet as of December 31, 2021 by revising the previously reported loans, net of deferred fees and costs and borrowings. The impact of the immaterial error correction increased loans and borrowings by \$13.4 million as of December 31, 2021. The Company also made revisions to correct the immaterial errors in the consolidated statement of cash flows for the nine months ended September 30, 2021 by increasing net cash provided by investing activities by \$385,000 and decreasing net cash provided by financing activities by \$385,000 from amounts previously reported.

Operating, Accounting and Reporting Considerations related to COVID-19

The COVID-19 pandemic has negatively impacted the global economy, including our markets. In response to this crisis, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was passed by Congress and signed into law on March 27, 2020. On December 27, 2020, the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA allowed for a “second draw” for certain businesses under the Small Business Administration’s Paycheck Protection Program (“PPP”). On May 31, 2021 the PPP ended. The CAA also extended several provisions of the CARES Act. Some of the provisions applicable to the Company include, but are not limited to:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 – Summary of Significant Accounting Policies (continued)

- **Accounting for Loan Modifications** — The CARES Act permitted financial institutions to temporarily suspend the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a troubled debt restructuring (“TDR”) and any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. The Company elected this option.
- **Paycheck Protection Program** — The CARES Act established the PPP, an expansion of the Small Business Administration’s (“SBA”) 7(a) loan program, and the Economic Injury Disaster Loan Program, administered directly by the SBA. The PPP provides for a full guarantee of these loans by the SBA and allows for borrowers to have their loans forgiven if the funds were utilized in a manner consistent with the stipulations as outlined in the PPP. The PPP ended on May 31, 2021 but the PPP loan forgiveness process is ongoing. Under the PPP, including the second round of PPP loans authorized by the CAA, the Company originated 1,934 loans through May 31, 2021 for a total amount of \$304.5 million. The Company received fees, net of associated direct origination costs, of approximately \$11.0 million from the SBA from the origination of these loans. These fees are being amortized through interest income over the life of the PPP loans in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310-20, *Receivables — Nonrefundable fees and other costs*. For the nine months ended September 30, 2022 and September 30, 2021 the Company recognized \$1.6 million and \$4.7 million, respectively, of PPP processing fees within interest and fees on loans on the Consolidated Statements of Income. At September 30, 2022 and December 31, 2021 there were approximately \$136,000 and \$1.7 million, respectively, in unamortized deferred PPP loan fees. At September 30, 2022, the Company had 39 PPP loans outstanding with a current balance of \$3.9 million.
- **Mortgage Forbearance** — Under the CARES Act, through the earlier of December 31, 2021, or the termination date of the COVID-19 national emergency, a borrower with a federally backed mortgage loan that is experiencing financial hardship due to COVID-19 may request a forbearance. A multi-family borrower with a federally backed multi-family mortgage loan that was no more than 30 days past due as of December 31, 2019 and is experiencing financial hardship due to COVID-19 may request forbearance on the loan for up to 30 days, with up to two additional 30-day periods at the borrower’s request.

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau, in consultation with the state financial regulators (collectively, the “agencies”) issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

- **Accounting for Loan Modifications** — Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a troubled debt restructuring. The agencies confirmed with FASB staff that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payment.
- **Past Due Reporting** — With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan’s payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.
- **Nonaccrual Status and Loan Classifications** — During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

The full magnitude that the ongoing COVID-19 pandemic could or will have on the Company’s financial condition, liquidity, capital position, and future results of operations remains uncertain. The adverse economic effects of the coronavirus may lead to an increase in credit risk on the Company’s commercial and residential loan portfolios and may lead to additional analysis of the potential impairment of the Company’s goodwill.

Also, the Company continues to monitor the fluctuations in the markets as it pertains to interest rates and the fair value of our investments, as well as the impact of the ongoing pandemic on underlying the potential for other than temporary impairment.

Note 1 – Summary of Significant Accounting Policies (continued)*Recent Authoritative Accounting Guidance*

ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This guidance requires the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under this guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. In November 2019, the FASB issued ASU 2019-10 to defer the effective date of ASU 2016-13 from January 1, 2020 to January 1, 2023 for calendar year smaller reporting companies like the Company. The Company is currently evaluating the impact of this guidance on its consolidated financial statements and has acquired a new accounting software to assist in the allowance calculation. The Company has populated the software with historic data and is currently working on a draft calculation so the Company can validate the results prior to January 1, 2023 which is the date the Company will be implementing this guidance. The Company will be running parallel testing incorporating the functionality of the models, internal control for estimation and all other governance activities through the remainder of 2022.

ASU 2020-04, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” In March 2020, the FASB issued this guidance which provides temporary optional expedients and exceptions to U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate (“SOFR”). For instance, entities can (1) elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to re-measure the contracts at the modification date or reassess a previous accounting determination. Entities can also (2) elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. Finally, entities can (3) make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. ASU 2020-04 is effective March 12, 2020, through December 31, 2022. The Company will elect (1) above for all contract modifications that meet the stated criteria but does not expect this to have a material impact on our financial statements. As the Company currently does not utilize hedge accounting, (2) above is currently not applicable. The Company is not planning to elect (3) above.

ASU 2022-01, “Derivatives and Hedging (Topic 815): Fair Value Hedging-Portfolio Layer Method.” In March 2022, the FASB issued this guidance which made targeted improvements to the optional hedge accounting model with the objective of improving hedge accounting to better portray the economic results of an entity’s risk management activities in its financial statements. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2022. Early adoption is permitted for any entity that has adopted the amendments in ASU 2017-12 for the corresponding period. The Company currently does not apply fair value hedge accounting; however, the Company is currently evaluating the potential impact of this standard to the consolidated financial statements.

ASU 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” In March 2022, the FASB issued this guidance which (1) eliminates accounting guidance for TDRs by creditors, while enhancing disclosure requirements for loan refinancings and restructurings when a borrower is experiencing financial difficulty; (2) requires disclosures of current period gross write-offs by year of origination for financing receivables and net investments in leases. ASU 2022-02 is effective on the same date as ASU 2016-13 or January 1, 2023, for the Company. Early adoption is permitted. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, where there is an option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company is currently evaluating the impact of this standard to the consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements and does not believe any events warrant recording or disclosure in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 2 – Business Combination

At the close of business on December 3, 2021, First Bank completed its acquisition of two branches located in Monroe and Flemington, New Jersey. The acquisition allowed the Company to realize additional scale in its targeted markets and to acquire core funding to help generate future growth. The acquisition was accounted for as a business combination under the FASB ASC 805, Business Combinations guidance.

Direct costs related to the branch acquisition were accrued and expensed as incurred. During the year ended December 31, 2021, the Company incurred \$643,000 in merger-related expenses that breaks down as follows: legal fees of \$72,000, a fee paid to the Company's financial advisors of \$119,000, other professional fees of \$93,000, system integration fees of \$230,000 and \$129,000 in other merger-related expenses. There were no merger-related expenses incurred during the three or nine months ended September 30, 2022 compared to \$145,000 of merger-related expenses in each of these periods in 2021.

In connection with the branch acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Fair Value At December 3, 2021 (in thousands)
Total Cash Received	\$ 86,282
Assets acquired:	
Cash and cash equivalents	212
Loans	11,231
Premises and equipment	1,115
Accrued interest receivable	14
Core deposit intangible	566
Other assets	43
Total assets acquired	<u>13,181</u>
Liabilities assumed:	
Deposits	100,980
Accrued interest payable	2
Other liabilities	54
Total liabilities assumed	<u>101,036</u>
Net assets acquired	<u>(87,855)</u>
Goodwill recorded in acquisition	<u>\$ 1,573</u>

The assets acquired and liabilities assumed in the acquisition of these two branches were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. As of December 31, 2021, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value. The methods used to determine the fair value of the assets acquired and the liabilities assumed in the acquisition of these two branches were as follows.

Loans

Acquired loans are initially recorded at their acquisition-date fair values using Level 3 inputs. Refer to Note 13, Fair Value Measurements and Fair Values of Financial Instruments, for a discussion of the fair value hierarchy. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared two separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10, Fair Value Measurement-Overall, for the acquired loan portfolio. The two separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, and (ii) a general credit fair value adjustment. The acquired loans were recorded at fair value at the acquisition date without carryover of any previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a book balance, prior to fair value adjustments, of \$11.3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 2 – Business Combination (continued)

The table below illustrates the fair value adjustments made to the amortized cost basis to present the fair value of the loans acquired:

	<u>December 3, 2021</u> (in thousands)
Gross principal balance, net of loan discounts	\$ 11,288
Interest rate fair value adjustment on performing loans	61
Credit fair value adjustment on performing loans	(118)
Fair value of acquired loans	<u>\$ 11,231</u>

Loans acquired without evidence of credit quality deterioration were grouped into homogeneous pools by characteristics such as loan type, term, collateral, and rate. Market rates for similar loans were obtained from various internal and external data sources. From each pool a monthly expected cash flow was prepared that incorporated expected monthly payments, impact of prepayments and expected monthly net charge offs. A discounted cash flow was calculated for each pool to estimate the fair value. In this analysis the fair value adjustment was bifurcated into two components: an interest rate fair value adjustment and a general credit fair value adjustment. Additionally, the credit fair value adjustment incorporated assumptions for: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. Both the interest rate and credit fair value adjustments related to loans acquired without evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans. There were no loans acquired with evidence of credit quality deterioration (“PCI loans”) as defined by ASC Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*.

Core Deposit Intangible

The fair value of savings and transaction deposit accounts acquired provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the higher cost of alternative funding sources available through national brokered CD offering rates and FHLB advance rates. The projected cash flows were developed using expected deposit attrition. The core deposit intangible will be amortized over ten years using the sum-of-years digits method. The core deposit intangible was valued at \$566,000 or 0.71% of core deposits. The core deposit intangible asset is being amortized on a straight-line basis over ten years.

Certificates of Deposit

The fair value of certificate of deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated contractual weighted average rates. The fair value adjustment for the time deposit maturity group was based on a discounted cash flow methodology of the contract rates and contractual repayments of fixed maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit fair value adjustment will be amortized into income on a level yield amortization method over the contractual life of the deposits. The weighted average months to maturity for the acquired certificates of deposit was 10.6 months.

Premises

The estimated fair value of owned premises was measured based upon appraisals.

Note 3 – Other Comprehensive Loss

The components of accumulated other comprehensive loss included in stockholders’ equity are as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(in thousands)	
Net unrealized losses on investment securities available for sale	\$ (10,463)	\$ (268)
Income tax effect	2,524	62
Accumulated other comprehensive loss	<u>\$ (7,939)</u>	<u>\$ (206)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 4 – Earnings Per Share

Basic earnings per share represent the effect of earnings upon the weighted average number of shares and participating securities outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method. Unvested stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid (i.e., participating securities), are included in the number of shares outstanding for both basic and diluted earnings per share. There are no securities that could potentially dilute basic earnings per share that were not included in the computation of diluted earnings per share.

The following table presents a reconciliation of the calculation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except per share data)			
Net income available to common stockholders	\$ 10,206	\$ 9,036	\$ 27,187	\$ 27,590
Basic weighted average common shares outstanding	19,451	19,629	19,523	19,659
Effect of dilutive common stock equivalents	217	214	219	192
Diluted weighted average common shares outstanding	19,668	19,843	19,742	19,851
Basic earnings per share	\$ 0.52	\$ 0.46	\$ 1.39	\$ 1.40
Diluted earnings per share	\$ 0.52	\$ 0.46	\$ 1.38	\$ 1.39
Number of common stock equivalents excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average price of the common stock	505	560	503	582

Note 5 – Stock-Based Compensation

The Company has an equity incentive plan which allows for the grant of incentive options, non-qualified options and restricted stock to officers, employees and members of the Board of Directors. The following table presents the amount of awards authorized, cumulative granted awards, net of cancellations, and awards available for grant at September 30, 2022.

Awards authorized	2,248,833
Cumulative granted awards, net of cancellations	1,803,653
Awards available for grant	445,180

The Company issues shares from its authorized but unissued common stock to satisfy stock option exercises and restricted stock grants.

Stock-based compensation expense recognized in earnings for the three months ended September 30, 2022 and 2021 was \$320,000 and \$211,000, respectively, and for the nine months ended September 30, 2022 and 2021 was \$907,000 and \$733,000, respectively.

The Company's stock option activity for the nine months ended September 30, 2022 and 2021 is summarized in the following tables:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding—December 31, 2021	760,229	\$ 9.41		
Granted	75,665	14.43		
Exercised	(91,190)	7.40		
Expired	(22,619)	12.79		
Outstanding—September 30, 2022	722,085	\$ 10.09	5.3	\$ 2,709,610
Exercisable—September 30, 2022	598,538	\$ 9.46	4.6	\$ 2,583,961

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 5 – Stock-Based Compensation (continued)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding—December 31, 2020	732,642	\$ 9.12		
Granted	101,399	11.42		
Exercised	(28,930)	6.40		
Forfeited	(17,165)	11.58		
Expired	(13,988)	12.85		
Outstanding—September 30, 2021	<u>773,958</u>	<u>\$ 9.36</u>	<u>5.7</u>	<u>\$ 3,676,688</u>
Exercisable—September 30, 2021	<u>636,537</u>	<u>\$ 8.95</u>	<u>5</u>	<u>\$ 3,290,668</u>

All granted options have a term that shall not exceed ten years and a vesting period of one to three years. The exercise price of the options granted must be at least 100% of the fair value of the Company's common stock on the date of the grant.

The aggregate intrinsic values in the preceding tables represents the pre-tax intrinsic values calculated by multiplying the number of in-the-money shares by the difference between the Company's closing stock price on the last trading day of the current reporting period and the exercise price.

The fair values of stock options granted for the nine months ended September 30, 2022 and 2021 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2022	2021
Expected volatility	36.90% - 40.30%	25.10 - 27.33%
Dividend yield	1.66% - 1.69%	0.89% - 1.08%
Expected life	5.0 - 6.0 years	5.0 - 6.0 years
Risk-free rate	1.88% - 2.81%	0.76% - 0.86%
Fair value	\$4.30 - \$4.42	\$2.44 - \$2.86

The following table summarizes information about stock options outstanding and exercisable at September 30, 2022:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.00 - \$5.25	4,000			4,000	
\$5.25 - \$6.49	95,500			95,500	
\$6.49 - \$10.85	258,461			244,835	
\$10.85 - \$14.64	<u>364,124</u>			<u>254,203</u>	
Total	<u>722,085</u>	<u>5.3</u>	<u>\$ 10.09</u>	<u>598,538</u>	<u>\$ 9.46</u>

Unrecognized compensation expense related to unvested stock options was \$317,000 as of September 30, 2022 and is expected to be recognized over a weighted average period of 1.9 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 5 – Stock-Based Compensation (continued)

Restricted stock activity under the Company's stock-based compensation plans for the nine months September 30, 2022 and 2021 is summarized in the following tables:

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2021	110,777	\$ 11.19	
Granted	132,999	12.60	
Vested	(64,306)	11.35	
Forfeited	(3,405)	12.03	
Outstanding—September 30, 2022	<u>176,065</u>	<u>\$ 12.19</u>	<u>1.9</u>

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2020	115,044	\$ 10.11	
Granted	81,659	11.30	
Vested	(69,452)	9.57	
Forfeited	(9,217)	11.04	
Outstanding—September 30, 2021	<u>118,034</u>	<u>\$ 11.18</u>	<u>2.0</u>

All granted restricted stock awards have a vesting period of one to three years. Unrecognized compensation expense related to restricted stock was \$1.6 million as of September 30, 2022 and is expected to be recognized over a weighted average period of 2.0 years.

Note 6 – Investment Securities

The amortized cost and fair value of investment securities available for sale are as follows as of the dates indicated, with gross unrealized gains and losses therein:

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 29,809	\$ 10	\$ (1,658)	\$ 28,161
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	44,115	1	(6,507)	37,609
Issued by GNMA	13,851	-	(1,733)	12,118
U.S. Treasury securities	3,977	-	(115)	3,862
Asset-backed securities	1,054	-	(34)	1,020
Corporate obligations	15,962	65	(492)	15,535
Total	<u>\$ 108,768</u>	<u>\$ 76</u>	<u>\$ (10,539)</u>	<u>\$ 98,305</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 6 – Investment securities (continued)

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 18,000	\$ -	\$ (186)	\$ 17,814
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	48,028	256	(400)	47,884
Issued by GNMA	11,440	34	(130)	11,344
Asset-backed securities	1,418	-	(22)	1,396
Corporate obligations	15,966	203	(23)	16,146
Total	\$ 94,852	\$ 493	\$ (761)	\$ 94,584

The amortized cost and fair value of investment securities held to maturity are as follows as of the dates indicated, with gross unrealized gains and losses therein:

September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	\$ 10,042	\$ -	\$ (1,814)	\$ 8,228
Issued by GNMA	491	-	(56)	435
Obligations of state and political subdivisions	8,127	0	(535)	7,592
Corporate obligations	25,250	-	(1,831)	23,419
Total	\$ 43,910	\$ 0	\$ (4,236)	\$ 39,674

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	\$ 11,048	\$ 61	\$ (254)	\$ 10,855
Issued by GNMA	582	10	-	592
Obligations of state and political subdivisions	7,667	127	(6)	7,788
Corporate obligations	20,250	288	(55)	20,483
Total	\$ 39,547	\$ 486	\$ (315)	\$ 39,718

The amortized cost, fair value and contractual maturities of investment securities available for sale and held to maturity are shown in the tables below. Certain of these securities have call features which allow the issuer to redeem the security prior to maturity at the issuer's discretion. Expected maturities may differ from contractual maturities because the underlying mortgages supporting mortgage-backed securities may be prepaid without penalties. Consequently, residential mortgage-backed securities are not presented by maturity category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 6 – Investment securities (continued)

	September 30, 2022			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due within one year	\$ 3,000	\$ 2,878	\$ 892	\$ 887
Due after one year through five years	46,802	44,698	3,862	3,780
Due after five years through ten years	1,000	1,002	27,672	25,441
Due after ten years	-	-	951	903
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	44,115	37,609	10,042	8,228
Issued by GNMA	13,851	12,118	491	435
Total investment securities	<u>\$ 108,768</u>	<u>\$ 98,305</u>	<u>\$ 43,910</u>	<u>\$ 39,674</u>

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities available for sale are as follows, as of the dates indicated:

	September 30, 2022								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale									
U.S. Government-sponsored agency securities	5	\$ 11,338	\$ (471)	5	\$ 13,813	\$ (1,187)	10	\$ 25,151	\$ (1,658)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	32	19,790	(2,560)	11	17,685	(3,947)	43	37,475	(6,507)
Issued by GNMA	12	6,712	(825)	2	2,918	(908)	14	9,630	(1,733)
U.S. Treasury securities	2	3,862	(115)	-	-	-	2	3,862	(115)
Asset-backed securities	-	-	-	2	1,020	(34)	2	1,020	(34)
Corporate obligations	3	7,697	(492)	-	-	-	3	7,697	(492)
Total	<u>54</u>	<u>\$ 49,399</u>	<u>\$ (4,463)</u>	<u>20</u>	<u>\$ 35,436</u>	<u>\$ (6,076)</u>	<u>74</u>	<u>\$ 84,835</u>	<u>\$ (10,539)</u>

	December 31, 2021								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities available for sale									
U.S. Government-sponsored agency securities	6	\$ 17,814	\$ (186)	-	\$ -	\$ -	6	\$ 17,814	\$ (186)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	16	35,775	(399)	1	9	(1)	17	35,784	(400)
Issued by GNMA	6	8,809	(130)	-	-	-	6	8,809	(130)
Asset-backed securities	-	-	-	2	1,396	(22)	2	1,396	(22)
Corporate obligations	1	3,181	(23)	-	-	-	1	3,181	(23)
Total	<u>29</u>	<u>\$ 65,579</u>	<u>\$ (738)</u>	<u>3</u>	<u>\$ 1,405</u>	<u>\$ (23)</u>	<u>32</u>	<u>\$ 66,984</u>	<u>\$ (761)</u>

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities held to maturity are as follows, as of the dates indicated.

	September 30, 2022								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
	(dollars in thousands)								
Investment securities held to maturity									
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	10	\$ 2,232	\$ (201)	5	\$ 5,996	\$ (1,613)	15	\$ 8,228	\$ (1,814)
Issued by GNMA	1	436	(56)	-	-	-	1	436	(56)
Obligations of state and political subdivisions	16	6,250	(419)	3	961	(116)	19	7,211	(535)
Corporate obligations	17	17,594	(1,656)	2	1,825	(175)	19	19,419	(1,831)
Total	<u>44</u>	<u>\$ 26,512</u>	<u>\$ (2,332)</u>	<u>10</u>	<u>\$ 8,782</u>	<u>\$ (1,904)</u>	<u>54</u>	<u>\$ 35,294</u>	<u>\$ (4,236)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 6 – Investment Securities (continued)

	December 31, 2021								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Investment securities held to maturity	(dollars in thousands)								
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	6	\$ 7,561	\$ (254)	-	\$ -	\$ -	6	\$ 7,561	\$ (254)
Obligations of state and political subdivisions	4	1,565	(6)	-	-	-	4	1,565	(6)
Corporate obligations	5	5,945	(55)	-	-	-	5	5,945	(55)
Total	15	\$ 15,071	\$ (315)	-	\$ -	\$ -	15	\$ 15,071	\$ (315)

Investment securities with unrealized losses are evaluated quarterly to determine whether the losses are other than temporary. At September 30, 2022 and December 31, 2021, the Company determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities with unrealized losses, the relatively low level and short time frame of the unrealized losses, which were driven by changes in the yield curve, and because the Company does not intend to sell these investment securities.

There were no securities sold during the three or nine months ended September 30, 2022 and 2021.

Investment securities with a fair value of \$4.2 million and \$22.3 million at September 30, 2022 and December 31, 2021, respectively, were pledged as collateral for municipal deposits and Federal Home Loan Bank (“FHLB”) borrowings.

Note 7 – Loans

The composition of loans is as follows as of the dates indicated:

	September 30, 2022	December 31, 2021
	(in thousands)	
Commercial and industrial	\$ 323,984	\$ 350,103
Commercial real estate:		
Owner-occupied	517,448	475,576
Investor	942,151	855,913
Construction and development	126,206	109,292
Multi-family	214,819	173,728
Residential real estate:		
Residential mortgage and first lien home equity loans	96,194	106,204
Home equity—second lien loans and revolving lines of credit	31,670	31,375
Consumer and other	14,654	27,762
	2,267,126	2,129,953
Net deferred loan fees and costs	(3,749)	(4,516)
Total loans	\$ 2,263,377	\$ 2,125,437

Total loans as of September 30, 2022 and December 31, 2021 included \$3.9 million and \$51.0 million, respectively, in PPP loans. PPP loans are included in commercial and industrial loans and are expected to be fully guaranteed by the SBA, therefore all PPP loans outstanding are classified as “pass” within the Company’s internal risk rating system as of September 30, 2022 and December 31, 2021. Deferred fees and costs at September 30, 2022 and December 31, 2021 included \$136,000 and \$1.7 million, respectively, in net collected but unearned PPP loan processing fees related to the PPP loans which the Company processed and disbursed through each respective date. During the three and nine months ended September 30, 2022, the Company recognized \$200,000 and \$1.6 million of PPP processing fees within interest and fees on loans on the Consolidated Statements of Income, respectively. During the three and nine months ended September 30, 2021, the Company recognized \$1.6 million and \$4.7 million respectively, of PPP processing fees within interest and fees on loans on the Consolidated Statements of Income. Total loans also included \$2.4 million and \$3.9 million in loans held for sale as of September 30, 2022 and December 31, 2021, respectively. Mortgage and SBA loans originated and intended for sale in the secondary market are included in loans held for sale and are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 7 – Loans (continued)

The following tables present the classes of the loan portfolio summarized by the aggregate “pass” rating and the classified ratings of “special mention” and “substandard” within the Company’s internal risk rating system. See the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as filed with the FDIC for additional information about asset classifications. There were no loans classified as “doubtful” or “loss” as of September 30, 2022 and December 31, 2021.

September 30, 2022				
	Pass	Special Mention	Substandard (in thousands)	Total
Commercial and industrial	\$ 318,851	\$ 2,877	\$ 2,256	\$ 323,984
Commercial real estate:				
Owner-occupied	498,024	14,230	5,194	517,448
Investor	942,151	-	-	942,151
Construction and development	117,978	7,915	313	126,206
Multi-family	212,517	-	2,302	214,819
Residential real estate:				
Residential mortgage and first lien home equity loans	93,815	-	2,379	96,194
Home equity—second lien loans and revolving lines of credit	31,523	-	147	31,670
Consumer and other	14,643	-	11	14,654
Total	<u>\$ 2,229,502</u>	<u>\$ 25,022</u>	<u>\$ 12,602</u>	<u>\$ 2,267,126</u>

December 31, 2021				
	Pass	Special Mention	Substandard (in thousands)	Total
Commercial and industrial	\$ 344,825	\$ 1,841	\$ 3,437	\$ 350,103
Commercial real estate:				
Owner-occupied	461,742	10,037	3,797	475,576
Investor	841,132	13,984	797	855,913
Construction and development	101,640	1,537	6,115	109,292
Multi-family	171,333	-	2,395	173,728
Residential real estate:				
Residential mortgage and first lien home equity loans	103,458	-	2,746	106,204
Home equity—second lien loans and revolving lines of credit	31,222	-	153	31,375
Consumer and other	27,749	-	13	27,762
Total	<u>\$ 2,069,655</u>	<u>\$ 27,399</u>	<u>\$ 19,453</u>	<u>\$ 2,129,953</u>

The performance and credit quality of the loan portfolio is also monitored by analyzing the length of time a scheduled contractual payment is past due. The following tables present the classes of the loan portfolio summarized by past due status as of the dates indicated:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 7 – Loans (continued)

	September 30, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual (in thousands)	Total Past Due	Total Current	Total
Commercial and industrial	\$ 821	\$ 83	\$ 15	\$ 1,022	\$ 1,941	\$ 322,043	\$ 323,984
Commercial real estate:							
Owner-occupied	497	-	-	3,182	3,679	513,337	517,016
Investor	-	1,687	-	-	1,687	940,464	942,151
Construction and development	-	-	-	-	-	125,893	125,893
Multi-family	622	-	-	282	904	213,915	214,819
Residential real estate:							
Residential mortgage and first lien home equity loans	194	-	-	448	642	93,721	94,363
Home equity—second lien loans and revolving lines of credit	285	-	-	147	432	31,238	31,670
Consumer and other	-	-	-	11	11	14,643	14,654
Total	<u>\$ 2,419</u>	<u>\$ 1,770</u>	<u>\$ 15</u>	<u>\$ 5,092</u>	<u>\$ 9,296</u>	<u>\$ 2,255,254</u>	<u>\$ 2,264,550</u>

Nonaccrual loans in the preceding table do not include PCI loans which were recorded at their fair value at acquisition and totaled \$2.6 million at September 30, 2022.

	December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual (in thousands)	Total Past Due	Total Current	Total
Commercial and industrial	\$ 276	\$ 58	\$ -	\$ 2,475	\$ 2,809	\$ 347,294	\$ 350,103
Commercial real estate:							
Owner-occupied	1,470	-	-	3,195	4,665	470,314	474,979
Investor	83	-	-	520	603	855,310	855,913
Construction and development	-	-	-	5,724	5,724	103,178	108,902
Multi-family	-	-	-	333	333	173,395	173,728
Residential real estate:							
Residential mortgage and first lien home equity loans	447	-	-	589	1,036	103,115	104,151
Home equity—second lien loans and revolving lines of credit	157	-	-	152	309	31,066	31,375
Consumer and other	9	-	-	13	22	27,740	27,762
Total	<u>\$ 2,442</u>	<u>\$ 58</u>	<u>\$ -</u>	<u>\$ 13,001</u>	<u>\$ 15,501</u>	<u>\$ 2,111,412</u>	<u>\$ 2,126,913</u>

Nonaccrual loans in the preceding table do not include PCI loans which were recorded at their fair value at acquisition and totaled \$3.0 million at December 31, 2021.

The total recorded investment in loans secured by residential real estate property that were in the process of foreclosure was \$494,000 and \$780,000 at September 30, 2022 and December 31, 2021. The Company had no foreclosed residential real estate property held at September 30, 2022. There was one foreclosed residential real estate property held by the Company at December 31, 2021 with a carrying amount of \$379,000.

Loans totaling \$212.5 million and \$242.9 million at September 30, 2022 and December 31, 2021, respectively, were pledged as collateral for FHLB borrowings. Loans totaling \$12.8 million and \$13.4 million collateralize borrowings of similar amounts at September 30, 2022 and December 31, 2021, respectively.

The outstanding principal balance and related carrying amount of PCI loans, for which the Company applies the provisions of ASC Topic 310-30, were as follows as of the dates indicated:

	September 30, 2022	December 31, 2021
	(in thousands)	
Outstanding principal balance	\$ 5,896	\$ 6,733
Carrying amount	2,576	3,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 7 – Loans (continued)

The following table presents the change in the accretable discount on PCI loans for the periods indicated:

	Accretable Discount	
	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
	(in thousands)	
Balance—beginning of period	\$ -	\$ 264
Accretion recorded to interest income	-	(264)
Balance—end of period	\$ -	\$ -

Note 8 – Allowance for Loan Losses

The following tables present the activity in the allowance for loan losses by loan class for the periods indicated:

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Three Months Ended September 30, 2022									
Balance—beginning of period	\$ 5,976	\$ 5,413	\$ 9,576	\$ 1,315	\$ 1,972	\$ 465	\$ 154	\$ 163	\$ 25,034
Charge offs	(978)	-	-	(62)	-	-	-	(3)	(1,043)
Recoveries	325	10	-	-	-	3	-	-	338
Provision for loan losses	271	(147)	103	74	(39)	(14)	14	(46)	216
Balance—end of period	\$ 5,594	\$ 5,276	\$ 9,679	\$ 1,327	\$ 1,933	\$ 454	\$ 168	\$ 114	\$ 24,545

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Three Months Ended September 30, 2021									
Balance—beginning of period	\$ 5,015	\$ 4,387	\$ 9,320	\$ 1,367	\$ 1,477	\$ 601	\$ 175	\$ 306	\$ 22,648
Charge offs	(53)	-	-	-	(40)	-	-	(1)	(94)
Recoveries	213	-	-	-	-	2	-	-	215
Provision for loan losses	(636)	176	(60)	684	47	(33)	(4)	(16)	158
Balance—end of period	\$ 4,539	\$ 4,563	\$ 9,260	\$ 2,051	\$ 1,484	\$ 570	\$ 171	\$ 289	\$ 22,927

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Nine Months Ended September 30, 2022									
Balance—beginning of period	\$ 5,781	\$ 4,844	\$ 9,052	\$ 1,336	\$ 1,788	\$ 542	\$ 148	\$ 255	\$ 23,746
Charge offs	(1,480)	(306)	-	(62)	-	-	-	(5)	(1,853)
Recoveries	470	21	-	-	-	5	-	-	496
Provision for loan losses	823	717	627	53	145	(93)	20	(136)	2,156
Balance—end of period	\$ 5,594	\$ 5,276	\$ 9,679	\$ 1,327	\$ 1,933	\$ 454	\$ 168	\$ 114	\$ 24,545

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Nine Months Ended September 30, 2021									
Balance—beginning of period	\$ 5,725	\$ 4,427	\$ 9,320	\$ 1,701	\$ 1,598	\$ 669	\$ 228	\$ 306	\$ 23,974
Charge offs	(83)	(11)	-	-	(40)	(112)	-	(2)	(248)
Recoveries	254	-	-	-	-	4	-	-	258
Provision for loan losses	(1,357)	147	(60)	350	(74)	9	(57)	(15)	(1,057)
Balance—end of period	\$ 4,539	\$ 4,563	\$ 9,260	\$ 2,051	\$ 1,484	\$ 570	\$ 171	\$ 289	\$ 22,927

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 8 – Allowance for Loan Losses (continued)

The following tables summarize information regarding the allowance for loan losses by impairment methodology and class within the loan portfolio as of the dates indicated:

	September 30, 2022							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI (1)	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI (1)	Total
	(in thousands)							
Commercial and industrial	\$ 1,022	\$ 322,962	\$ -	\$ 323,984	\$ -	\$ 5,594	\$ -	\$ 5,594
Commercial real estate:								
Owner-occupied	3,642	513,374	432	517,448	-	5,276	-	5,276
Investor	-	942,151	-	942,151	-	9,679	-	9,679
Construction and development	-	125,893	313	126,206	-	1,327	-	1,327
Multi-family	282	214,537	-	214,819	-	1,933	-	1,933
Residential real estate:								
Residential mortgage and first lien home equity loans	448	93,915	1,831	96,194	-	454	-	454
Home equity—second lien loans and revolving lines of credit	147	31,523	-	31,670	-	168	-	168
Consumer and other	11	14,643	-	14,654	-	114	-	114
Total	<u>\$ 5,552</u>	<u>\$ 2,258,998</u>	<u>\$ 2,576</u>	<u>\$ 2,267,126</u>	<u>\$ -</u>	<u>\$ 24,545</u>	<u>\$ -</u>	<u>\$ 24,545</u>

(1) PCI loans are evaluated on an individual basis. In accordance with U.S. GAAP, at acquisition there was no carryover of the allowance for loan losses.

	December 31, 2021							
	Loan Balances				Allowance for Loan Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI (1)	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCI (1)	Total
	(in thousands)							
Commercial and industrial	\$ 2,475	\$ 347,628	\$ -	\$ 350,103	\$ 331	\$ 5,450	\$ -	\$ 5,781
Commercial real estate:								
Owner-occupied	3,674	471,305	597	475,576	-	4,844	-	4,844
Investor	520	855,393	-	855,913	-	9,052	-	9,052
Construction and development	5,724	103,178	390	109,292	-	1,336	-	1,336
Multi-family	333	173,395	-	173,728	-	1,788	-	1,788
Residential real estate:								
Residential mortgage and first lien home equity loans	589	103,562	2,053	106,204	-	542	-	542
Home equity—second lien loans and revolving lines of credit	152	31,223	-	31,375	-	148	-	148
Consumer and other	13	27,749	-	27,762	-	255	-	255
Total	<u>\$ 13,480</u>	<u>\$ 2,113,433</u>	<u>\$ 3,040</u>	<u>\$ 2,129,953</u>	<u>\$ 331</u>	<u>\$ 23,415</u>	<u>\$ -</u>	<u>\$ 23,746</u>

(1) PCI loans are evaluated on an individual basis. In accordance with U.S. GAAP, at acquisition there was no carry over of the allowance for loan losses.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 8 – Allowance for Loan Losses (continued)

The following tables summarize information regarding impaired loans by loan class as of the dates and for the periods indicated:

	September 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(in thousands)					
Impaired loans without a valuation allowance:						
Commercial and industrial	\$ 1,022	\$ 1,240	\$ -	\$ 1,390	\$ 1,569	\$ -
Commercial real estate:						
Owner-occupied	3,642	4,095	-	3,674	3,933	-
Investor	-	-	-	520	520	-
Construction and development	-	288	-	5,724	5,850	-
Multi-family	282	342	-	333	379	-
Residential real estate:						
Residential mortgage and first lien home equity loans	448	487	-	589	622	-
Home equity—second lien loans and revolving lines of credit	147	149	-	152	154	-
Consumer and other	11	20	-	13	21	-
Total	<u>\$ 5,552</u>	<u>\$ 6,621</u>	<u>\$ -</u>	<u>\$ 12,395</u>	<u>\$ 13,048</u>	<u>\$ -</u>
Impaired loans with a valuation allowance:						
Commercial and industrial	\$ -	\$ -	\$ -	\$ 1,085	\$ 1,125	\$ 331
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,085</u>	<u>\$ 1,125</u>	<u>\$ 331</u>
Total impaired loans:						
Commercial and industrial	\$ 1,022	\$ 1,240	\$ -	\$ 2,475	\$ 2,694	\$ 331
Commercial real estate:						
Owner-occupied	3,642	4,095	-	3,674	3,933	-
Investor	-	-	-	520	520	-
Construction and development	-	288	-	5,724	5,850	-
Multi-family	282	342	-	333	379	-
Residential real estate:						
Residential mortgage and first lien home equity loans	448	487	-	589	622	-
Home equity—second lien loans and revolving lines of credit	147	149	-	152	154	-
Consumer and other	11	20	-	13	21	-
Total	<u>\$ 5,552</u>	<u>\$ 6,621</u>	<u>\$ -</u>	<u>\$ 13,480</u>	<u>\$ 14,173</u>	<u>\$ 331</u>

The impaired loans in the preceding table do not include \$2.6 million and \$3.0 million of PCI loans which were recorded at their fair value at acquisition, at September 30, 2022 and December 31, 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 8 – Allowance for Loan Losses (continued)

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(in thousands)					
Impaired loans without a valuation allowance:						
Commercial and industrial	\$ 2,045	\$ -	\$ -	\$ 5,736	\$ -	\$ -
Commercial real estate:						
Owner-occupied	3,321	6	12	3,324	6	-
Investor	-	-	-	-	-	-
Construction and development	-	-	-	-	-	-
Multi-family	281	-	-	498	-	6
Residential real estate:						
Residential mortgage and first lien home equity loans	448	-	9	746	-	18
Home equity–second lien loans and revolving lines of credit	147	-	-	156	-	-
Consumer and other	11	-	-	22	-	-
Total	<u>\$ 6,253</u>	<u>\$ 6</u>	<u>\$ 21</u>	<u>\$ 10,482</u>	<u>\$ 6</u>	<u>\$ 24</u>
Impaired loans with a valuation allowance:						
Commercial and industrial	\$ -	\$ -	\$ -	\$ 1,123	\$ -	\$ -
Commercial real estate:						
Construction and development	-	-	-	127	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,250</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans:						
Commercial and industrial	\$ 2,045	\$ -	\$ -	\$ 6,859	\$ -	\$ -
Commercial real estate:						
Owner-occupied	3,321	6	12	3,324	6	-
Investor	-	-	-	-	-	-
Construction and development	-	-	-	127	-	-
Multi-family	281	-	-	498	-	6
Residential real estate:						
Residential mortgage and first lien home equity loans	448	-	9	746	-	18
Home equity–second lien loans and revolving lines of credit	147	-	-	156	-	-
Consumer and other	11	-	-	22	-	-
Total	<u>\$ 6,253</u>	<u>\$ 6</u>	<u>\$ 21</u>	<u>\$ 11,732</u>	<u>\$ 6</u>	<u>\$ 24</u>

Average recorded investment in the preceding table does not include PCI loans which were recorded at their fair value at acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 8 – Allowance for Loan Losses (continued)

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(in thousands)					
Impaired loans without a valuation allowance:						
Commercial and industrial	\$ 2,579	\$ -	\$ 40	\$ 5,700	\$ -	\$ -
Commercial real estate:						
Owner-occupied	3,836	18	12	3,324	19	-
Investor	519	-	34	-	-	28
Construction and development	4,460	-	-	-	-	-
Multi-family	295	-	-	498	-	6
Residential real estate:						
Residential mortgage and first lien home equity loans	596	-	9	672	-	-
Home equity-second lien loans and revolving lines of credit	149	-	-	156	-	47
Consumer and other	11	-	-	22	-	-
Total	<u>\$ 12,445</u>	<u>\$ 18</u>	<u>\$ 95</u>	<u>\$ 10,372</u>	<u>\$ 19</u>	<u>\$ 81</u>
Impaired loans with a valuation allowance:						
Commercial and industrial	\$ -	\$ -	\$ -	\$ 757	\$ -	\$ -
Commercial real estate:						
Construction and development	-	-	-	43	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 800</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans:						
Commercial and industrial	\$ 2,579	\$ -	\$ 40	\$ 6,457	\$ -	\$ -
Commercial real estate:						
Owner-occupied	3,836	18	12	3,324	19	-
Investor	519	-	34	-	-	28
Construction and development	4,460	-	-	43	-	-
Multi-family	295	-	-	498	-	6
Residential real estate:						
Residential mortgage and first lien home equity loans	596	-	9	672	-	-
Home equity-second lien loans and revolving lines of credit	149	-	-	156	-	47
Consumer and other	11	-	-	22	-	-
Total	<u>\$ 12,445</u>	<u>\$ 18</u>	<u>\$ 95</u>	<u>\$ 11,172</u>	<u>\$ 19</u>	<u>\$ 81</u>

Average recorded investment in the preceding table does not include PCI loans which were recorded at their fair value at acquisition.

Troubled Debt Restructured Loans

Impaired loans generally include nonaccrual loans but also include performing and nonperforming TDRs. From time to time, the Company may extend, restructure or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain borrowers, as well as assist other borrowers who may be experiencing financial difficulties. If a borrower is experiencing financial difficulties and a concession is made by way of a modification of terms the Company would not otherwise consider, the modified loan would be classified as a TDR.

TDRs are individually evaluated for impairment and are recorded at fair value. At September 30, 2022, the Company had eight TDRs on nonaccrual status totaling \$2.4 million. This balance included three commercial and industrial loans totaling \$931,000, three commercial real estate owner-occupied loans totaling \$1.3 million, one residential mortgage loan totaling \$217,000 and one home equity loan totaling \$2,000. At September 30, 2022 the Company had one commercial real estate owner-occupied TDR in the amount of \$460,000 which was performing according to the terms of its modification. At December 31, 2021 the Company had seven TDRs on nonaccrual status totaling \$2.3 million. This balance included two commercial and industrial loans totaling \$650,000, three commercial real estate owner-occupied loans totaling \$1.4 million, one residential mortgage loan totaling \$226,000 and one home equity loan totaling \$7,000. At December 31, 2021 the Company had one commercial real estate owner-occupied TDR in the amount of \$478,000 which was performing according to the terms of its modification.

There were no new TDRs executed during the three months ended September 30, 2022 and 2021. During the nine months ended September 30, 2022, one new TDR was executed for a commercial and industrial loan which the pre and post-modification balance was \$1.1 million. During the nine months ended September 30, 2021 there were two new TDRs executed for commercial loans to one borrower with a total balance of \$494,000 at September 30, 2021. There were no other TDRs executed within the twelve months ended September 30, 2022 and 2021 that subsequently defaulted during the nine months ended September 30, 2022 and 2021 and no other TDRs had charge offs or principal forgiveness during 2022 or 2021.

Note 8 – Allowance for Loan Losses (continued)

The CARES Act provided that qualifying short-term modifications made in response to COVID-19 did not need to be accounted for as troubled debt restructurings. The CAA extended this accounting treatment of modifications. As of September 30, 2022 the Company had no loan modifications meeting the CARES Act qualifications. As of December 31, 2021, the Company had loan modifications meeting the CARES Act qualifications to three borrowers with aggregate loan balances outstanding of \$1.6 million.

Note 9 – Stockholders' Equity

During the nine months ended September 30, 2022, the Company repurchased 245,942 shares of its outstanding common stock for an aggregate purchase price of \$3.4 million. During the nine months ended September 30, 2021, the Company repurchased 344,458 shares of its outstanding common stock for an aggregate purchase price of \$4.1 million.

Note 10 – Goodwill and Other Intangible Assets

The Company's intangible assets consists of goodwill and core deposit intangibles, in connection with acquisitions. Intangible assets also include loan servicing rights related to loan servicing retained in connection with the origination and sale of loans guaranteed by the Small Business Administration.

Goodwill arising from these acquisitions consist largely of the synergies and economies of scale expected from combining the operations of the acquired companies or branches. None of the goodwill is expected to be deductible for income tax purposes. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. The Company may elect to perform a qualitative assessment for the annual impairment test. If the qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company elects not to perform a qualitative assessment, then the Company would be required to perform a quantitative test for goodwill impairment. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

The Company performed a qualitative assessment of goodwill as of August 31, 2022 which is the Company's established annual assessment date and determined that none of the Company's goodwill was impaired as of August 31, 2022.

The Company's core deposit intangibles are included in other intangible assets, net, on the Consolidated Statements of Financial Condition and are amortized on an accelerated basis using an estimated life of ten years. An impairment loss would be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

A portion of certain SBA loans originated by the Company are sold to third parties, however, the Company may retain the servicing rights related to these loans. An intangible asset, referred to as loan servicing rights ("LSRs"), is recognized when a loan's servicing rights are retained upon the sale of a loan. LSRs are initially recorded at fair value based on a valuation model which calculates the present value of estimated future servicing income and are included in other intangible assets, net, on the Consolidated Statements of Financial Condition. LSRs are amortized over the period of the economic life of the assets arising from estimated net servicing revenues. LSRs are evaluated quarterly for impairment based upon the fair value of the LSRs as compared to the carrying amounts.

The Company believes that the fair values of intangible assets were in excess of their carrying amounts and therefore there was no impairment to intangible assets at September 30, 2022 or December 31, 2021.

Amortization expense of the core deposit intangibles was \$71,000 and \$67,000 for the three months ended September 30, 2022 and 2021, respectively, and \$224,000 and \$208,000 for the nine months ended September 30, 2022 and 2021, respectively, and is included in other expense on the Consolidated Statements of Income. The unamortized balance of the core deposit intangibles and the amount of goodwill at September 30, 2022 were \$1.2 million and \$17.8 million, respectively. The unamortized balance of the core deposit intangibles and the amount of goodwill at December 31, 2021 were \$1.4 million and \$17.8 million, respectively. The amortization of the LSRs is recorded as a reduction to servicing income received which is included in loan fees on the Consolidated Statements of Income. The amortization of LSRs was \$99,000 and \$213,000 for the three and nine months ended September 30, 2022 and \$30,000 and \$89,000 for the three and nine months ended September 30, 2021. The unamortized LSRs totaled \$613,000 at September 30, 2022 and \$760,000 at December 31, 2021.

Note 11 – Income Taxes

The Company accounts for income taxes under the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to income tax expense.

As of September 30, 2022 and December 31, 2021, the Company had net deferred tax assets of \$13.5 million and \$11.1 million, respectively. These deferred tax assets can only be realized if the Company generates taxable income in the future. The Company regularly evaluates the feasibility of deferred tax asset positions. In determining whether a valuation allowance is necessary, the level of taxable income in prior years is considered to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. The Company expects to realize our deferred tax assets over the allowable carryback and/or carryforward periods. Therefore, no valuation allowance was deemed necessary against the deferred tax assets as of September 30, 2022 or December 31, 2021. However, if an unanticipated event occurred that materially changed pre-tax and taxable income in future periods, a valuation allowance may become necessary and could have a material effect on the Company's consolidated financial statements.

When tax returns are filed, some tax positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company does not have uncertain tax positions that it deems material.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There were no interest or penalties recorded in income tax expense for the three or nine months ended September 30, 2022 and 2021.

Note 12 – Commitments and Contingencies

The Company is a 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 and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition.

At September 30, 2022 and December 31, 2021, commitments to extend credit totaled \$413.4 million and \$292.9 million, respectively including outstanding performance standby letters of credit of \$4.8 million and \$7.0 million, respectively. These letters of credit are primarily related to performance guarantees on real estate development.

In the ordinary course of business the Company is party to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from its business. Management does not consider that any such proceedings depart from usual routine litigation.

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments

Fair Value Measurement

The Company follows the guidance on fair value measurement in ASC 820-10-5, *Fair Value Measurement*, which establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

The fair value measurement hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Fair Value on a Recurring Basis

Investment Securities

The fair value of investment securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity or non-transferability, and such adjustments are based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers, where available, are used to support the fair values of certain Level 3 investments.

Derivatives

The Company records all derivatives on the Consolidated Statements of Financial Condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. As such, all changes in fair value of the Company's derivatives are recognized directly in earnings. As of September 30, 2022 and December 31, 2021 the changes in the fair value of derivative assets are off-set by the changes in the fair value of derivative liabilities so there is no net impact on the Consolidated Statements of Income. The fair value of the Company's derivatives is determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are presented in the following tables as of the dates indicated:

September 30, 2022				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Investment securities available for sale:				
U.S. Government-sponsored agency securities	\$ 28,161	\$ -	\$ 28,161	\$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	37,609	-	37,609	-
Issued by GNMA	12,118	-	12,118	-
U.S. Treasury securities	3,862	3,862	-	-
Asset-backed securities	1,020	-	1,020	-
Corporate obligations	15,535	-	15,535	-
Total securities available for sale	<u>\$ 98,305</u>	<u>\$ 3,862</u>	<u>\$ 94,443</u>	<u>\$ -</u>
Derivative assets	13,963	-	13,963	-
Total	<u>\$ 112,268</u>	<u>\$ 3,862</u>	<u>\$ 108,406</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 13,963</u>	<u>\$ -</u>	<u>\$ 13,963</u>	<u>\$ -</u>
December 31, 2021				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Investment securities available for sale:				
U.S. Government-sponsored agency securities	\$ 17,814	\$ -	\$ 17,814	\$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	47,884	-	47,884	-
Issued by GNMA	11,344	-	11,344	-
Asset-backed securities	1,396	-	1,396	-
Corporate obligations	16,146	-	16,146	-
Total securities available for sale	<u>\$ 94,584</u>	<u>\$ -</u>	<u>\$ 94,584</u>	<u>\$ -</u>
Derivative assets	1,983	-	1,983	-
Total	<u>\$ 96,567</u>	<u>\$ -</u>	<u>\$ 96,567</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 1,983</u>	<u>\$ -</u>	<u>\$ 1,983</u>	<u>\$ -</u>

Fair Value on a Nonrecurring Basis

Impaired Loans

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. Impaired loans, excluding accruing TDRs, are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy are presented in the following tables as of the dates indicated:

September 30, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Total	(Level 1)	(Level 2)	(Level 3)	
(in thousands)				
Impaired loans	\$ 1,594	\$ -	\$ -	\$ 1,594
Total	\$ 1,594	\$ -	\$ -	\$ 1,594

December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Total	(Level 1)	(Level 2)	(Level 3)	
(in thousands)				
Impaired loans	\$ 1,751	\$ -	\$ -	\$ 1,751
Total	\$ 1,751	\$ -	\$ -	\$ 1,751

The information in the preceding tables does not include PCI loans.

The following tables present additional information about Level 3 assets measured at fair value on a nonrecurring basis as of the dates indicated:

Quantitative Information about Level 3 Fair Value Measurements					
September 30, 2022					
Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)	
(dollars in thousands)					
Impaired loans	\$ 1,594	Fair value of collateral (1)	Appraised Value (2)	5% - 8%	7%

Quantitative Information about Level 3 Fair Value Measurements					
December 31, 2021					
Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)	
(dollars in thousands)					
Impaired loans	\$ 1,751	Fair value of collateral (1)	Appraised Value (2)	5% - 13%	9%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percentage of the appraised value.

The information in the preceding tables does not include PCI loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

Fair Value of Financial Instruments

Accounting guidance requires the disclosure of the estimated fair value of certain financial instruments, including those financial instruments for which the Company did not elect the fair value option, and requires the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes. Estimated fair values have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have a material effect on these estimates of fair value.

The carrying amounts and estimated fair values of the Company's financial instruments are provided in the following tables as of the dates indicated:

	September 30, 2022				
	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Financial Assets:					
Cash and cash equivalents	\$ 107,517	\$ 107,517	\$ 107,517	\$ -	\$ -
Interest bearing time deposits with banks	1,293	1,245	-	1,245	-
Investment securities available for sale	98,305	98,305	3,862	94,443	-
Investment securities held to maturity	43,910	39,674	-	39,674	-
Restricted investment in bank stocks	6,439	6,439	-	6,439	-
Other investments	8,335	8,335	-	8,335	-
Net loans	2,238,832	2,091,441	-	-	2,091,441
Accrued interest receivable	6,898	6,898	-	6,898	-
Derivative assets	13,963	13,963	-	13,963	-
Loan servicing rights	613	622	-	-	622
Financial Liabilities:					
Non-maturity deposits	1,787,643	1,787,643	-	1,787,643	-
Time deposits	402,549	387,922	-	387,922	-
Borrowings	103,654	102,585	-	102,585	-
Subordinated debentures	29,703	28,990	-	28,990	-
Accrued interest payable	900	900	-	900	-
Derivative liabilities	13,963	13,963	-	13,963	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

	December 31, 2021				
	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)		
Financial Assets:					
Cash and cash equivalents	\$ 154,507	\$ 154,507	\$ 154,507	\$ -	\$ -
Interest bearing time deposits with banks	2,170	2,156	-	2,156	-
Investment securities available for sale	94,584	94,584	-	94,584	-
Investment securities held to maturity	39,547	39,718	-	39,718	-
Restricted investment in bank stocks	5,856	5,856	-	5,856	-
Other investments	8,062	8,062	-	8,062	-
Net loans	2,101,691	2,114,476	-	-	2,114,476
Accrued interest receivable	5,681	5,681	-	5,681	-
Derivative assets	1,983	1,983	-	1,983	-
Loan servicing rights	760	787	-	-	787
Financial Liabilities:					
Non-maturity deposits	1,723,496	1,723,496	-	1,723,496	-
Time deposits	391,106	384,210	-	384,210	-
Borrowings	95,281	95,686	-	95,686	-
Subordinated debentures	29,620	31,700	-	31,700	-
Accrued interest payable	399	399	-	399	-
Derivative liabilities	1,983	1,983	-	1,983	-

Note 14 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. The Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain borrowers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Statements of Financial Condition

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of the dates indicated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 14 – Derivatives and Hedging Activities (continued)

Fair Values of Derivative Instruments as of September 30, 2022						
Derivative Assets				Derivative Liabilities		
(in thousands)						
Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	
Derivatives not designated as hedging instruments						
Interest Rate Products	\$ 96,931 Other Assets	\$ 13,963	\$ 96,931	Other Liabilities	\$ 13,963	
Total derivatives not designated as hedging instruments ⁽¹⁾		\$ 13,963			\$ 13,963	
Cash collateral ⁽³⁾		13,400			-	
Net Derivative Amounts		\$ 563			\$ 13,963	

Fair Values of Derivative Instruments as of December 31, 2021								
Derivative Assets				Derivative Liabilities				
(in thousands)								
Notional Amount	Consolidated Statements of Financial Condition Location		Fair Value	Notional Amount	Consolidated Statements of Financial Condition Location		Fair Value	
Derivatives not designated as hedging instruments								
Interest Rate Products	\$	90,601	Other Assets	\$	1,983			
Total derivatives not designated as hedging instruments ⁽¹⁾			\$	1,983				
Netting adjustments ⁽²⁾							511	
Cash collateral ⁽³⁾							-	
Net Derivative Amounts			\$	1,472			\$	1,152

(1) Gross amounts are not offset in the Consolidated Statements of Financial Condition and the Company has not made an election to offset its derivative positions.

(2) Netting adjustments represents the amounts recorded to convert derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The Company's interest rate swaps with institutional counterparties are subject to master netting arrangements. Interest rate swaps with commercial banking customers are not subject to master netting arrangements.

(3) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The application of the collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2022 and December 31, 2021, the fair value of derivatives in a net asset and net liability positions, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$13.9 million and \$2.0 million, respectively. As of September 30, 2022, the Company received \$13.4 million in cash collateral related to these agreements. The Company did not post any cash collateral as of September 30, 2022. As of December 31, 2021, the Company posted \$652,000 in cash collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2022, it could have been required to settle its obligations under the agreements at their termination value of \$13.9 million.

Note 15 – Leases

As of September 30, 2022, the Company leased fourteen locations under non-cancellable operating leases, which expire at various dates through the year ending December 31, 2029. All of the Company's operating leases have renewal options. The renewal options are primarily for five years and are included in the calculation of the Company's right-of-use assets and lease liabilities when they are expected to be exercised. Certain leases also have escalation clauses which are primarily fixed dollar amount increases. No operating leases include variable lease payments. Two of the Company's operating leases are with related parties, one of which was amended during the quarter ended June 30, 2022 to include additional space at market rates and extend the lease term by three years. The Company currently does not have any finance leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 15 – Leases (continued)

At September 30, 2022, the Company's operating lease right-of-use assets and operating lease liabilities totaled \$7.0 million and \$7.4 million, respectively, and are carried in the Consolidated Statements of Financial Condition in other assets and other liabilities, respectively. As of December 31, 2021 the Company's operating lease right-of-use assets and operating lease liabilities totaled \$6.3 million and \$6.7 million, respectively.

The following provides additional information about the Company's operating leases:

At September 30, 2022:

Weighted average remaining lease term	5.56 years
Weighted average discount rate	3.21%

Future minimum payments for the twelve months ended:
(in thousands)

September 30, 2023	\$ 495
September 30, 2024	1,848
September 30, 2025	1,345
September 30, 2026	1,144
September 30, 2027	1,052
Thereafter	<u>2,219</u>
Total Lease Payments	<u>\$ 8,103</u>
Less: Imputed interest	<u>\$ (722)</u>
Total lease liabilities	<u><u>\$ 7,381</u></u>

	<u>Three Months Ended</u> <u>September 30, 2022</u>	<u>Three Months Ended</u> <u>September 30, 2021</u>	<u>Nine Months Ended</u> <u>September 30, 2022</u>	<u>Nine Months Ended</u> <u>September 30, 2021</u>
Operating lease cost (cost resulting from lease payments) (in thousands)	<u>\$ 487</u>	<u>\$ 463</u>	<u>\$ 1,395</u>	<u>\$ 1,353</u>

Total lease rental expense was \$1.7 million and \$1.7 million for the nine months ended September 30, 2022 and 2021, respectively. Total lease rental expense was \$585,000 and \$504,000 for the three months ended September 30, 2022 and 2021, respectively. Total rental expense includes certain common area maintenance charges.

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

The following management discussion and analysis of the Company's consolidated financial condition as of September 30, 2022 and the results of operations for the three and nine months ended September 30, 2022 and 2021 ("MD&A") should be read in conjunction with the consolidated audited financial statements, including notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the FDIC, and the other information therein. The consolidated statement of financial condition as of September 30, 2022, the consolidated statements of income, the consolidated statements of comprehensive income and the consolidated statements of changes in stockholders' equity for the three and nine months ended September 30, 2022 and 2021, and the consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021 are unaudited. The consolidated statement of financial condition as of December 31, 2021 was derived from the audited consolidated statement of financial condition as of that date. The consolidated financial statements include, in the opinion of management, all adjustments considered necessary for a fair presentation of such data. As used in this Quarterly Report on Form 10-Q, "we," "us," "our," "the Bank" and "the Company" refer to First Bank and its consolidated subsidiaries, unless otherwise noted.

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, either express or implied, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information regarding First Bank's future financial performance, business and growth strategy, projected plans and objectives, and related transactions, integration of acquired businesses and anticipated results related thereto, ability to recognize anticipated operational efficiencies, and other projections based on macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Such forward-looking statements are based on various facts and derived utilizing important assumptions, current expectations, estimates and projections about First Bank, any of which may change over time and some of which may be beyond First Bank's control. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing. Further, certain factors that could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to: whether First Bank can successfully implement its growth strategy, including identifying acquisition targets and consummating suitable acquisitions, continue to sustain its internal growth rate, and provide competitive products and services that appeal to its customers and target markets; difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which First Bank operates and in which its loans are concentrated, including the effects of inflation and declines in housing market values; the negative impact of diseases and pandemics, including COVID-19, on First Bank's operations, customers, employees, credit quality, financial position, and liquidity; the length and extent of the economic effects of the COVID-19 pandemic; changes in customer behavior due to changing business and economic conditions or legislative or regulatory initiatives; First Bank's level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs; changes in market interest rates may increase funding costs and reduce earning asset yields thus reducing margin; the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of First Bank's investment securities portfolio; increases in loan defaults and charge off rates; decreases in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; operational risks, including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; the extensive federal and state regulation, supervision and examination governing almost every aspect of First Bank's operations and the potential expenses associated with complying with such regulations; First Bank's ability to comply with applicable capital and liquidity requirements, including First Bank's ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations. For discussion of these and other risks that may cause actual results to differ from expectations, please refer to "Forward-Looking Statements" and "Risk Factors" in First Bank's Annual Report on Form 10-K for the year ended December 31, 2021 and any updates to those risk factors set forth in First Bank's subsequent Quarterly Reports on Form 10-Q, including in this Form 10-Q, or Current Reports on Form 8-K. If one or more events related to these or other risks or uncertainties materialize, or if First Bank's underlying assumptions prove to be incorrect, actual results may differ materially from what First Bank anticipates. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and First Bank does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. All forward-looking statements, expressed or implied, included in this communication are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that First Bank or persons acting on First Bank's behalf may issue.

Business Overview

We are a New Jersey state-chartered commercial bank that began operations in 2007. We are headquartered in Hamilton, Mercer County, New Jersey, with total assets of \$2.64 billion, total loans of \$2.26 billion, total deposits of \$2.19 billion and total stockholders' equity of \$280.7 million at September 30, 2022. We provide lending, deposit and other financial products and services with an emphasis on commercial real estate and commercial and industrial loans to small to mid-sized businesses and individuals. Our existing and targeted markets are located in the corridor between New York City and Philadelphia. As of September 30, 2022, we operated eighteen full-service branches in Cinnaminson, Cranbury, Delanco, Denville, Ewing, Flemington (2), Hamilton, Lawrence, Monroe, Pennington, Randolph, Somerset and Williamstown, New Jersey, and Doylestown, Trevese, Warminster and West Chester, Pennsylvania. We have a wholly-owned investment company subsidiary, FB Delaware Investment Company, Inc., a Delaware corporation, which was formed to manage an investment in commercial real estate. FB Delaware Investment Company, Inc. has in turn a wholly-owned New Jersey subsidiary, FB Preferred Capital, Inc., to hold and manage its commercial real estate loans. We also have several wholly-owned subsidiaries which hold foreclosed assets.

We continue to monitor the effects of the ongoing COVID-19 pandemic on our business, consolidated results of operations and financial condition. Based on solid earnings performance, a strong capital base and sound asset quality we are well positioned to respond to any further impact of the pandemic to our business.

Financial service providers are challenged by intense competition, changing customer demands, increased pricing pressures and the ongoing impact of new regulations and industry consolidation. This is more so for traditional community banks offering loan and deposit services, due to continuous competitive pressures as both banks and nonbanks compete for customers with a broad array of banking, investment and capital market products. Despite the challenges and competition, our key strengths include establishing relationships and providing personalized service to attract high quality business to the Company. We believe that the key differentiating factors between us and our competition are our philosophy of relationship banking and our in-market expertise. We remain committed to building customer relationships and delivering quality service to the banking markets we serve.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). In the preparation of our consolidated financial statements we are required to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Our significant accounting policies are fundamental to understanding management's discussion and analysis of our financial condition and results of operations.

We define our critical accounting policies as those accounting principles generally accepted in the U.S. that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations as well as the specific manner in which we apply those principles. We believe our accounting policies governing the determination of the fair value of acquired loans and the allowance for loan losses, the assessment of other than temporary impairment of securities, the evaluation of goodwill for impairment, and the determination of income taxes are critical accounting policies.

We believe the critical accounting policies used in the preparation of our financial statements that require significant estimates and judgements are as follows:

Acquired Loans. Acquired loans are recorded at fair value with no carryover of the related allowance for loan losses at the time of acquisition. Determining the fair value of acquired loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

Acquired loans determined to have evidence of deterioration in credit quality, which we refer to as purchased credit impaired ("PCI") loans, are accounted for individually under Accounting Standards Codification ("ASC") Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*. Acquired loans that are not individually in the scope of ASC Topic 310-30 because they did not meet the criteria above are either (i) pooled into groups of similar loans based on the borrower type, loan purpose, and collateral type and accounted for under ASC Topic 310-30, or (ii) accounted for under ASC Topic 310-20, *Nonrefundable Fees and Other Costs*.

For PCI loans, the excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is called the accretable discount and is recognized in interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans. Subsequent decreases to the expected cash flows require us to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which we can then reclassify as accretable discount that is recognized in interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of

future cash flows that we expect to collect takes into account actual credit performance of the acquired loans to date and our best estimates for the expected lifetime credit performance of the loans using currently available information. Charge offs of the principal amount on acquired loans would be first applied to the non-accretable discount portion of the fair value adjustment. To the extent that we experience a deterioration in credit quality in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

In accordance with ASC Topic 310-30, recognition of income from PCI loans is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. We perform such an evaluation on a quarterly basis on our PCI loans. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Principal and interest payments on PCI loans that were written down to \$0 at the acquisition date are reported in the Consolidated Statements of Income as gains on recovery of acquired loans. Payoffs on loans that had partial charge offs at the time of acquisition are reported in the Consolidated Statements of Income in interest on loans, including fees, after retirement of principal.

Allowance for Loan Losses. The allowance for loan losses represents our best estimate of probable credit losses inherent in the loan portfolio. The adequacy of our allowance for loan losses is evaluated regularly. The allowance for loan losses has been determined in accordance with U.S. GAAP, under which we are required to maintain an adequate allowance for loan losses. The allowance for loan losses is based upon management's assessment of several factors including an assessment of probable losses included in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of specific loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available, the level of the allowance for loan losses remains an estimate which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of our loans are secured by real estate in New Jersey or Pennsylvania. Accordingly, the collectability of a substantial portion of the carrying value of our loan portfolio is susceptible to changes in local market conditions and may be adversely affected by declines in real estate values. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond our control as evidenced by adjustments we have made related to the economic changes created by the COVID-19 pandemic. We believe that our allowance for loan losses is adequate to cover probable loan losses which are specifically identifiable as well as losses inherent in our portfolio which are probable but not specifically identifiable. We will be implementing *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2023. This new accounting guidance will impact the level of our allowance for loan losses in future periods.

For PCI loans, our allowance for loan losses is estimated based upon our expected cash flows of those acquired loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

For acquired loans accounted for under ASC Topic 310-20, we establish our allowance for loan losses through a provision for loan losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans and other factors that warrant recognition in determining our allowance for loan losses.

Assessment of Other Than Temporary Impairment. Certain of our assets are carried in the Consolidated Statements of Financial Condition at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of various assets. In addition to our impairment analyses related to loans and other real estate owned ("OREO"), another significant analysis relates to other than temporary declines in the value of our securities. We conduct a quarterly review and evaluation of the investment securities portfolio, restricted stocks and other investments to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is deemed other than temporary, we would adjust the carrying value of the security by writing down the security to fair value through a charge to current period earnings. At September 30, 2022, we determined that all unrealized losses on such items were temporary in nature.

Goodwill and other Intangible Assets. Our intangible assets consist primarily of goodwill and core deposit intangibles. Intangible assets also include loan servicing rights. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. We may elect to perform a qualitative assessment for the annual impairment test. If the qualitative assessment indicates it is more likely than not

that the fair value of a reporting unit is less than its carrying amount, or if we elect not to perform a qualitative assessment, then we would be required to perform a quantitative test for goodwill impairment. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

We performed a qualitative assessment of goodwill as of August 31, 2022 which is our established annual assessment date and determined that none of our goodwill was impaired as of August 31, 2022. As of September 30, 2022 and December 31, 2021, no triggering events were identified and therefore, we did not perform an interim impairment evaluation.

Core deposit intangibles are amortized on an accelerated basis using an estimated life of ten years. The core deposit intangibles are evaluated annually for impairment in accordance with U.S. GAAP. An impairment loss will be recognized if the carrying amount of the intangible asset is not fully recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered fully recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

A portion of certain Small Business Administration's ("SBA") loans we originate are sold to third parties; however, we may retain the servicing rights related to these loans. An intangible asset, referred to as loan servicing rights ("LSRs") is recognized when a loan's servicing rights are retained upon sale of a loan. LSRs are amortized over the period of the economic life of the assets arising from estimated net servicing revenues. LSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their carrying amounts.

We believe that the fair values of our intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at September 30, 2022 or December 31, 2021.

Income Taxes. We are primarily subject to the income tax laws of the United States of America and the State of New Jersey. We are also subject to other state income tax laws where we conduct our business. We account for income taxes by recognizing the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for estimated future tax consequences, which require judgment with respect to events that have been recognized in our consolidated financial statements or tax returns. Fluctuations in the actual outcome of future tax consequences, including the recoverability of deferred tax assets, could materially impact our consolidated financial condition or results of operations.

As of September 30, 2022, we had net deferred tax assets of \$13.5 million. These deferred tax assets can only be realized if we generate taxable income in the future. We regularly evaluate the feasibility of our deferred tax asset positions. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. We expect to realize our deferred tax assets over the allowable carryback and/or carryforward periods. Therefore, no valuation allowance was deemed necessary against our deferred tax assets as of September 30, 2022. However, if an unanticipated event occurred that materially changed pre-tax and taxable income in future periods, a valuation allowance may become necessary and could have a material effect on our consolidated financial statements.

Recent Authoritative Accounting Guidance

See Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document for a description of recent authoritative accounting guidance including, if applicable, the respective dates of adoption and effects on our consolidated financial condition and results of operations.

Results of Operations

Net Income

Net income for the three months ended September 30, 2022 was \$10.2 million, an increase of \$1.2 million, or 12.9%, compared to \$9.0 million for the same period in 2021. Diluted earnings per share was \$0.52 for the three-month period ended September 30, 2022 compared to \$0.46 for the same period in 2021. The increase in net income for the three months ended September 30, 2022 was primarily a result of an increase in net interest income of \$3.8 million, or 18.2%, partially offset by a decrease in non-interest income of \$957,000, or 50.3%, and an increase in non-interest expenses of \$1.2 million, or 11.5%. The increase in net interest income was principally due to higher interest income from loans which outpaced the increase in interest expense on deposits. The increase in interest income on loans was primarily due to the growth in the loan portfolio coupled with a higher average rate on loans. Average loan balances were \$194.5 million higher and the average rate on loans was 43 basis points higher during the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The decrease in non-interest income was primarily due to lower gains on the sale of loans and lower loan fees, primarily lower loan swap fees compared to the same period ended September 30, 2021. The increase in non-interest expenses was primarily due to higher salaries and employee benefits, along with lesser increases in occupancy and equipment, other professional fees, data processing, and other expense. Partially offsetting these increases were no merger-related expenses to date in 2022, compared to \$145,000 during the third quarter of 2021.

Net income for the nine months ended September 30, 2022 and 2021 was \$27.2 million and \$27.6 million, respectively, or \$1.38 and \$1.39 per diluted share, respectively. The decrease in net income and diluted earnings per share was \$403,000 and \$0.01, or 1.5% and 0.7%, respectively, for the comparative periods. The decrease in net income for the nine-month comparative period was primarily due to the increase in the provision for loan losses of \$3.2 million, or 304.0% as well as an increase in non-interest expenses of \$2.9 million, or 9.4%, and a decrease in non-interest income of \$1.9 million, or 33.7%, which was partially offset by an increase in net interest income of \$7.4 million, or 12.0%. The minor decrease in the diluted earnings per share for the nine-month comparative period was due primarily to comparatively lower net income partially offset by a slight decrease in diluted weighted average common shares outstanding at the end of the comparative reporting periods.

The annualized return on average assets ("ROAA") and average equity ("ROAE") for the three months ended September 30, 2022 were 1.57% and 14.46%, respectively, compared with 1.46% and 13.86%, respectively, for the same period in the prior year. Annualized ROAA and ROAE for the nine months ended September 30, 2022 were 1.42% and 13.23%, respectively, compared with 1.53% and 14.74% for the same period in the prior year.

Net Interest Income

Our results of operations depend primarily on our net interest income, the largest and most significant component of our operating income. Net interest income is the difference between income on our interest earning assets and the expense on interest bearing liabilities, primarily deposits. Net interest income depends upon the relative amounts and types of interest earning assets and interest bearing liabilities, and the interest rate earned or paid on them. Net interest income is also impacted by changes in interest rates and the shape of market yield curves. Net interest spread is the difference between the weighted average rate received on interest earning assets and the weighted average rate paid to fund those interest earning assets.

The following tables provide an analysis of net interest income by each major category of average interest earning assets and average interest bearing liabilities, and the related average interest yields and costs for the periods indicated. Average yields are derived by dividing annualized interest income by the average balance of the related assets, and average costs are derived by dividing annualized interest expense by the average balance of the related liabilities. Average balances were derived from daily average balances. The average interest yields and costs include fees, costs, premiums and discounts, which are considered adjustments to interest rates.

Three Months Ended September 30,						
	2022			2021		
	Average Balance	Interest	Average Rate (5)	Average Balance	Interest	Average Rate (5)
Interest earning assets						
Investment securities (1) (2)	\$ 145,783	\$ 835	2.27%	\$ 122,494	\$ 619	2.00%
Loans (3)	2,224,829	26,673	4.76%	2,030,351	22,150	4.33%
Interest bearing deposits with banks, Federal funds sold and other	74,493	406	2.16%	163,386	62	0.15%
Restricted investment in bank stocks	5,248	72	5.44%	6,833	90	5.23%
Other investments	8,223	20	0.96%	6,542	16	0.97%
Total interest earning assets (2)	2,458,576	28,006	4.52%	2,329,606	22,937	3.91%
Allowance for loan losses	(25,283)			(23,388)		
Non-interest earning assets	142,449			150,399		
Total assets	\$ 2,575,742			\$ 2,456,617		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 338,639	\$ 397	0.47%	\$ 225,546	\$ 51	0.09%
Money market deposits	713,594	1,458	0.81%	657,058	424	0.26%
Savings deposits	182,771	228	0.49%	185,093	178	0.38%
Time deposits	350,859	654	0.74%	446,865	613	0.54%
Total interest bearing deposits	1,585,863	2,737	0.68%	1,514,562	1,266	0.33%
Borrowings	64,330	258	1.59%	103,055	442	1.70%
Subordinated debentures	29,685	440	5.93%	29,576	440	5.95%
Total interest bearing liabilities	1,679,878	3,435	0.81%	1,647,193	2,148	0.52%
Non-interest bearing deposits	590,421			534,586		
Other liabilities	25,350			16,242		
Stockholders' equity	280,093			258,596		
Total liabilities and stockholders' equity	\$ 2,575,742			\$ 2,456,617		
Net interest income/interest rate spread (2)		24,571	3.71%		20,789	3.39%
Net interest margin (2) (4)			3.97%			3.54%
Tax equivalent adjustment (2)		(8)			(8)	
Net interest income		<u>\$ 24,563</u>			<u>\$ 20,781</u>	

(1) Average balance of investment securities available for sale is based on amortized cost.

(2) Interest and average rates are presented on a tax equivalent basis using a federal income tax rate of 21%.

(3) Average balances of loans include loans on nonaccrual status.

(4) Net interest income divided by average total interest earning assets.

(5) Annualized.

Nine Months Ended September 30,

	2022			2021		
	Average Balance	Interest	Average Rate (5)	Average Balance	Interest	Average Rate (5)
Interest earning assets						
Investment securities (1) (2)	\$ 140,452	\$ 2,185	2.08%	\$ 113,586	\$ 1,757	2.07%
Loans (3)	2,179,357	72,697	4.46%	2,037,460	66,345	4.35%
Interest bearing deposits with banks, Federal funds sold and other	101,101	627	0.83%	130,189	202	0.21%
Restricted investment in bank stocks	5,428	200	4.93%	7,784	275	4.72%
Other investments	8,129	61	1.00%	6,526	47	0.96%
Total interest earning assets (2)	2,434,467	75,770	4.16%	2,295,545	68,626	4.00%
Allowance for loan losses	(24,608)			(23,829)		
Non-interest earning assets	145,989			139,743		
Total assets	\$ 2,555,848			\$ 2,411,459		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 322,353	\$ 595	0.25%	\$ 212,518	\$ 165	0.10%
Money market deposits	719,028	2,548	0.47%	617,249	1,368	0.30%
Savings deposits	184,767	572	0.41%	179,184	574	0.43%
Time deposits	340,822	1,293	0.51%	478,934	2,472	0.69%
Total interest bearing deposits	1,566,970	5,008	0.43%	1,487,885	4,579	0.41%
Borrowings	69,571	796	1.53%	126,220	1,449	1.53%
Subordinated debentures	29,659	1,321	5.94%	29,547	1,321	5.96%
Total interest bearing liabilities	1,666,200	7,125	0.57%	1,643,652	7,349	0.60%
Non-interest bearing deposits	593,638			501,809		
Other liabilities	21,284			15,798		
Stockholders' equity	274,726			250,200		
Total liabilities and stockholders' equity	\$ 2,555,848			\$ 2,411,459		
Net interest income/interest rate spread (2)		68,645	3.59%		61,277	3.40%
Net interest margin (2) (4)			3.77%			3.57%
Tax equivalent adjustment (2)		(23)			(28)	
Net interest income		<u>\$ 68,622</u>			<u>\$ 61,249</u>	

(1) Average balance of investment securities available for sale is based on amortized cost.

(2) Interest and average rates are presented on a tax equivalent basis using a federal income tax rate of 21%.

(3) Average balances of loans include loans on nonaccrual status.

(4) Net interest income divided by average total interest earning assets.

(5) Annualized.

Rate/Volume Analysis

Changes in net interest income and margin result from the interaction between the volume and composition of interest earning assets, interest bearing liabilities and related yields and funding costs. The following tables demonstrate the impact on net interest income of changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates earned and paid for the periods presented. There are no out-of-period adjustments included in the rate/volume analysis in the following tables.

**Three Months Ended September 30,
2022 versus 2021
Increase (Decrease)
Due to Change in (1)**

	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities (2)	\$ 127	\$ 89	\$ 216
Loans	2,225	2,298	4,523
Interest bearing deposits with banks, Federal funds sold and other	(51)	395	344
Restricted investment in bank stocks	(22)	4	(18)
Other investments	4	-	4
Total interest income (2)	<u>2,283</u>	<u>2,786</u>	<u>5,069</u>
Interest expense			
Interest bearing demand deposits	37	309	346
Money market deposits	40	994	1,034
Savings deposits	(2)	52	50
Time deposits	(149)	190	41
Total interest bearing deposits	(74)	1,545	1,471
Borrowings	(157)	(27)	(184)
Subordinated debentures	2	(2)	-
Total interest expense	<u>(229)</u>	<u>1,516</u>	<u>1,287</u>
Net interest income (2)	<u>\$ 2,512</u>	<u>\$ 1,270</u>	<u>\$ 3,782</u>

(1) Changes in interest income or expense attributable to both changes in volume and changes in rate have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

(2) Tax equivalent using a federal income tax rate of 21%.

**Nine Months Ended September 30,
2022 versus 2021
Increase (Decrease)
Due to Change in (1)**

	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities (2)	\$ 418	\$ 10	\$ 428
Loans	4,704	1,648	6,352
Interest bearing deposits with banks, Federal funds sold and other	(55)	480	425
Restricted investment in bank stocks	(86)	11	(75)
Other investments	12	2	14
Total interest income (2)	<u>4,993</u>	<u>2,151</u>	<u>7,144</u>
Interest expense			
Interest bearing demand deposits	117	313	430
Money market deposits	255	925	1,180
Savings deposits	18	(20)	(2)
Time deposits	(614)	(565)	(1,179)
Total interest bearing deposits	(224)	653	429
Borrowings	(648)	(5)	(653)
Subordinated debentures	5	(5)	-
Total interest expense	<u>(867)</u>	<u>643</u>	<u>(224)</u>
Net interest income (2)	<u>\$ 5,860</u>	<u>\$ 1,508</u>	<u>\$ 7,368</u>

(1) Changes in interest income or expense attributable to both changes in volume and changes in rate have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

(2) Tax equivalent using a federal income tax rate of 21%.

Our net interest margin on a tax equivalent basis was 3.97% for the three months ended September 30, 2022, compared to 3.54% for the same period in 2021. The net interest margin is calculated by dividing net interest income by average interest earning assets. The increase in the margin compared to the prior year quarter was primarily due to a 61 basis point increase in the average rate on interest earnings assets partially offset by the 29 basis point increase in our average cost of interest bearing liabilities, primarily interest bearing deposits.

For the nine months ended September 30, 2022, our net interest margin on a tax equivalent basis was 3.77%, compared to 3.57% for the same period in 2021. The increase in the margin compared to the prior year period was primarily the result of a 16 basis point increase in the average rate on interest earnings assets coupled with a decline of 3 basis points in our average cost of interest bearing liabilities.

Our net interest margin over the last several years has also been impacted by the level of prepayment penalty fees on paid off loans, business combination accounting accretion from our acquisitions and, more recently, from PPP loan program fees. For the three and nine months ended September 30, 2022, the average balance of PPP loans was approximately \$5.9 million and \$20.6 million, respectively, which compares to \$104.5 million and \$155.9 million, respectively for the same periods in 2021. PPP loans earn a rate of 1%. Total amortized PPP fees during the three and nine months ended September 30, 2022 were \$200,000 and \$1.6 million, respectively, which included normal fee amortization and the acceleration of fee income for PPP loans forgiven during these periods. Total amortized PPP fees during the three and nine months ended September 30, 2021 were \$1.8 million and \$4.7 million, respectively. Loan prepayment penalty fees totaled \$503,000 and \$1.6 million, respectively, for the three and nine months ended September 30, 2022. Loan prepayment penalty fees totaled \$166,000 and \$1.6 million respectively, for the three and nine months ended September 30, 2021. Business combination accounting accretion totaled \$47,000 and \$219,000 for the three and nine months ended September 30, 2022, respectively, compared to \$164,000 and \$517,000 for the comparable 2021 periods.

Net interest income on a tax equivalent basis increased \$3.8 million, or 18.2%, to \$24.6 million for the three months ended September 30, 2022, compared to \$20.8 million for the same period in 2021. Net interest income on a tax equivalent basis increased \$7.4 million, or 12.0%, to \$68.6 million for the nine months ended September 30, 2022, compared to \$61.3 million for the same period in 2021. Compared to the three- and nine-month periods ended September 30, 2021, net interest income rose primarily due to higher interest income from loans which outpaced the increase in interest expense on deposits.

For the three-month comparative periods, total interest income on a tax equivalent basis rose \$5.1 million, or 22.1%, to \$28.0 million for 2022, from \$22.9 million for 2021. Average loans for the comparative three-month period increased \$194.5 million, or 9.6%. For the nine-month comparative period, interest income on a tax equivalent basis rose \$7.1 million, or 10.4%, to \$75.8 million for 2022, from \$68.6 million for 2021. Average loans for the comparative nine-month periods increased \$141.9 million or 7.0%. The increase in average loans for the three and nine months ended September 30, 2022 was driven by the growth in commercial real estate loans, offset somewhat by declines in forgiven PPP loans. Loan interest income also benefitted from PPP loan fee income for the comparative periods.

Interest and fees on loans for the three months ended September 30, 2022 totaled \$26.7 million, an increase of \$4.5 million, or 20.4%, compared to \$22.2 million for the same period in 2021. Interest and fees on loans for the nine months ended September 30, 2022 totaled \$72.7 million, an increase of \$6.4 million, or 9.6%, compared to \$66.3 million for the same period in 2021. The rising rate environment during the nine months ended September 30, 2022 contributed to a higher average rate on loans during the quarter ended September 30, 2022 compared to the quarter ended September 30, 2021. The average loan yield for the three months ended September 30, 2022 was 4.76% compared to 4.33% for the same period in 2021. The average loan yield for the nine months ended September 30, 2022 was 4.46% compared to 4.35% for the same period in 2021. Our loan yield is affected by competitive market rates and terms, prepayment penalty fees, the level of remaining PPP loans and related fees and other factors. The increase in interest and fees on loans during the three and nine months ended September 30, 2022 compared to the same periods in 2021 was due primarily to a higher volume of commercial loans and higher average loan yields compared to the same periods of 2021.

Average investment securities were \$145.8 million for the three months ended September 30, 2022 compared to \$122.5 million for the same period in 2021, an increase of \$23.3 million, or 19.0%. Average investment securities were \$140.5 million, an increase of \$26.9 million, or 23.7%, for the nine months ended September 30, 2022 compared to \$113.6 million for the same period in 2021. Factors impacting the size of our investment portfolio include the current and projected interest rate environment, liquidity considerations, as well as the investment opportunities, at appropriate spreads, that are available in the marketplace. The average tax equivalent yield on investment securities for the three months ended September 30, 2022 increased 27 basis points to 2.27% compared to 2.00% for the same period in 2021. The average yield on investment securities for the nine months ended September 30, 2022 increased 1 basis point to 2.08% compared to 2.07% for the same period in 2021. Interest income on a tax equivalent basis increased \$216,000 for the three-month comparative period due to an increase in average balances on securities and an increase in the yield on securities. For the nine-month comparative period investment securities interest income increased \$428,000 due to an increase in the average securities balance, coupled with a slight increase in the yield on securities.

Other factors positively impacting the investment securities interest income levels for the three and nine months ended September 30, 2022 included higher yields on floating rate securities, and higher yields on newly purchased securities for the comparative periods presented ended September 30, 2022. During the first nine months of 2022, we selectively purchased investment securities to enhance on balance sheet liquidity.

Investment purchases in this environment will be based on a number of factors including interest rate risk objectives and excess liquidity levels. We will be opportunistic in our approach, looking to buy liquid securities that could be sold to create liquidity with the proceeds potentially invested in other earning asset opportunities.

Average interest bearing liabilities increased \$32.7 million, or 2.0%, to \$1.68 billion for the three months ended September 30, 2022, compared to \$1.65 billion for the same period in 2021. The cost of average interest bearing liabilities increased 29 basis points to 0.81% for the three months ended September 30, 2022 compared to 0.52% for the same period in 2021. Interest expense on average interest bearing liabilities increased \$1.3 million, or 59.9%, for the three months ended September 30, 2022 compared to the same period in 2021. The increase in interest expense for the three-month comparative period was due primarily to the increase in average rates paid on interest bearing deposits during the rising rate environment.

Average interest bearing liabilities increased \$22.5 million, or 1.4%, to \$1.67 billion for the nine months ended September 30, 2022, compared to \$1.64 billion for the same period in 2021. The cost of average interest bearing liabilities decreased 3 basis points to 0.57% compared to 0.60% for the comparative nine-month period. Interest expense on average interest-bearing liabilities decreased by \$224,000, or 3.0%, primarily due to the 18 basis points decline in the average rate on time deposits. For the comparative periods presented we have changed our deposit mix, lowering the level of higher cost time deposits while attracting non-interest bearing deposits and lower cost commercial deposits. Non-interest bearing deposits were 26.7% of total deposits at September 30, 2022 while time deposits represented only 18.3% of deposits.

Interest rates remained at historic lows in the early part of 2022 but the Federal Reserve increased the federal funds rate by 25 basis points on March 16, 2022, 50 basis points on May 4, 2022, 75 basis points on June 15, 2022, 75 basis points on July 27, 2022, 75 basis points on September 21, 2022, and another 75 basis points on November 2, 2022 to address inflation concerns. With the anticipation of the Federal Reserve continuing to raise rates, our deposit goals remain unchanged. We will continue to build strong customer relationships that will help us grow core deposits and reduce our reliance on higher cost time deposits which is expected to assist in managing our cost of funds. While we expect higher deposit costs in this interest rate environment,

we also expect to benefit from increasing loan rates, particularly on our floating rate loans. Our cost of funds and the impact on our margin will be closely managed during this current period of expected rising interest rates.

Provision for Loan Losses

We provide for loan losses by a charge to current income to maintain the allowance for loan losses at an adequate level to absorb probable losses inherent in our loan portfolio, determined according to our documented allowance adequacy for loan losses methodology.

We recorded a provision for loan losses for the third quarter of 2022 of \$216,000 compared to a provision of \$158,000 for the three months ended September 30, 2021. The provision in the third quarter of 2022 reflects the improvement in our asset quality profile and was impacted by the loan growth during the quarter. The provision for loan losses for the nine months ended September 30, 2022 was \$2.2 million. The provision for the first nine months of 2022 reflects our solid asset quality profile and the commercial loan growth during the period. For the nine months ended September 30, 2021, the credit to the provision for loan losses of \$1.1 million, reflects the impact of relatively flat loan growth for that period, in addition to an improving economy and solid asset quality metrics. Net charge offs for the three and nine months ended September 30, 2022 were \$705,000 and \$1.4 million, respectively, compared to net recoveries \$121,000 and \$10,000, respectively, for the same periods in 2021.

Our asset quality for the comparative periods presented remained sound. Our ratio of nonperforming loans to total loans was 0.23% at September 30, 2022 compared to 0.61% at December 31, 2021 and 0.57% at September 30, 2021. The allowance for loan losses to total loans ratio was 1.08% at September 30, 2022 compared to 1.12% at December 31, 2021 and 1.14% at September 30, 2021. The allowance for loan losses to nonperforming loans ratio was 480.61% at September 30, 2022 compared to 182.65% at December 31, 2021 and 199.57% at September 30, 2021. The strong coverage ratio at September 30, 2022 reflects our efforts to lower our level of nonperforming assets. See "Allowance for Loan Losses" below for additional information.

Non-Interest Income

Non-interest income consists of income from service charges and related fees on deposit and loan accounts, income from bank-owned life insurance ("BOLI"), gains on sale of loans, gains on recovery of acquired loans and fees for other banking services. For the three and nine months ended September 30, 2022, non-interest income represented 3.7% and 5.1%, respectively, of our total net revenue, defined as net interest income plus total non-interest income. That compares to 8.4% and 8.3%, respectively, of our net revenue for the same periods in 2021. Our strategic focus on net interest income continues. For the periods presented, we have benefitted from targeted programs we have implemented that have incrementally increased non-interest income levels. The expansion of our customer base, organically and through acquisition, coupled with the introduction of enhanced product offerings has contributed to higher levels of service fees on deposit accounts. In addition, we are focused on growing our SBA loan business and have a loan swap program in place for certain borrowers that also generates non-interest income. Gains on sale of loans, which is primarily driven by the sale of the guaranteed portion of SBA loans, and loan swap income have slowed recently driven by the current economic and interest rate environment.

Non-interest income totaled \$944,000 for the three months ended September 30, 2022, compared to \$1.9 million for the same period in 2021, a decrease of \$957,000. The decrease in non-interest income for the three months ended September 30, 2022 compared to the same period in 2021 was primarily the result of a \$649,000 decrease in gains on sale of loans, a \$172,000 decrease in loan fees and a \$142,000 decrease in other non-interest income. Partially offsetting these decreases was an increase of \$63,000 in service fees on deposit accounts. For the nine months ended September 30, 2022, non-interest income totaled \$3.7 million compared to \$5.5 million for the same period in 2021, a decrease of \$1.9 million. The decrease in non-interest income for the nine months ended September 30, 2022 compared to the same period in 2021 was primarily due to a \$1.2 million decrease in gains on sale of loans, primarily SBA loans, a \$640,000 decline in loan fees, principally loan swap fees, and a \$225,000 decline in gains on recovery of acquired loans, partially offset by an increase in services fees on deposit accounts of \$217,000. The decrease in SBA loan sales and loan swap activity was primarily impacted by the current interest rate environment and other market conditions. Loan fees are also impacted by the amortization of loan servicing right assets which are recorded as a reduction to servicing income received and included in loan fees on the Consolidated Statements of Income. During the quarter ended September 30, 2022, due to the payoff of certain SBA loans that we were servicing, the amortization of these servicing right assets was greater than the loan fees received during the quarter. The increase in service fees on deposit accounts was primarily related to the two new branches purchased in December 2021.

Non-Interest Expense

Non-interest expense consists primarily of salaries and employee benefits, occupancy and equipment expense and other expenses related to conducting our operations and growing our business. Such other expenses primarily include data processing fees, marketing expenses, loan origination expenses and expenses associated with the management of problem assets, including OREO, and regulatory and professional fees.

For the three months ended September 30, 2022, non-interest expense totaled \$11.7 million, which was \$1.2 million or 11.5% higher than the same prior year period. The increase was primarily due to increases in salaries and employee benefits expense, and to a lesser extent, occupancy and equipment expense, other professional fees, data processing costs, and other expense. For the three months ended September 30, 2021 non-interest expense included \$145,000 in merger related expenses associated with the acquisition of two new branches in the 4th quarter of 2021.

For the nine months ended September 30, 2022, non-interest expense totaled \$34.3 million, \$2.9 million or 9.4% higher than the prior year period. The increase for the nine months ended September 30, 2022 compared to the same prior year period was primarily due to higher salaries and employee benefits costs, other expense, other professional fees, travel and entertainment expense and other OREO expense, net, and data processing costs. Partially offsetting these increases was lower occupancy and equipment expense, legal fees and comparatively no merger related fees for the nine months ended September 30, 2022.

Our largest component of non-interest expense is salaries and employee benefits. Salaries and employee benefits expense totaled \$6.9 million for the three months ended September 30, 2022 compared to \$6.5 million for the same period in 2021. Salaries and employee benefits expense was \$20.1 million for the nine months ended September 30, 2022, compared to \$18.2 million for the same period in 2021. The increase in salaries and employee benefits expense was \$403,000, or 6.2%, for the three-month comparative period and \$1.9 million, or 10.7%, for the nine-month comparative period. The increase for the comparative periods was due primarily to an increase in full time equivalent staff, higher employee benefit costs, merit-based salary increases and bonus increases. Our full-time equivalent staff was 228 at September 30, 2022 compared to 217 at December 31, 2021 and 209 at September 30, 2021.

Occupancy and equipment expense is our second largest component of non-interest expense and consists primarily of rent, real estate taxes, maintenance costs and expenses associated with equipment. Occupancy and equipment expense increased \$217,000, or 17.2%, for the three months ended September 30, 2022 compared to the prior year period. Occupancy and equipment expense decreased \$215,000, or 4.8%, for the nine months ended September 30, 2022 compared to the prior year period. The increase in occupancy and equipment expense for the three-month comparative period is primarily due to the two branches we acquired in December 2021. These increases were offset by the non-renewal of certain corporate office space and the permanent closure of two Mercer County branch locations (Mercerville and Hamilton Square) at the end of the first quarter of 2021. The decrease in occupancy and equipment expense for the comparative nine month period was primarily due to a \$312,000 write-off, in the first quarter of 2021, of leasehold improvements remaining from certain corporate office space that was closed during the first quarter of 2021.

Other professional fees increased \$168,000, or 37.3%, for the three months ended September 30, 2022 compared to the prior year period. Other professional fees increased \$488,000, or 32.3%, for the nine months ended September 30, 2022 compared to the prior year period. The increase for the comparative periods was due primarily to an increase in personnel placement fees related to an increase in hiring activity compared to the prior year periods. The increase was also due, to a lesser extent, to higher costs regarding some of our standard professional service contracts.

Data processing costs increased \$137,000, or 25.5%, for the three months ended September 30, 2022 compared to the prior year period. Data processing cost increased \$179,000, or 10.7%, for the nine months ended September 30, 2022 compared to the prior year period. The increase in the comparative periods was primarily due to increased data processing activity as a result of adding two additional branches in the fourth quarter of 2021.

Other expense rose \$258,000 and \$502,000, respectively, for the three and nine months ended September 30, 2022 compared to the same periods in 2021. Other expense includes all expense items that are not categorized in one of our other non-interest expense line items. These items include publications and subscriptions, certain loan origination or loan workout expenses, dues and memberships, postage and freight and various other miscellaneous expense items. The increases for the comparative periods were primarily due to the increased costs of a growing company and inflationary pressures.

Travel and entertainment costs increased \$47,000 and \$207,000, respectively, for the three and nine months ended September 30, 2022 compared to the same periods in 2021. In 2021, travel and entertainment expenses were lower, primarily due to the impact of the pandemic which reduced travel and entertainment activity. In 2022, this activity has continued to increase as our customer development activity has grown.

OREO expense, net increased \$56,000 and \$172,000, respectively, for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The increase for the comparative periods primarily relates to our on-going efforts to reduce OREO properties from our balance sheet.

Partially offsetting these higher expenses were no merger related expenses during the three and nine months ended September 30, 2022. Merger expenses of \$145,000 during the three months and nine months ended September 30, 2021 were related to the acquisition of two branches in December 2021.

Our efficiency ratio for the three months ended September 30, 2022 was 46.01% compared to 45.75% for the same period in 2021. Our efficiency ratio for the nine months ended September 30, 2022 was 47.40% compared to 46.69% for the same period in 2021. With our continued focus on efficiency our objective is to maintain our operating efficiency ratio moving forward. The efficiency ratio is a non-U.S. GAAP financial measure that we believe is widely followed in the banking industry and is useful to our management and investors in evaluating our financial performance. This measure should not be directly compared to similarly titled measures reported by other companies, as we cannot guarantee other companies present similar measures in the same way.

The following table provides a reconciliation between certain U.S. GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-U.S. GAAP measures (total net revenue) to derive the efficiency ratio measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Non-interest expense	\$ 11,737	\$ 10,522	\$ 34,268	\$ 31,327
Less: Merger-related expenses	-	145	-	145
Adjusted non-interest expense (numerator)	<u>\$ 11,737</u>	<u>\$ 10,377</u>	<u>\$ 34,268</u>	<u>\$ 31,182</u>
Net interest income	\$ 24,563	\$ 20,781	\$ 68,622	\$ 61,249
Non-interest income	<u>944</u>	<u>1,901</u>	<u>3,674</u>	<u>5,543</u>
Total net revenue	<u>25,507</u>	<u>22,682</u>	<u>72,296</u>	<u>66,792</u>
Efficiency ratio	46.01%	45.75%	47.40%	46.69%

Income Tax Expense

We recorded income tax expense of \$3.3 million for the three months ended September 30, 2022, compared to \$3.0 million for the same period in 2021. We recorded income tax expense of \$8.7 million for the first nine months of 2022 compared to \$8.9 million for the same period in 2021. Our effective tax rate for the three months ended September 30, 2022 was 24.70% compared to 24.71% for the same period in 2021. Our effective tax rate for the nine months ended September 30, 2022 was 24.21% compared to 24.46% for the same period in 2021.

Our federal corporate income tax rate for the periods presented was 21%. We are primarily impacted by New Jersey state tax laws. Changes to New Jersey corporate business tax laws enacted in 2018 have contributed to additional state tax expenses since that new legislation was passed, which included the imposition of a temporary 2.5% surtax to New Jersey's 9% Corporation Business tax rate. On September 29, 2020, New Jersey added new tax legislation extending the 2.5% surtax through December 31, 2023 retroactive to January 1, 2020. The changes to New Jersey tax law are reflected in our overall effective tax rate and tax expense.

Our effective tax rate reflects the ownership of tax-exempt bank-owned life insurance and tax-free municipal securities, the effect of our real estate investment trust and our participation in a historic tax credit.

FINANCIAL CONDITION

ASSETS

Total assets grew from \$2.52 billion at December 31, 2021 to \$2.64 billion at September 30, 2022, an increase of \$114.3 million, or 4.5%. This increase was primarily attributable to the growth in loans partially offset by a decline in cash and cash equivalents, specifically interest bearing deposits with banks. Growth was funded primarily by an increase in deposits.

Loans

Our loan portfolio consists primarily of commercial real estate and commercial and industrial loans. Loans, net of deferred fees and costs, increased from \$2.13 billion at December 31, 2021 to \$2.26 billion at September 30, 2022, a net increase of \$137.9 million, or 6.5%. Excluding the decline in PPP loans of \$47.2 million, loans increased \$185.1 million in the first nine months of 2022.

The following table reflects the composition of the loan portfolio as of the dates indicated:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(in thousands)	
Commercial and industrial	\$ 323,984	\$ 350,103
Commercial real estate:		
Owner-occupied	517,448	475,576
Investor	942,151	855,913
Construction and development	126,206	109,292
Multi-family	214,819	173,728
Residential real estate:		
Residential mortgage and first lien home equity loans	96,194	106,204
Home equity—second lien loans and revolving lines of credit	31,670	31,375
Consumer and other	14,654	27,762
	<u>2,267,126</u>	<u>2,129,953</u>
Net deferred loan fees and costs	(3,749)	(4,516)
Total loans	<u>\$ 2,263,377</u>	<u>\$ 2,125,437</u>

At September 30, 2022, total commercial loans represented 93.9% of total loans which included the balances in commercial and industrial and commercial real estate in the above table. We manage risk associated with our commercial loan portfolio through disciplined underwriting policies and procedures, diversification and loan monitoring practices. The majority of our commercial and industrial loans are secured by business assets and many of our commercial real estate and commercial and industrial loans are supported by personal guarantees and other assets of the principals or borrowers.

Our commercial and industrial (“C&I”) loans typically consist of loans for working capital needs of small- to mid-sized businesses. Commercial and industrial loans decreased by \$26.1 million, or 7.5%, to \$324.0 million at September 30, 2022, compared to \$350.1 million at December 31, 2021. The net decrease in C&I loans for the nine months ended September 30, 2022 was primarily due to the aforementioned decline in PPP loans. Excluding the decline in PPP loans of \$47.2 million, C&I loans increased \$21.1 million in the first nine months of 2022. Our strategic goal is to build this segment of the loan portfolio across a wide variety of industry classifications as we grow. We monitor loan concentrations by industry classification and diversify risk as we deem appropriate.

Commercial real estate loans, the largest component of our loan portfolio, are composed of owner-occupied, investor, construction and development, and multi-family loans. We endeavor to maintain a diversified real estate portfolio to protect against a potential downturn in any one business sector. Commercial real estate loans increased \$186.1 million, or 11.5%, to \$1.80 billion at September 30, 2022 compared to \$1.61 billion at December 31, 2021. The two largest components of our commercial real estate portfolio are investor and owner-occupied loans. Investor commercial real estate loans increased \$86.2 million while owner-occupied commercial real estate loans increased \$41.9 million during the nine months ended at September 30, 2022. Multi-family loans increased \$41.1 million while construction and development loans increased \$16.9 million during the first nine months of 2022. Multi-family and construction and development loans represented 9.5% and 5.6% of total loans, respectively, at September 30, 2022. The increase in commercial real estate loans during the nine months ended September 30, 2022 was primarily due to significant loan originations during the first nine months of the year.

Residential real estate loans totaled \$127.9 million at September 30, 2022 compared to \$137.6 million at December 31, 2021, a decrease of \$9.7 million. Residential mortgage and first lien home equity loans declined \$10.0 million while home equity-second lien loans and revolving lines of credit increased \$295,000 from December 31, 2021 to September 30, 2022.

Consumer and other loans totaled \$14.7 million and \$27.8 million at September 30, 2022 and December 31, 2021, respectively. Consumer and other loans represented 0.7% and 1.3% of total loans at the dates presented, respectively.

During the first nine months of 2022 we experienced strong growth in commercial loans. Our strength as a commercial and business lender in a changing economic environment is reflected in a strong and consistent commercial loan pipeline. Net loan growth during 2022 will continue to be impacted by the level of loan payoffs and paydowns and may be impacted by rising interest rates.

COVID-19 Update

The COVID-19 pandemic continues to impact, to some extent, the local economies in the markets we serve. Economic conditions have improved but its impact on the economy is still evolving.

Throughout the pandemic crisis we have performed additional analysis to fully understand the risks associated with the various segments of our loan portfolio. Our loan portfolio is well diversified by industry and asset class.

As of September 30, 2022 we had no COVID-19 related financial hardship prepayment deferrals (COVID-19 deferrals)

remaining. As of December 31, 2021 our population of COVID-19 deferrals consisted of three loans totaling \$1.6 million.

First Bank participated in the PPP, established by the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act), during 2020 and 2021. The PPP was a specialized low-interest loan program funded by the U.S. Treasury Department and administered by the SBA. The PPP provided borrower guarantees for lenders, as well as loan forgiveness incentives for borrowers that utilized the loan proceeds to cover compensation and other business-related operating costs. The PPP ended on May 31, 2021 but the PPP loan forgiveness process is ongoing. As of September 30, 2022, First Bank had 39 PPP loans with outstanding balances of \$3.9 million. During the first nine months of 2022, PPP loans totaling \$47.2 million were forgiven and during the three and nine months ended September 30, 2022, the Bank realized \$200,000 and \$1.6 million, respectively, in loan fees on these loans as any deferred fees remaining on the forgiven loans were accelerated. As of September 30, 2022, the Bank had \$136,000 in remaining unamortized fees associated with outstanding balances of PPP loans.

Nonperforming Assets and Troubled Debt Restructured Loans

Nonperforming assets consist of loans on a nonaccrual basis, loans 90 days or more past due and still accruing and OREO.

The following table reflects the composition of our nonperforming assets as of the dates indicated:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	\$ 1,022	\$ 2,475
Commercial real estate:		
Owner-occupied	3,182	3,195
Investor	-	520
Construction and development	-	5,724
Multi-family	282	333
Residential real estate:		
Residential mortgage and first lien home equity loans	448	589
Home equity—second lien loans and revolving lines of credit	147	152
Consumer and other	11	13
Total nonaccrual loans	<u>5,092</u>	<u>13,001</u>
Loans past due 90 days or more and still accruing	15	-
Total nonperforming loans	<u>5,107</u>	<u>13,001</u>
Other real estate owned, net	293	772
Total nonperforming assets	<u>\$ 5,400</u>	<u>\$ 13,773</u>
Performing troubled debt restructured loans	<u>\$ 460</u>	<u>\$ 478</u>
Nonaccrual loans to total loans	0.22%	0.61%
Nonperforming loans to total loans	0.23%	0.61%
Nonperforming assets to total assets	0.20%	0.55%

Nonaccrual loans in the preceding table do not include PCI loans which were recorded at their fair value at acquisition and totaled \$2.6 million and \$3.0 million at September 30, 2022 and December 31, 2021, respectively.

Nonperforming loans totaled \$5.1 million or 0.23% of total loans at September 30, 2022, compared to \$13.0 million or 0.61% of total loans at December 31, 2021. The decrease in nonperforming loans was primarily due to a payoff of a construction and development nonaccrual loan during the third quarter of 2022 and principal payments made on certain other nonaccrual loans.

OREO totaled \$293,000 at September 30, 2022 compared to \$772,000 at December 31, 2021. The reduction in OREO balances during the nine months ended September 30, 2022 was due to two OREO properties sold during the period. Nonperforming assets as a percentage of total assets were 0.20% at September 30, 2022 and 0.55% at December 31, 2021.

We continue to maintain a strong asset quality profile. Our level of charge offs, problem loans and delinquencies have remained manageable during a period of economic uncertainty. We are confident that the credit risk in our loan portfolio is well managed due to strong credit risk management and disciplined underwriting standards. We continue to diligently work to reduce nonaccrual loans to maximize our collection of principal and interest. The focus remains on sustaining our strong asset quality although we can provide no assurance in this uncertain economic environment that our positive trends will continue.

Allowance for Loan Losses

The allowance for loan losses (“ALLL”) is maintained at a level considered adequate to absorb losses inherent in the loan portfolio. The level of the allowance is based on our evaluation of estimated losses in the portfolio, after consideration of risk characteristics of the loans and prevailing economic conditions. Our methodology for evaluating the adequacy of the ALLL consists of several significant criteria, which include a specific allowance for identified impaired loans and a general allowance allocated to segments of the portfolio and homogeneous categories of loans which possess similar risk characteristics. The pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. The evaluation process for determining the adequacy of the allowance for loan losses takes place quarterly.

The following tables provide information regarding loans charged off, loan recoveries, the provision for loan losses and the allowance for loan losses for each of the periods presented:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	<u>(in thousands)</u>	
Allowance for loan losses	\$ 24,545	\$ 23,746
Total loans, net of deferred fees and costs	\$ 2,263,377	\$ 2,125,437
Nonaccrual loans	\$ 5,092	\$ 13,001
Allowance for loan losses to total loans	1.08%	1.12%
Allowance for loan losses to nonaccrual loans	482.03%	182.65%
Nonaccrual loans to total loans	0.22%	0.61%

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
As of September 30, 2022									
ALLL Amount	\$ 5,594	\$ 5,276	\$ 9,679	\$ 1,327	\$ 1,933	\$ 454	\$ 168	\$ 114	\$ 24,545
% of total ALLL	22.79%	21.50%	39.43%	5.41%	7.88%	1.85%	0.68%	0.46%	100.00%
% of total loans	0.25%	0.23%	0.43%	0.06%	0.08%	0.02%	0.01%	0.00%	1.08%
Loan portfolio balance	\$ 323,984	\$ 517,448	\$ 942,151	\$ 126,206	\$ 214,819	\$ 96,194	\$ 31,670	\$ 14,654	\$ 2,267,126
% of total loans	14.29%	22.82%	41.56%	5.57%	9.48%	4.24%	1.40%	0.64%	100.00%
Nine months ended September 30, 2022									
Loan charge offs	\$ 1,480	\$ 306	\$ -	\$ 62	\$ -	\$ -	\$ -	\$ 5	\$ 1,853
Loan recoveries	470	21	-	-	-	5	-	-	496
Net charge offs (recoveries)	\$ 1,010	\$ 285	\$ -	\$ 62	\$ -	\$ (5)	\$ -	\$ 5	\$ 1,357
Average loan amounts outstanding	\$ 324,457	\$ 495,322	\$ 894,605	\$ 111,360	\$ 196,212	\$ 126,789	\$ 28,995	\$ 1,615	\$ 2,179,355
Annualized net charge offs (recoveries) during the period to average loans outstanding	0.42%	0.08%	0.00%	0.07%	0.00%	-0.01%	0.00%	0.41%	0.08%

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
As of December 31, 2021									
ALLL Amount	\$ 5,781	\$ 4,844	\$ 9,052	\$ 1,336	\$ 1,788	\$ 542	\$ 148	\$ 255	\$ 23,746
% of total ALLL	24.35%	20.40%	38.12%	5.63%	7.53%	2.28%	0.62%	1.07%	100.00%
% of total loans	0.27%	0.23%	0.43%	0.06%	0.08%	0.03%	0.01%	0.01%	1.12%
Loan portfolio balance	\$ 350,103	\$ 475,576	\$ 855,913	\$ 109,292	\$ 173,728	\$ 106,204	\$ 31,375	\$ 27,762	\$ 2,129,953
% of total loans	16.44%	22.33%	40.18%	5.13%	8.16%	4.99%	1.47%	1.30%	100.00%
Year ended December 31, 2021									
Loan charge offs	\$ 99	\$ 11	\$ -	\$ -	\$ 40	\$ 112	\$ -	\$ 4	\$ 266
Loan recoveries	263	-	-	-	-	7	-	-	270
Net (recoveries) charge offs	<u>\$ (164)</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ 105</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ (4)</u>
Average loan amounts outstanding	\$ 365,112	\$ 426,000	\$ 809,590	\$ 118,895	\$ 144,625	\$ 110,876	\$ 30,044	\$ 31,713	\$ 2,036,855
Net (recoveries) charge offs during the period to average loans outstanding	-0.04%	0.00%	0.00%	0.00%	0.03%	0.09%	0.00%	0.01%	0.00%

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family (in thousands)	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
As of September 30, 2021									
ALLL Amount	\$ 4,539	\$ 4,563	\$ 9,260	\$ 2,051	\$ 1,484	\$ 570	\$ 171	\$ 289	\$ 22,927
% of total ALLL	19.80%	19.90%	40.39%	8.95%	6.47%	2.49%	0.74%	1.26%	100.00%
% of total loans	0.22%	0.23%	0.46%	0.10%	0.07%	0.03%	0.01%	0.01%	1.13%
Loan portfolio balance	\$ 308,991	\$ 450,248	\$ 840,696	\$ 112,112	\$ 145,245	\$ 103,890	\$ 29,998	\$ 31,946	\$ 2,023,126
% of total loans	15.27%	22.26%	41.55%	5.54%	7.18%	5.14%	1.48%	1.58%	100.00%
Nine months ended September 30, 2021									
Loan charge offs	\$ 83	\$ 11	\$ -	\$ -	\$ 40	\$ 112	\$ -	\$ 2	\$ 248
Loan recoveries	254	-	-	-	-	4	-	-	258
Net (recoveries) charge offs	\$ (171)	\$ 11	\$ -	\$ -	\$ 40	\$ 108	\$ -	\$ 2	\$ (10)
Average loan amounts outstanding	\$ 385,056	\$ 413,700	\$ 802,477	\$ 122,968	\$ 137,746	\$ 137,367	\$ 6,292	\$ 31,854	\$ 2,037,460
Annualized net (recoveries) charge offs during the period to average loans outstanding	-0.06%	0.00%	0.00%	0.00%	0.04%	0.11%	0.00%	0.01%	0.00%

The allowance for loan losses was \$24.5 million at September 30, 2022, compared to \$23.7 million at December 31, 2021. The provision for loan losses was \$2.2 million during the first nine months of 2022, compared to a credit to the loan loss provision of \$1.1 million during the first nine months of 2021. During the nine months ended September 30, 2022 we recorded \$1.4 million in net charge offs compared to net recoveries of \$10,000 during the nine months ended September 30, 2021. The provision for loan losses for the nine months ended September 30, 2022 was due primarily to the loan growth during the period and the charge offs recorded. Our allowance for loan losses continues to be supported by stable and solid asset quality metrics. The allowance for loans losses constituted 1.08% of total loans at September 30, 2022, compared to 1.12% at December 31, 2021. Excluding the impact of PPP loans, the ALLL as a percentage of total loans was 1.08% at September 30, 2022 compared to 1.15% at December 31, 2021. Management believes that the allowance for loan losses at September 30, 2022 remains adequate in relation to losses inherent in the loan portfolio.

For the nine months ended September 30, 2022 annualized net charge offs as a percentage of loans were 0.08%, compared to annualized net recoveries as a percentage of loans of 0.00% for the nine months ended September 30, 2021. Our allowance for loan losses as a percentage of nonperforming loans was 480.61% at September 30, 2022, compared to 182.65% at December 31, 2021.

Investment Securities

The investment securities portfolio is used principally to assist in managing liquidity, interest rate risk and regulatory capital, and to take advantage of market opportunities that provide favorable returns with limited credit risk.

Investment securities totaled \$142.2 million or 5.4% of total assets at September 30, 2022, compared to \$134.1 million or 5.3% of total assets at December 31, 2021, an increase of \$8.1 million or 6.0%. The increase was primarily due to purchases of U.S. government-sponsored agency securities, U.S. Treasury securities and corporate obligations, offset somewhat by principal cash flows on our residential mortgage-backed securities (“MBS”) and declines in the fair value of our AFS portfolio.

The following tables present the composition of our investment securities available for sale and held to maturity as of the dates indicated:

September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	\$ 29,809	\$ 10	\$ (1,658)	\$ 28,161
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	44,116	1	(6,508)	37,609
Issued by GNMA	13,851	-	(1,733)	12,118
U.S. Treasury securities	3,977	-	(115)	3,862
Asset-backed securities	1,054	-	(34)	1,020
Corporate obligations	15,962	65	(492)	15,535
Total	<u>\$ 108,769</u>	<u>\$ 76</u>	<u>\$ (10,540)</u>	<u>\$ 98,305</u>

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	\$ 18,000	\$ -	\$ (186)	\$ 17,814
Residential mortgage-backed securities:	\$ -	\$ -	\$ -	\$ -
Issued by FNMA and FHLMC	\$ 48,028	\$ 256	\$ (400)	\$ 47,884
Issued by GNMA	\$ 11,440	\$ 34	\$ (130)	\$ 11,344
Asset-backed securities	\$ 1,418	\$ -	\$ (22)	\$ 1,396
Corporate obligations	\$ 15,966	\$ 203	\$ (23)	\$ 16,146
Total	<u>\$ 94,852</u>	<u>\$ 493</u>	<u>\$ (761)</u>	<u>\$ 94,584</u>

September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	\$ 10,042	\$ -	\$ (1,814)	\$ 8,228
Issued by GNMA	491	-	(56)	435
Obligations of state and political subdivisions	8,127	0	(535)	7,592
Corporate obligations	25,250	-	(1,831)	23,419
Total	<u>\$ 43,910</u>	<u>\$ 0</u>	<u>\$ (4,236)</u>	<u>\$ 39,674</u>

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities held to maturity				
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	\$ 11,048	\$ 61	\$ (254)	\$ 10,855
Issued by GNMA	582	10	-	592
Obligations of state and political subdivisions	7,667	127	(6)	7,788
Corporate obligations	20,250	288	(55)	20,483
Total	<u>\$ 39,547</u>	<u>\$ 486</u>	<u>\$ (315)</u>	<u>\$ 39,718</u>

The carrying value of our AFS investment securities portfolio at September 30, 2022 was \$98.3 million, an increase of \$3.7 million from \$94.6 million at December 31, 2021. The increase was primarily due to purchases of U.S. government-sponsored agency and U.S. treasury securities, offset somewhat by principal cash flows from our residential MBS portfolio and declines in the fair value of our AFS portfolio due to current market conditions. As of September 30, 2022 and December 31, 2021, the AFS portfolio had net unrealized losses of \$10.5 million and \$268,000, respectively.

Held to maturity (“HTM”) investment securities totaled \$43.9 million at September 30, 2022, compared to \$39.5 million at December 31, 2021, an increase of \$4.4 million or 11.0%. The increase in HTM securities was primarily due to purchases of certain community bank subordinated debentures which are included in our corporate obligations portfolio, offset somewhat by principal cash flows from our residential MBS portfolio.

We evaluate quarterly all securities with unrealized losses to determine whether the losses are other than temporary. At September 30, 2022 and December 31, 2021, we determined that all unrealized losses were temporary in nature.

Mortgage-Backed Securities

We held \$68.5 million and \$71.1 million (amortized cost) of MBS at September 30, 2022 and December 31, 2021, respectively, in our AFS and HTM securities portfolios. All of these MBS were issued by the Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corp (“FHLMC”), or Government National Mortgage Association (“GNMA”). We generally purchase MBS with average lives of less than five years in the base case with limited extension risk in a +300 basis point rate scenario. MBS are expected to provide stable cash flows or liquidity in rising or falling interest rate environments through the monthly payment of principal and interest. Principal paydowns from the MBS portfolio totaled \$10.5 million for the nine months ended September 30, 2022. Like all securities we own, MBS are sensitive to changes in interest rates, increasing and decreasing in market value as interest rates rise and fall. As interest rates rise, cash flows from MBS prepayments generally decline while the durations extend. On the other hand, when interest rates fall, prepayments generally increase, which may reduce the yield on MBS with reinvestment of the proceeds generally at lower yields.

Based on changes in the treasury yield curve we will continue to be opportunistic in building on balance sheet liquidity through the investment portfolio. We continue to monitor the impact of changes in interest rates, cash flows and duration to our investment portfolio’s performance and adjust our strategy accordingly within asset and liability objectives.

LIABILITIES

Deposits

Total deposits increased from \$2.11 billion at December 31, 2021 to \$2.19 billion at September 30, 2022, an increase of \$75.6 million, or 3.6%. Non-interest bearing demand deposits increased \$25.2 million, or 4.5%, while interest bearing deposits increased \$50.3 million, or 3.2%. The growth in non-interest bearing deposits in the first nine months was primarily due to growth in commercial deposits from new customers and expanded relationships with existing customers. The increase in interest bearing deposits for the first nine months of 2022 was due to increases in interest bearing demand deposits and time deposits partially offset by declines in savings deposits and money market deposits. The increase in interest bearing deposits was due to a combination of a growing customer base and expanding relationships with our existing customers. Included in our total deposits were \$189.3 million of brokered deposits at September 30, 2022 compared to \$144.6 million at December 31, 2021.

Successful initiatives implemented by management have resulted in consistent growth in core non-interest bearing and lower cost commercial deposits. Growing core profitability through a better deposit mix remains our objective.

Borrowings

At September 30, 2022 and December 31, 2021 borrowings primarily consisted of FHLB advances. We are a member of the FHLB of New York and use FHLB advances as an alternative source of funds for loan growth and to manage liquidity and interest rate risk. Our FHLB advances are collateralized by eligible investment securities and qualifying commercial mortgage loans. FHLB advances totaled \$90.8 million and \$81.8 million at September 30, 2022 and December 31, 2021, respectively. Our utilization of FHLB advances in 2022 will continue to focus on achieving asset and liability goals.

At September 30, 2022 and December 31, 2021 borrowings also included certain loan participations sold. Due to the rights retained on certain loan participations sold, we determined that we have retained effective control over these loans under FASB ASC 860 Transfers and Servicing, and therefore these participations sold must be accounted for as secured borrowings. These secured borrowings totaled \$12.8 million and \$13.4 million at September 30, 2022 and December 31, 2021, respectively.

Total borrowings were \$103.7 million and \$95.3 million at September 30, 2022 and December 31, 2021, respectively, or 3.9% and 3.8% of total assets at those respective period-ends.

Subordinated Debentures

At September 30, 2022 and December 31, 2021 we had \$29.7 million and \$29.6 million, respectively, in subordinated debentures outstanding, net of deferred fees. We currently have \$30.0 million of fixed-to-floating rate subordinated debentures outstanding. The notes have a maturity date of June 1, 2030 and carry a fixed interest rate of 5.50% for the first five years. Thereafter, the notes will pay interest at a rate, reset quarterly, based on SOFR (Secured Overnight Financing Rate), plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025.

Liquidity

Our liquidity is a measure of our ability to fund loans, withdrawals of deposits and other cash outflows in a cost-effective manner. Our principal sources of funds include deposits, scheduled amortization and prepayments of loan principal, principal cash flows from mortgage-backed securities, borrowings and funds provided by operations. While scheduled loan payments, borrowings and principal cash flows from mortgage-backed securities are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

As of September 30, 2022, our liquid assets (cash and cash equivalents and eligible unpledged securities) totaled \$183.5 million, or 7.0% of total assets, compared to \$216.3 million, or 8.6% of total assets, at December 31, 2021. Our cash and cash equivalents decreased \$47.0 million from \$154.5 million at December 31, 2021, to \$107.5 million at September 30, 2022. We used cash and cash equivalents to fund loan growth, as the increase in loans outpaced the increase in deposits during the first nine months of 2022. At September 30, 2022, our liquid assets remained at a level management deemed adequate to ensure that, on a short and long-term basis, contractual liabilities, depositors' withdrawal requirements, customer credit needs and other operational requirements could be satisfied.

As a member of the FHLB, we are eligible to borrow funds up to 50% of total assets from the FHLB, subject to its collateral requirements. Based on available eligible securities and qualified commercial real estate loan collateral, as of September 30, 2022 we had the ability to borrow \$174.0 million. We had additional borrowing capacity of \$80.0 million through three correspondent banks at September 30, 2022.

At September 30, 2022, our outstanding commitments to extend credit totaled \$413.4 million.

We have competitively positioned our deposit products and services to continue to add to lower cost core deposits throughout our attractive markets. Our liquidity profile has also benefited from the PPP loan program and will continue to benefit from the forgiveness of remaining PPP loans. At September 30, 2022 there was approximately \$3.9 million in PPP loans still to be

forgiven. Additionally, we have reliable secondary sources of liquidity that we can use if necessary. Based on projected loan and deposit growth, we expect liquidity to remain adequate to support our operations.

CAPITAL AND REGULATORY MATTERS

On September 30, 2022 our prior share repurchase program expired. This share repurchase program allowed for the repurchase of up to 1.3 million shares of our common stock in the open market. Under this program we repurchased 245,942 shares of our common stock for an aggregate purchase price of \$3.4 million or an average price of \$13.99 per share.

On October 7, 2022, we received regulatory approval for the repurchase of up to 1.2 million shares of our common stock in the open market for the aggregate repurchase amount of \$19.2 million. The new shares repurchase program had previously been approved by our Board of Directors. The new program will run through September 30, 2023.

Stockholders' Equity

Stockholders' equity is \$280.7 million on September 30, 2022, compared to \$266.7 million on December 31, 2021. The growth of \$14.1 million, or 5.3%, was primarily a result of year-to-date net income of \$27.2 million, partially offset by a \$7.7 million increase in accumulated other comprehensive loss, \$3.4 million in treasury stock purchases and cash dividends paid of \$3.5 million during the nine months ended September 30, 2022.

Total stockholders' equity to assets was 10.64% as of September 30, 2022 and 10.57% as of December 31, 2021. Tangible stockholders' equity to tangible assets was 9.97% as of September 30, 2022 and 9.85% as of December 31, 2021. Tangible stockholders' equity excludes intangible assets. The tangible stockholders' equity ratio is a non-U.S. GAAP financial measure that we believe provides management and investors with information that is useful in understanding our financial performance and condition. This measure should not be directly compared to similarly titled measures reported by other companies, as we cannot guarantee other companies present similar measures in the same way.

The following table provides a reconciliation and calculation of the non-U.S. GAAP tangible stockholders' equity ratio:

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Stockholders' equity	\$ 280,749	\$ 266,666
Less: Goodwill and other intangible assets, net	19,599	19,971
Tangible stockholders' equity (numerator)	<u>\$ 261,150</u>	<u>\$ 246,695</u>
Total assets	\$ 2,638,060	\$ 2,523,744
Less: Goodwill and other intangible assets, net	19,599	19,971
Adjusted total assets (denominator)	<u>\$ 2,618,461</u>	<u>\$ 2,503,773</u>
Tangible stockholders' equity ratio	9.97%	9.85%

Accumulated Other Comprehensive Income (Loss)

Our accumulated other comprehensive income or loss position is impacted by net unrealized gains or losses on investment securities available for sale. Based on changes in the U.S. Treasury yield curve, AFS securities values moved lower at September 30, 2022 compared to December 31, 2021. At September 30, 2022, the AFS portfolio had net unrealized losses, net of tax, of \$7.9 million compared to \$206,000 in unrealized losses, net of tax, at December 31, 2021.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), we became subject to new capital requirements due to substantial amendments to the previous capital regulations. These amended regulations implemented the BASEL III regulatory capital reforms and changes required by the Dodd-Frank Act. The requirements created a required ratio for common equity Tier 1 ("CET1") capital, increased the leverage and Tier 1 capital ratios, changed the risk weight of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios and changed what qualifies as capital for purposes of meeting these various capital requirements.

Under the new capital regulations, the minimum capital ratios are: (i) a Tier 1 leverage ratio of 4.0%; (ii) CET1 capital of 4.5% of risk-weighted assets; (iii) Tier 1 capital of 6.0% of risk-weighted assets; and (iv) total capital of 8.0% of risk-weighted assets. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

The required capital conservation buffer consists of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels. We must maintain such buffer in order to avoid limitations on paying dividends, engage in share repurchases, and pay discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This capital conservation buffer requirement was phased in over four years. At January 1, 2016 it started at 0.625% of risk-weighted assets and has increased by 0.625% until it was fully implemented in January 2019. The fully phased in capital conservation buffer is 2.5%. The regulatory prompt corrective action standards also changed effective January 1, 2016. Under these standards, in order to be considered well-capitalized, the Company must have: (i) a Tier 1 leverage ratio of 5.0%; (ii) CET1 capital of 6.5% of risk-weighted assets; (iii) Tier 1 capital of 8.0% of risk-weighted assets; and (iv) total risk-based capital of 10.0% of risk-weighted assets. Our capital amounts and classification are subject to qualitative adjustments by the regulators about components, risk weightings and other factors.

The following tables provide our regulatory capital amounts and ratios as well as the required regulatory minimums as of the dates indicated:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2022:						
Tier 1 leverage capital	\$ 268,563	10.51%	\$ 102,225	4.00%	\$ 127,781	5.00%
Common equity tier 1 capital	268,563	10.36%	116,625	4.50%	168,458	6.50%
Tier 1 risk-based capital	268,563	10.36%	155,500	6.00%	207,334	8.00%
Total risk-based capital	323,063	12.47%	207,334	8.00%	259,167	10.00%
At December 31, 2021:						
Tier 1 leverage capital	\$ 246,375	10.15%	\$ 97,076	4.00%	\$ 121,345	5.00%
Common equity tier 1 capital	246,375	10.65%	104,075	4.50%	150,331	6.50%
Tier 1 risk-based capital	246,375	10.65%	138,767	6.00%	185,022	8.00%
Total risk-based capital	299,949	12.97%	185,022	8.00%	231,278	10.00%

At September 30, 2022 and December 31, 2021, we were well-capitalized for regulatory purposes and met the requirements for maintaining the capital conservation buffer.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Some Specific Factors Affecting Future Results of Operations

Future movement of interest rates cannot be predicted with certainty. Our interest rate risk profile is positioned in such a way that moderate increases in interest rates likely will not have a significant impact on our results of operations. However, because overall future performance is dependent on many other factors, past performance is not necessarily an indication of future results.

Interest Rate Sensitivity Analysis

The Company manages interest rate risk by identifying and quantifying interest rate risk exposures through the use of net interest income simulation and economic value at risk (“EVE”) models. Various assumptions are used to produce these analyses, including, but not limited to, the rates paid on interest bearing non-maturity deposits relative to market interest rates, the level of new and existing business, loan and investment prepayment speeds, the shape of the yield curve and competitive pricing.

The Company’s simulation model measures the volatility of net interest income to changes in market interest rates by modeling interest income and interest expense dynamically over specified time periods under different interest rate scenarios. The table below sets forth the Company’s exposure to interest rate risk as measured by the change in net interest income for the next twelve months with a static balance sheet under various interest rate shocks as of September 30, 2022 and December 31, 2021:

Rate Shock (1)	Net Interest Income			
	September 30, 2022		December 31, 2021	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
+ 400	\$ 99,176	3.6%	\$ 76,632	(4.3)%
+ 300	98,299	2.7%	77,578	(3.1)%
+ 200	97,450	1.8%	78,561	(1.9)%
+ 100	96,598	0.9%	79,455	(0.8)%
+ 0 (Static)	95,714	-	80,081	-
- 100	94,315	(1.5)%	78,319	(2.2)%
- 200	90,974	(5.0)%	77,923	(2.7)%

(1) Change in interest rates in basis points.

Economic Value At Risk

The Company’s EVE model projects asset and liability cash flows to their maturity dates, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. EVE is the estimated net present value of assets less the net present value of liabilities. Market rates are adjusted up and down in the model to calculate the various levels of EVE with interest rate changes. The variance in the economic value of equity is measured as a percentage of the present value of equity. The sensitivity of EVE to changes in the level of interest rates is a measure of potential market value risk. The Company uses the sensitivity of EVE principally to measure the exposure of equity to changes in interest rates over a relatively long time horizon. The table below sets forth the Company’s exposure to interest rate risk as measured by the change in EVE under various interest rate shocks as of September 30, 2022 and December 31, 2021:

Rate Shock (1)	Economic Value of Equity			
	September 30, 2022		December 31, 2021	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
+ 400	\$ 316,915	(15.9)%	\$ 262,784	(20.8)%
+ 300	330,176	(12.4)%	278,087	(16.1)%
+ 200	344,997	(8.5)%	296,791	(10.5)%
+ 100	360,278	(4.4)%	314,260	(5.2)%
+ 0 (Static)	376,912	-	331,593	-
- 100	392,533	4.1%	333,065	(0.4)%
- 200	404,302	7.3%	318,740	(3.9)%

(1) Change in interest rates in basis points.

The change in interest rate sensitivity was primarily impacted by interest rate derivatives that modified fixed rate loans to floating and the growth and shift in mix of our deposit portfolio during the nine months ended September 30, 2022.

All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. Actual outcomes could differ significantly from the simulation outcomes. The Company's interest rate sensitivity should be reviewed in conjunction with the consolidated financial statements and notes thereto in the Company's 2021 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

First Bank's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the FDIC's rules and forms.

(b) Changes in internal control over financial reporting.

For the quarter ended September 30, 2022, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

First Bank is party in the ordinary course of business to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from their business. Management does not consider that any such proceedings depart from usual routine litigation, and in its judgment neither the Company's consolidated financial condition nor its results of operations will be affected materially by any present proceedings.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in Item 1A. in First Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 as filed with the FDIC.

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

On July 14, 2022, 5,000 shares of First Bank common stock were issued to a director of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of \$5.25, respectively. The aggregate proceeds from such issuances were \$26,250. On August 12, 2022, 5,000 shares of common stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of \$5.25. The aggregate proceeds from such issuances were \$26,250. On August 12, 2022, 2,500 shares of common stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of \$6.07. The aggregate proceeds from such issuances were \$15,175. On August 29, 2022, 5,000 shares of common stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of \$5.25. The aggregate proceeds from such issuances were \$26,250. On September 1, 2022, 398 shares of common stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of \$11.57. The aggregate proceeds from such issuances were \$4,605. These issuances were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(2) of the Securities Act.

The table below summarizes the number of shares of the Company's common stock that were repurchased during the three months ended September 30, 2022.

Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Program
July 31, 2022	49,247	\$ 13.97	49,247	1,058,716
August 31, 2022	-	\$ -	-	1,058,716
September 30, 2022	4,658	\$ 13.95	4,658	1,054,058
Total	<u>53,905</u>	\$ 13.96	<u>53,905</u>	

On October 26, 2021, the Bank received regulatory approval for the repurchase of up to 1.3 million shares of First Bank common stock in the open market for an aggregate repurchase amount of \$18.2 million. This share repurchase program was also approved by the Bank's Board of Directors and concluded on September 30, 2022. On October 7, 2022, the Bank received regulatory approval for the repurchase of up to 1.2 million shares of First Bank common stock in the open market for an aggregate repurchase amount of up to \$19.2 million. This new share repurchase program was also approved by the Bank's Board of Directors and will run through September 30, 2023. The timing, price and volume of the share repurchases will be determined by management based on relevant securities laws, our evaluation of market conditions and other factors. The share repurchase program does not require the Bank to repurchase any specific number of shares and may be suspended, terminated or modified for any reason including market conditions, the cost of repurchasing shares or other factors deemed by management to be appropriate.

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 of Exhibit
3.1	First Restated Certificate of Incorporation of First Bank (incorporated by reference to Exhibit 3.1 to the Company's 2019 Annual Report on Form 10-K filed by the registrant with the FDIC on March 27, 2020)
3.2	Amended and Restated Bylaws of First Bank (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on February 19, 2020)
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1 ⁺	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
*	Filed herewith
+	Furnished herewith

SIGNATURES

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

FIRST BANK
(Registrant)

Date: November 14, 2022

/s/ Andrew L. Hibshman
Andrew L. Hibshman
Executive Vice President, Treasurer
and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick L. Ryan, Chief Executive Officer of First Bank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the 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 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.

Date: November 14, 2022

/s/ Patrick L. Ryan

Patrick L. Ryan
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew L. Hibshman, Chief Financial Officer of First Bank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Bank;

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

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

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

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

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

(c) Evaluated the effectiveness of the 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 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.

Date: November 14, 2022

/s/ Andrew L. Hibshman

Andrew L. Hibshman

Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)

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

Pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report on Form 10-Q of First Bank (the "Company") for the period ended September 30, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, to the best knowledge and belief of the signatory, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: November 14, 2022

/s/ Patrick L. Ryan

Patrick L. Ryan
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Andrew L. Hibshman

Andrew L. Hibshman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)