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, 2023

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	**20-8164471**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2465 Kuser Road, Hamilton, New Jersey	**08690**
(Address of Principal Executive Offices)	(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, 2023, there were 24,942,419 shares of the registrant's Common Stock, par value $5.00 per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	September 30, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 23,440	$ 17,577
Restricted cash	20,460	13,580
Interest bearing deposits with banks	136,310	94,759
Cash and cash equivalents	180,210	125,916
Interest bearing time deposits with banks	498	1,293
Investment securities available for sale, at fair value	87,728	98,956
Investment securities held to maturity, net of allowance for credit losses of $227 at September 30, 2023 (fair value of $38,548 at September 30, 2023 and $42,465 at December 31, 2022)	45,198	47,193
Restricted investment in bank stocks	8,106	6,214
Other investments	10,346	8,372
Loans, net of deferred fees and costs	3,020,778	2,337,814
Less: Allowance for credit losses	42,880	25,474
Net loans	2,977,898	2,312,340
Premises and equipment, net	21,414	10,550
Accrued interest receivable	14,778	8,164
Bank-owned life insurance	85,845	58,107
Goodwill	44,166	17,826
Other intangible assets, net	11,388	1,579
Deferred income taxes, net	23,861	13,155
Other assets	46,990	23,275
Total assets	$ 3,558,426	$ 2,732,940
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 493,703	$ 503,856
Interest bearing deposits	2,473,752	1,790,096
Total deposits	2,967,455	2,293,952
Borrowings	133,142	90,932
Subordinated debentures	55,263	29,731
Accrued interest payable	3,223	1,218
Other liabilities	38,306	27,545
Total liabilities	3,197,389	2,443,378
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; 27,107,983 shares issued and 24,926,919 shares outstanding at September 30, 2023 and 21,082,819 shares issued and 19,451,755 shares outstanding at December 31, 2022	134,362	104,512
Additional paid-in capital	122,416	80,695
Retained earnings	133,680	127,532
Accumulated other comprehensive loss	(8,043)	(7,334)
Treasury stock, 2,181,064 shares at September 30, 2023 and 1,631,064 shares at December 31, 2022	(21,378)	(15,843)
Total stockholders' equity	361,037	289,562
Total liabilities and stockholders' equity	$ 3,558,426	$ 2,732,940

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

FIRST BANK
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands, except for share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Interest and Dividend Income				
Investment securities—taxable	$ 1,151	$ 788	$ 3,128	$ 2,053
Investment securities—tax-exempt	86	39	158	109
Interest bearing deposits with banks, Federal funds sold and other	2,593	498	6,029	888
Loans, including fees	46,088	26,673	111,536	72,697
Total interest and dividend income	49,918	27,998	120,851	75,747
Interest Expense				
Deposits	18,470	2,737	40,574	5,008
Borrowings	1,914	258	4,939	796
Subordinated debentures	940	440	1,821	1,321
Total interest expense	21,324	3,435	47,334	7,125
Net interest income	28,594	24,563	73,517	68,622
Credit loss expense	6,650	216	8,237	2,156
Net interest income after credit loss expense	21,944	24,347	65,280	66,466
Non-Interest Income				
Service fees on deposit accounts	280	236	741	731
Loan fees	152	(33)	259	314
Income from bank-owned life insurance	544	369	1,291	1,112
Losses on sale of investment securities, net	(527)	-	(734)	-
Gain (Loss) on sale of loans, net	(704)	2	(393)	292
Gains on recovery of acquired loans	24	122	95	456
Other non-interest income	424	248	1,026	769
Total non-interest income	193	944	2,285	3,674
Non-Interest Expense				
Salaries and employee benefits	9,326	6,880	25,320	20,122
Occupancy and equipment	1,915	1,477	5,107	4,282
Legal fees	270	188	671	502
Other professional fees	631	619	1,880	1,998
Regulatory fees	595	252	1,345	678
Directors' fees	224	172	631	570
Data processing	907	674	2,206	1,859
Marketing and advertising	220	164	693	505
Travel and entertainment	140	91	519	290
Insurance	272	187	624	538
Other real estate owned expense, net	-	72	38	269
Merger-related expenses	7,028	-	7,710	-
Other expense	1,958	961	4,020	2,655
Total non-interest expense	23,486	11,737	50,764	34,268
(Loss) Income Before Income Taxes	(1,349)	13,554	16,801	35,872
Income tax (benefit) expense	(78)	3,348	4,284	8,685
Net (Loss) Income	$ (1,271)	$ 10,206	$ 12,517	$ 27,187
Basic earnings (loss) per common share	$ (0.05)	$ 0.52	$ 0.60	$ 1.39
Diluted earnings (loss) per common share	$ (0.05)	$ 0.52	$ 0.59	$ 1.38
Cash dividends per common share	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Basic weighted average common shares outstanding	23,902,478	19,451,189	20,928,847	19,523,069
Diluted weighted average common shares outstanding	23,902,478	19,668,133	21,057,655	19,742,399

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

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net (loss) income	$ (1,271)	$ 10,206	$ 12,517	$ 27,187
Other comprehensive income (loss):				
Unrealized holding (losses) gains on investments arising during the period	(2,037)	(3,523)	(1,648)	(10,195)
Reclassification adjustment for gains on securities included in net income	527	-	734	
	(1,510)	(3,523)	(914)	(10,195)
Income tax effect	366	864	205	2,462
Total other comprehensive (loss) gain, net of tax	(1,144)	(2,659)	(709)	(7,733)
Total comprehensive (loss) income	$ (2,415)	$ 7,547	$ 11,808	$ 19,454

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

FIRST BANK
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, 2023	$ 104,939	$ 81,053	$ 136,446	$ (6,899)	$ (21,378)	$ 294,161
Net loss	-	-	(1,271)	-	-	(1,271)
Other comprehensive loss, net of tax	-	-	-	(1,144)	-	(1,144)
Vesting of restricted stock, 247 shares	1	(1)	-	-	-	-
Exercise of stock options, 2,500 shares	13	3	-	-	-	16
Stock-based compensation expense	-	424	-	-	-	424
Cash dividends - common, $0.06 per share	-	-	(1,495)	-	-	(1,495)
Acquistion of Malvern Bancorp, Inc., 5,881,815 shares, $11.96 per share	29,409	40,937	-	-	-	70,346
Balance—September 30, 2023	$ 134,362	$ 122,416	$ 133,680	$ (8,043)	$ (21,378)	$ 361,037
Balance—January 1, 2023	$ 104,512	$ 80,695	$ 127,532	$ (7,334)	$ (15,843)	$ 289,562
Effect of adopting Accounting Standards Codification Topic 326 (Note 7)	-	-	(2,546)	-	-	(2,546)
Net income	-	-	12,517	-	-	12,517
Other comprehensive loss, net of tax	-	-	-	(709)	-	(709)
Vesting of restricted stock, 83,076shares	415	(415)	-	-	-	-
Exercise of stock options, 5,000 shares	26	6	-	-	-	32
Stock-based compensation expense	-	1,193	-	-	-	1,193
Cash dividends - common, $0.18 per share	-	-	(3,823)	-	-	(3,823)
Purchase of 550,000 shares of common stock	-	-	-	-	(5,535)	(5,535)
Acquistion of Malvern Bancorp, Inc., 5,881,815 shares, $11.96 per share	29,409	40,937	-	-	-	70,346
Balance—September 30, 2023	$ 134,362	$ 122,416	$ 133,680	$ (8,043)	$ (21,378)	$ 361,037
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, 23,342 shares	1	(1)	-	-	-	-
Exercise of stock options, 27,175 shares	90	10	-	-	-	100
Stock-based compensation expense	-	320	-	-	-	320
Cash dividends - common, $0.06 per share	-	-	(1,167)	-	-	(1,167)
Purchase of 191,837 shares of common stock	-	-	-	-	(753)	(753)
Balance—September 30, 2022	$ 104,481	$ 80,368	$ 119,598	$ (7,939)	$ (15,759)	$ 280,749
Balance—January 1, 2022	$ 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, 64,059 shares	321	(321)	-	-	-	-
Exercise of stock options, 73,292 shares	456	219	-	-	-	675
Stock-based compensation expense	-	907	-	-	-	907
Cash dividends - common, $0.12 per share	-	-	(3,513)	-	-	(3,513)
Purchase of 192,037 shares of common stock	-	-	-	-	(3,440)	(3,440)
Balance—September 30, 2022	$ 104,481	$ 80,368	$ 119,598	$ (7,939)	$ (15,759)	$ 280,749

FIRST BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net income	$ 12,517	$ 27,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	8,237	2,156
Depreciation and amortization of premises and equipment	1,275	918
Amortization and accretion of premiums/discounts on investment securities, net	42	197
Amortization and accretion of fair value adjustments, net	(2,809)	(238)
Amortization and accretion of deferred loan fees and costs, net	(1,607)	(3,030)
Amortization of core deposit intangible assets	501	224
Amortization of subordinated debentures issuance cost	84	83
Noncash operating lease expense	1,482	1,263
Stock-based compensation	1,193	907
Losses on sale of investment securities available for sale	734	-
Originations of loans held for sale	(3,214)	(4,546)
Proceeds from sale of loans held for sale	92,590	6,294
Losses (gains) on sale of loans	393	(292)
Income from bank-owned life insurance	(1,291)	(1,112)
Deferred income tax benefit	8,207	-
Changes in assets and liabilities:		
Increase in accrued interest receivable	(2,729)	(1,217)
(Increase) decrease in intangible assets	(3)	148
Increase in other assets	(10,721)	(1,227)
(Decrease) increase in accrued interest payable	(425)	501
Increase in other liabilities	355	3,745
Net cash provided by operating activities	104,811	31,961
Cash flows from investing activities:		
Net decrease in interest bearing time deposits with banks	795	877
Net increase in loans	(34,236)	(137,573)
Purchases of investment securities available for sale	(1,683)	(23,251)
Purchases of investment securities held to maturity	(157)	(10,481)
Proceeds from sales of investment securities available for sale	88,226	-
Proceeds from maturities, calls and paydowns of investment securities available for sale	13,662	9,230
Proceeds from maturities, calls and paydowns of investment securities held to maturity	1,867	6,026
Purchase of restricted stocks	(17,488)	(583)
Redemption of restricted stocks	24,265	-
Purchases of other investments	(601)	(273)
Proceeds from sales of other real estate owned	-	479
Purchases of premises and equipment	(2,370)	(1,156)
Cash paid for acquistion	(59,333)	-
Cash and cash equivalents acquired in acquisition	43,086	-
Net cash provided by (used in) investing activities	56,033	(156,705)
Cash flows from financing activities:		
Net increase in deposits	1,350	75,659
Proceeds from borrowings	350,000	75,000
Repayments of borrowings	(448,574)	(66,627)
Proceeds from stock option exercises	32	675
Cash dividends paid on common stock	(3,823)	(3,513)
Purchase of treasury stock	(5,535)	(3,440)
Net cash (used in) provided by financing activities	(106,550)	77,754
Net increase (decrease) in cash and cash equivalents	54,294	(46,990)
Cash and cash equivalents at beginning of year	125,916	154,507
Cash and cash equivalents at end of period	$ 180,210	$ 107,517
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	$ 47,372	$ 2,920
Cash paid for income taxes	$ 7,835	$ 8,273
Supplemental schedule of non-cash activities:		
Vesting of restricted stock	$ 415	$ 321
Net transfer of loans held-for-sale to loans receivable	$ 14,944	$ -
Acquisition:		
Fair value of assets acquired, net of cash and cash equivalents acquired	$ 910,740	$ -
Fair value of liabilities assumed	$ 850,487	-
Number of common stock shares issued in acquisition	5,881,815	-

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 consolidated financial statements of First Bank have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"). The consolidated financial statements are prepared on an accrual basis and include the accounts of First Bank's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements. 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, 2023, 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, 2023 and 2022, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 are unaudited. The Consolidated Statement of Financial Condition as of December 31, 2022 was derived from the audited Consolidated Statement of Financial Condition as of that date.

On January 1, 2023, the Company adopted Accounting Standards Codification Topic 326: Financial Instruments – Credit Losses ("ASC Topic 326"), which replaces the Company's Allowance for Loan Losses ("ALLL") policy under the incurred loss model, and adoption of ASU No. 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings ("TDR") and Vintage Disclosures, which replaces the Company's TDR accounting model policy, which are both discussed below in Recently Adopted Accounting Standards. There have been no other material changes to the Company's significant accounting policies for the three and nine months ended September 30, 2023.

In the opinion of management, all adjustments and disclosures which are generally routine and recurring in nature and necessary for a fair statement 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 credit losses for loans and investment securities; 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 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, 2023 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, 2022 as filed with the FDIC.

Recently Adopted Accounting Standards

Accounting Standards Codification Topic 326: Financial Instruments — Credit Losses ("ASC Topic 326"). 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 was in use through December 31, 2022. The Company adopted this guidance on January 1, 2023. Under this guidance, an entity measures all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The Current Expected Credit Loss ("CECL") model applies 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 requires 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.

The Company approved an accounting policy for credit losses in compliance with CECL and established a CECL governance and approval process. The Company contracted with a third-party vendor to assist in the application of ASC Topic 326 and is utilizing a vintage method to estimate the current expected credit loss on the majority of the loan portfolio with the exception of the recently acquired loan portfolio in which a probability of default/loss given default method is being utilized. The Company utilizes economic forecasts over a two-year reasonable and supportable forecast period followed by a cliff reversion to historical data. The CECL framework generally results in earlier recognition of credit losses and is significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and

Note 1 – Summary of Significant Accounting Policies (continued)

forecasts. The Company applied the new guidance through a cumulative-effect tax effected adjustment to retained earnings as of the beginning of 2023, with future adjustments to credit loss expectations recorded through the income statement as charges or credits to earnings.

The Company's Allowance for Credit Losses ("ACL") related to all financial assets increased by $3.9 million upon adoption of CECL on January 1, 2023. This amount included an increase of $3.6 million related to the allowance for credit losses on loans, an increase of $54,000 related to allowance for credit losses on off-balance sheet commitments and the establishment of a $224,000 allowance for credit losses on held to maturity ("HTM") investments. At December 31, 2022, purchase credit impaired ("PCI") gross loans totaled $3.0 million ($2.5 million net of specific credit fair value adjustments). Upon adoption, the Company's PCI loans were converted to purchase credit deteriorated ("PCD") loans as defined by ASC Topic 326. The transition adjustment for the PCI loans to PCD loans resulted in a reclassification of $509,000 from the specific credit fair value adjustment to the allowance for credit losses on loans. Upon adoption of CECL the Company's deferred tax assets increased by a total of $869,000. These adjustments resulted in cumulative-effect tax effected reduction to retained earnings of $2.5 million.

Management estimates the ACL using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses under both the vintage and probability of default/loss given default methods. Adjustments to historical loss information are made for differences in current loan specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency levels, loan collateral values as well as changes in economic conditions.

Expected credit losses are estimated over the contractual term of the assets, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures". The amendments in this ASU were adopted on January 1, 2023 to (1) eliminate accounting guidance for TDRs by creditors, while enhancing disclosure requirements for loan refinancings and restructurings when a borrower is experiencing financial difficulty; (2) require disclosures of current period gross write-offs by year of origination for financing receivables and net investments in leases. The amendments in this ASU were applied prospectively, except for the transition method related to the recognition and measurement of TDRs, which was applied using a modified retrospective transition method. The Company adopted this guidance prospectively, and the adoption of this standard did not have an impact on the Company's consolidated financial statements.

Recent Accounting Standards Not Yet Adopted

ASU No. 2023-02, **Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures**. The FASB issued ASU 2023-02 using the Proportional Amortization Method. The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. A reporting entity may make an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. The amendments in this update also remove certain guidance for Qualified Affordable Housing Project investments and require the application of the delayed equity contribution guidance to all tax equity investments. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and must be applied on either a modified retrospective or a retrospective basis. Early adoption is permitted in any interim period, however if adopted in an interim period the entity shall adopt the amendments in this update as of the beginning of the fiscal year that includes the interim period. The Company does not expect the adoption of ASU No. 2023-02 to have a material impact on its consolidated financial statements.

Note 2 – Business Combination

On July 17, 2023, First Bank completed its acquisition of Malvern Bancorp, Inc. ("Malvern Bancorp") and Malvern Bank, National Association ("Malvern Bank"), collectively ("Malvern"), pursuant to the Agreement and Plan of Merger dated December 13, 2022, as amended (the "Merger Agreement"). Malvern Bancorp merged with and into FB Merger Subsidiary LLC, the wholly-owned subsidiary of First Bank ("Merger Sub"), with Merger Sub as the surviving entity, immediately followed by the merger of Malvern Bank with and into First Bank, with First Bank as the surviving institution, collectively (the "Merger"). Immediately following the acquisition, the assets of Merger Sub were incorporated into the Bank.

First Bank acquired all of the controlling equity interest of Malvern. The acquisition of Malvern allowed the Company to expand its presence in Southeastern Pennsylvania, creating critical mass in one of the most attractive markets in the Northeast..

Note 2 – Business Combination (continued)

Subject to the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of Malvern common stock was converted into the right to receive $7.80 in cash and 0.7733 shares of First Bank common stock, with cash paid in lieu of fractional shares pursuant to the Merger Agreement. At the Effective Time, each outstanding Malvern restricted stock award was converted into the right to receive the Merger consideration, and each Malvern stock option was

converted into the right to receive a cash payment equal to (a) the excess, if any, of (i) the 0.7733 exchange ratio multiplied by the average closing price of First Bank common stock for the 20 trading days ending on the tenth day prior to the closing date of the Merger, plus $7.80 in cash, over (ii) the exercise price of the Malvern stock option, minus (b) all applicable taxes required to be withheld. Any Malvern stock option with a per share exercise price that equaled or exceeded the stock option consideration was canceled, with no consideration being paid.

The results of Malvern’s operations from July 17, 2023 through September 30, 2023 are included in the Company’s unaudited Consolidated statements of income for the three and nine months ended September 30, 2023, from the acquisition date through September 30, 2023.

First Bank determined that the Malvern acquisition constitutes a business combination and was accounted for using the acquisition method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax, as of the acquisition date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company’s Consolidated statements of financial condition. The $26.3 million of goodwill created on the Malvern merger is not amortizable or deductible for tax purposes. The amount of goodwill represents an asset attributed to the future benefits arising from other assets acquired in a business combination. Future benefits consist largely of the synergies and economies of scale expected from combining the operations of the Company with Malvern. First Bank does not currently provide segment reporting for GAAP, therefore the goodwill will be assigned to the whole operating company.

The fair value of the 5.9 million shares issued was determined based on the $11.96 closing market price of First Bank’s shares on July 14, 2023, which was the last trading day prior to the acquisition. While the valuation of the acquired assets and liabilities is substantially complete, fair value estimates are subject to adjustment during the measurement period, which may last up to twelve months subsequent to the acquisition date. During this period, the Company may obtain additional information to refine the valuations and adjust the recorded fair value, although such adjustments are not expected to be significant. Valuations subject to adjustment include, but are not limited to, the fair value of acquired loans and other assets and liabilities including income taxes.

Note 2 – Business Combination (continued)

	Estimated Fair Value at July 17, 2023 (in thousands)
Consideration paid:	
Common stock issued (5.9 million shares at $11.96 per share closing price on July 14, 2023)	$ 70,346
Cash paid to Malvern shareholders including fractional shares	59,333
Total consideration paid	129,679
Assets acquired:	
Cash and cash equivalents	43,086
Investment securities	91,982
Restricted investment in bank stocks	8,669
Loans held for sale	103,382
Loans, net of allowance for credit losses	624,332
Premises and equipment	9,767
Accrued interest receivable	3,885
Core deposit intangible	10,308
Deferred tax asset	17,838
Other assets	40,577
Total assets acquired	953,826
Liabilities assumed:	
Deposits	671,850
Borrowings	130,000
Subordinated debentures	25,462
Accrued interest payable	2,430
Obligations from secured borrowings	10,784
Other liabilities	9,961
Total liabilities assumed	850,487
Net assets acquired	103,339
Goodwill recorded in acquisition	$ 26,340

The following is a discussion of the valuation methodologies used to estimate the fair value of major categories of assets acquired and liabilities assumed. The Company used an independent valuation specialist to assist with the determination of fair values of certain acquired assets and assumed liabilities.

Cash and Cash Equivalents

The estimated fair value was determined to approximate the carrying amount of these assets.

Investment securities

All acquired investments were classified as available for sale. The estimated fair values of available for sale securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were determined using matrix pricing, 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. Additional information is included in Note 6.

Loans Held for Sale and Investment

The acquired loan portfolio was valued utilizing Level 3 inputs and included the use of a discounted cash flow methodology applied on a pooled basis for accruing loans and on an individual basis for nonaccruing loans and incorporated assumptions that marketplace participants would use in estimating fair values. In the fair value process, accruing loans were grouped by characteristics such as loan type, term, collateral and rate. The Company developed assumptions as to credit risk, expected lifetime losses, qualitative factors, collateral values, discount rates, expected payments and expected prepayments. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company created three separate fair value adjustments which a market participant

Note 2 – Business Combination (continued)

would employ in estimating the total fair value adjustment. The three fair valuation adjustments used were: (i) interest rate loan fair value adjustment; (ii) general credit fair value adjustment; and (iii) specific credit fair value adjustment.

To prepare the interest rate fair value adjustment, market discount rates for similar loans were obtained from various data sources to develop market participant assumptions.

The general credit fair value adjustment was calculated using a two-part general credit fair value adjustment: (i) expected lifetime losses and (ii) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using historical losses of the acquired bank and Pennsylvania peer banks. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to lack of experience with the originator's underwriting process.

Acquired loans are classified into three categories: purchased credit deteriorated accruing loans (PCD Accruing loans), purchased credit deteriorated non-accruing loans (PCD Non-Accruing) and non-PCD loans. PCD loans are defined as a loan or group of loans that have experienced more than insignificant credit deterioration since origination. The Company considers various factors in connection with the identification of more-than-insignificant deterioration in credit, including but not limited to nonperforming status, delinquency, risk ratings, and other qualitative factors that indicate deterioration in credit quality since origination. Non-PCD loans will have an allowance established subsequent to the acquisition date, which is recognized as an expense through the provision for credit losses. For PCD loans, the loans were recorded at their amortized cost, less and an allowance for credit losses of $6.9 million on the acquisition date. There is no provision for credit loss expense recognized on PCD loans because the initial allowance is established by grossing-up the amortized cost of the PCD loans. The remaining difference between the net of the amortized cost basis and the allowance for credit losses and the fair value allocated to the loans on the date of acquisition is recognized as a non-credit-related discount that will be accreted into interest income of the life of the loans.

A Day 1 allowance for credit losses on non-PCD loans of $5.5 million was recorded through the provision for credit losses within the Consolidated Statements of Income. At the acquisition date, of the $791.0 million loans acquired from Malvern, $702.1 million, or 88.6%, of Malvern's loan portfolio was accounted for as non-PCD loans.

The following table provides details related to the fair value of acquired PCD loans.

	Unpaid Principal Balance	PCD Allowance for Credit Losses at Acquisition	Non-Credit (Discount) Premium at Acquisition	Fair Value of PCD Loans at Acquisition
		(in thousands)		
PCD Accruing	$ 71,296	$ (1,407)	$ (3,829)	$ 66,060
PCD Non-Accruing	17,641	(5,494)	(3,105)	$ 9,042
Total PCD loans	**$ 88,937**	**$ (6,901)**	**$ (6,934)**	**$ 75,102**

Premises and equipment

The estimated fair value of premises were measured based upon appraisals from independent third parties. The estimated fair value of equipment was determined to approximate the carrying amount of these assets.

Core Deposit Intangible

Fair value was determined by using income approach under ASC topic 820. This present value analysis calculates the expected after-tax cash flow benefits of each acquired core deposits type versus the cost of obtaining an alternative source of funding (brokered deposits and FHLB Borrowings) over the expected life of each acquired core deposits type, discounted at a long-term market oriented after-tax rate of return. The valuation also included assumptions related to expected account attrition, interest costs, and deposit maintenance cost and deposit fee income. The core deposit intangible was valued at $10.3 million or 3.46% of core deposits. The core deposit intangible asset is being amortized on an accelerated basis over 10 years. Amortization expense for the three and nine months ended September 30, 2023, was $312,000, respectively. Additional information is included in Note 10.

Note 2 – Business Combination (continued)

Deferred Tax Asset

The Company recorded a net deferred income tax asset of $13.2 million related to tax attributes of Malvern Bank, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

Time Deposits

The estimated fair value of time deposits was determined using a discounted cash flow approach. The fair value of time deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to current market interest rates offered on time deposits with similar terms and maturities.

Borrowings and Subordinated Debt

The estimated fair value of short-term borrowings was determined to approximate the stated value. Subordinated debentures were valued using a discounted cash flow approach incorporating a discount rate that incorporated similar terms, maturity and credit rating.

Merger-Related Expenses

Costs related to the acquisition totaled $7.7 million. These amounts were expensed as incurred and are recorded as merger-related expenses in the Consolidated Statements of Income. The following table details the costs identified and classified as merger-related expenses of the acquisition.

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Cumulative Merger-Related Expenses September 30, 2023
		(in thousands)	
Salaries and employee benefits	$ 3,931	$ 3,931	$ 3,931
Data processing and software	1,164	1,281	1,281
Other outside services	1,135	1,135	1,135
Professional fees	419	419	419
Other	379	944	944
Merger-related expenses	**$ 7,028**	**$ 7,710**	**$ 7,710**

As a result of the full integration of the operations of Malvern, it is not practicable to determine revenue or net income included in the Company's operating results relating to Malvern since the date of acquisition as Malvern's results cannot be separately identified.

Supplemental Pro Forma Financial Information

The acquisition of Malvern occurred on July 17, 2023, and the results from operations of the acquired assets and assumed liabilities are included since acquisition in First Bank's income statement for the three and nine months ended September 30, 2023. The following table presents unaudited financial information regarding the former Malvern Bancorp operations included in the Consolidated statements of income assuming the Malvern acquisition occurred on January 1, 2022. The pro forma income statement adjustments are limited to the effects of fair value mark amortization and accretion and intangible amortization. Furthermore, the unaudited pro forma financial information includes merger-related expenses but does not reflect management's estimate of any revenue-enhancing opportunities, cost savings or the impact of conforming certain accounting policies of Malvern to the Company's policies that may have occurred as a result of the integration and consolidation of Malvern's operations. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results.

Note 2 – Business Combination (continued)

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
	(in thousands)			
Net Interest income	$ 29,370	$ 32,472	$ 86,775	$ 90,778
Net interest income after credit loss expense	22,720	32,256	78,538	88,622
Non-interest expense	27,741	16,991	66,900	51,806
Net income	(4,132)	12,784	10,685	32,121

Note 3 – Other Comprehensive Loss

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

	September 30, 2023	December 31, 2022
	(in thousands)	
Net unrealized losses on investment securities available for sale	$ (10,742)	$ (9,828)
Income tax effect	2,699	2,494
Accumulated other comprehensive loss	$ (8,043)	$ (7,334)

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,	
	2023	2022	2023	2022
	(in thousands, except per share data)			
Net income available to common stockholders	$ (1,271)	$ 10,206	$ 12,517	$ 27,187
Basic weighted average common shares outstanding	23,902	19,451	20,929	19,523
Effect of dilutive common stock equivalents	-	217	129	219
Diluted weighted average common shares outstanding	23,902	19,668	21,058	19,742
Basic earnings per share	$ (0.05)	$ 0.52	$ 0.60	$ 1.39
Diluted earnings per share	$ (0.05)	$ 0.52	$ 0.59	$ 1.38
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	759	505	630	503

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, 2023.

Awards authorized	2,248,833
Cumulative granted awards, net of cancellations	2,024,265
Awards available for grant	224,568

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

Note 5 – Stock-Based Compensation (continued)

Stock-based compensation expense recognized in earnings for the three months ended September 30, 2023 and 2022 was $424,000 and $320,000, respectively, and for the nine months ended September 30, 2023 and 2022 was $1.2 million and $907,000 respectively.

The Company's stock option activity for the nine months ended September 30, 2023 and 2022 is summarized in the following tables:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding—December 31, 2022	714,140	$ 10.12		
Granted	80,179	12.55		
Exercised	(5,000)	6.07		
Expired	(30,802)	10.35		
Outstanding—September 30, 2023	758,517	$ 10.39	5.1	$ 1,246,900
Exercisable—September 30, 2023	621,601	$ 9.83	4.3	$ 1,223,016

	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

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 three months ended September 30, 2023 and 2022 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2023	2022
Expected volatility	39.19% - 42.62%	36.90% - 40.30%
Dividend yield	1.75% - 2.47%	1.66% - 1.69%
Expected life	5.0 - 6.0 years	5.0 - 6.0 years
Risk-free rate	3.51% - 4.09%	1.88% - 2.81%
Fair value	$3.22 - $4.72	$4.30 - $4.42

Note 5 – Stock-Based Compensation (continued)

The following table summarizes information about stock options outstanding and exercisable at September 30, 2023:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.00 - $6.49	84,500			84,500	
$6.49 - $10.85	272,044			249,723	
$10.85 - $14.64	401,973			287,378	
Total	758,517	5.1	$ 10.39	621,601	$ 9.83

Unrecognized compensation expense related to unvested stock options was $394,000 as of September 30, 2023 and is expected to be recognized over a weighted average period of 2.0 years.

Restricted stock activity under the Company's stock-based compensation plans for the nine months September 30, 2023 and 2022 is summarized in the following tables:

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2022	180,330	$ 11.19	
Granted	144,059	12.17	
Vested	(83,076)	12.20	
Forfeited	(2,779)	12.60	
Outstanding—September 30, 2023	238,534	$ 12.19	2.0

	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	176,065	$ 12.19	1.9

All granted restricted stock awards have a vesting period of one to three years. Unrecognized compensation expense related to restricted stock was $2.1 million as of September 30, 2023 and is expected to be recognized over a weighted average period of 2.0 years.

Note 6 – Investment Securities

ASC Topic 326 was adopted by the Company on January 1, 2023. ASC Topic 326 introduces the CECL methodology for estimating allowances for credit losses. ASC Topic 326 applies to all financial instruments carried at amortized cost, including HTM securities, and makes targeted improvements to the accounting for credit losses on available for sale ("AFS") securities.

Note 6 – Investment Securities (continued)

AFS Securities

The Company is required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition. Prior to implementation of ASC Topic 326, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

The Company did not record an ACL on the AFS securities during the three or nine months ended on September 30, 2023 or upon implementation of CECL on January 1, 2023. As of both periods, the Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold. At September 30, 2023 and December 31, 2022, unrealized losses were higher due to market uncertainty resulting from inflation and rising interest rates from the time of the security purchase.

The Company does not estimate an allowance for credit losses on accrued interest receivable from AFS securities as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. At September 30, 2023, accrued interest receivable totaled $333,000 for AFS securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

HTM Securities

The Company segments its HTM portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company's historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government. This assumption will be reviewed and attested quarterly.

The Company does not estimate an allowance for credit losses on accrued interest receivable from HTM securities as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. At September 30, 2023, accrued interest receivable totaled $298,000 for HTM securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

At September 30, 2023, the Company had no HTM securities that were past due 30 days or more as to principal or interest payments. The Company had no HTM securities classified as nonaccrual at September 30, 2023.

Note 6 – Investment Securities (continued)

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

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	$ 23,000	$ -	$ (1,021)	$ 21,979
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	46,187	-	(7,295)	38,892
Issued by GNMA	13,706	-	(1,939)	11,767
U.S. Treasury securities	3,989	-	(97)	3,892
SBA pools	1,684	-	(7)	1,677
Asset-backed securities	764	-	(22)	742
Corporate obligations	9,140	2	(363)	8,779
Total	$ 98,470	$ 2	$ (10,744)	$ 87,728

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	$ 31,834	$ 3	$ (1,569)	$ 30,268
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	42,630	1	(6,015)	36,616
Issued by GNMA	13,436	-	(1,730)	11,706
U.S. Treasury securities	3,980	-	(113)	3,867
SBA Pools	2,000	-	-	2,000
Asset-backed securities	943	-	(26)	917
Corporate obligations	13,961	64	(443)	13,582
Total	$ 108,784	$ 68	$ (9,896)	$ 98,956

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	$ 10,944	$ -	$ (2,185)	$ 8,759	$ -
Issued by GNMA	476	-	(65)	411	-
Obligations of state and political subdivisions	7,255	-	(532)	6,723	(5)
Corporate obligations	26,750	-	(4,095)	22,655	(222)
Total	$ 45,425	$ -	$ (6,877)	$ 38,548	$ (227)

Note 6 – Investment Securities (continued)

	December 31, 2022							
	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value	
Investment securities held to maturity	(in thousands)							
Residential mortgage-backed securities:								
Issued by FNMA and FHLMC	$	11,632	$	-	$	(1,773)	$	9,859
Issued by GNMA		488		-		(48)		440
Obligations of state and political subdivisions		8,323		17		(367)		7,973
Corporate obligations		26,750		-		(2,557)		24,193
Total	$	47,193	$	17	$	(4,745)	$	42,465

The following table presents the activity in the ACL for the held to maturity debt securities:

	Obligations of state and political subdivisions		Corporate obligations		ACL Total	
	(in thousands)					
Three Months Ended September 30, 2023						
Balance—beginning of period	$	5	$	222	$	227
Credit loss expense		-		-		-
Balance—end of period	$	5	$	222	$	227

	Obligations of state and political subdivisions		Corporate obligations		ACL Total	
	(in thousands)					
Nine Months Ended September 30, 2023						
Balance—beginning of period	$	-	$	-	$	-
Adoption of ASC Topic 326		5		219		224
Credit loss expense		-		3		3
Balance—end of period	$	5	$	222	$	227

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.

	September 30, 2023							
	Available for Sale				Held to Maturity			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
	(in thousands)							
Due within one year	$	16,262	$	15,852	$	1,170	$	1,164
Due after one year through five years		20,631		19,540		3,366		3,206
Due after five years through ten years		1,684		1,677		28,941		24,507
Due after ten years		-		-		528		501
Residential mortgage-backed securities:								
Issued by FNMA and FHLMC		46,187		38,892		10,944		8,759
Issued by GNMA		13,706		11,767		476		411
Total investment securities	$	98,470	$	87,728	$	45,425	$	38,548

Note 6 – Investment Securities (continued)

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, 2023								
	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 available for sale				(dollars in thousands)					
U.S. Government-sponsored agency securities	2	$ 2,961	$ (39)	7	$ 19,018	$ (982)	9	$ 21,979	$ (1,021)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	37	6,836	(294)	37	32,056	(7,001)	74	38,892	(7,295)
Issued by GNMA	4	3,965	(218)	9	7,783	(1,721)	13	12,335	(1,939)
U.S. Treasury securities	-	-	-	2	3,892	(97)	2	3,892	(97)
SBA pools	1	1,678	(7)	-	-	-	1	1,678	(7)
Asset-backed securities	-	-	-	1	741	(22)	1	741	(22)
Corporate obligations	-	-	-	2	5,775	(363)	2	5,775	(363)
Total	44	$ 15,440	$ (558)	58	$ 69,265	$ (10,186)	102	$ 85,292	$ (10,744)

	December 31, 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
Investment securities available for sale				(dollars in thousands)					
U.S. Government-sponsored agency securities	6	$ 11,526	$ (308)	6	$ 16,739	$ (1,261)	12	$ 28,265	$ (1,569)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	27	10,609	(792)	17	25,930	(5,223)	44	36,539	(6,015)
Issued by GNMA	9	5,692	(361)	6	6,014	(1,369)	15	11,706	(1,730)
U.S. Treasury securities	2	3,867	(113)	-	-	-	2	3,867	(113)
Asset-backed securities	-	-	-	1	917	(26)	1	917	(26)
Corporate obligations	1	2,955	(61)	1	2,778	(382)	2	5,733	(443)
Total	45	$ 34,649	$ (1,635)	31	$ 52,378	$ (8,261)	76	$ 87,027	$ (9,896)

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, 2023								
	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	1	$ 1,636	$ (97)	15	$ 7,123	$ (2,088)	16	$ 8,759	$ (2,185)
Issued by GNMA	-	-	-	1	411	(65)	1	411	(65)
Obligations of state and political subdivisions	4	1,535	(45)	13	4,651	(487)	17	6,186	(532)
Corporate obligations	5	4,714	(786)	19	17,942	(3,309)	24	22,656	(4,095)
Total	10	$ 7,885	$ (928)	48	$ 30,127	$ (5,949)	58	$ 38,012	$ (6,877)

	December 31, 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
Investment securities held to maturity				(dollars in thousands)					
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	11	$ 3,862	$ (218)	5	$ 5,997	$ (1,555)	16	$ 9,859	$ (1,773)
Issued by GNMA	1	440	(48)	-	-	-	1	$ 440	$ (48)
Obligations of state and political subdivisions	13	5,157	(184)	4	1,366	(183)	17	6,523	(367)
Corporate obligations	19	19,008	(1,742)	5	5,185	(815)	24	24,193	(2,557)
Total	44	$ 28,467	$ (2,192)	14	$ 12,548	$ (2,553)	58	$ 41,015	$ (4,745)

During the three and nine months ended September 30, 2023, the Bank sold approximately $81.6 million and $88.2 million, respectively, in available for sale securities for a gross realized loss of $527,000 and $734,000, respectively. There were no securities sold during the three or nine months ended September 30, 2022.

Note 6 – Investment Securities (continued)

Investment securities with a market value of $2.0 million and $490,000, respectively, were pledged as collateral for municipal deposits and Federal Home Loan Bank ("FHLB") borrowings at September 30, 2023. Investment securities with a market value of $2.8 million and $1.3 million, respectively, were pledged as collateral for municipal deposits and FHLB borrowings at December 31, 2022. Investment securities with a market value of $73.3 million were pledged as collateral under the Federal Reserve's Bank Term Funding Program at September 30, 2023.

Note 7 – Loans and Allowance for Credit Losses on Loans

The Company adopted the new current expected credit loss accounting guidance, CECL, and all related amendments as of January 1, 2023. The guidance in CECL replaces the incurred loss methodology. The Company has developed an ACL methodology effective January 1, 2023, which replaces its previous allowance for loan losses methodology. The Company adopted CECL using the modified retrospective approach; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current period presentation.

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

	September 30, 2023	December 31, 2022
	(in thousands)	
Commercial and industrial	$ 478,120	$ 354,203
Commercial real estate:		
Owner-occupied	607,888	533,426
Investor	1,269,134	951,115
Construction and development	168,192	142,876
Multi-family	275,825	215,990
Residential real estate:		
Residential mortgage and first lien home equity loans	158,487	93,847
Home equity—second lien loans and revolving lines of credit	46,239	33,551
Consumer and other	20,208	16,318
	3,024,093	2,341,326
Net deferred loan fees and costs	(3,315)	(3,512)
Total loans	$ 3,020,778	$ 2,337,814

Total loans also included $2.0 million and $3.4 million in loans held for sale as of September 30, 2023 and December 31, 2022, respectively. Mortgage and Small Business Administration ("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. The Bank acquired $103.4 million in residential loans held for sale in the Malvern acquisition. During the quarter ended September 30, 2023, the Bank sold approximately $85.1 million of these loans for a loss of approximately $771,000 and the remaining $14.9 million in loans were transferred to held for investment.

Accrued interest receivable is not included in the amortized cost basis of the Company's loans. Additionally, the Company does not estimate an allowance for credit losses on accrued interest receivable as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. When a loan is placed on nonaccrual status, which occurs when a borrower becomes delinquent by 90 days, interest previously accrued but not collected is reversed against current period interest income. At September 30, 2023, accrued interest receivable for loans totaled $13.7 million with no related ACL and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The following table summarizes the Company's loans by year of origination and internally assigned credit risk rating at September 30, 2023 and gross charge offs for the nine months ended September 30, 2023. See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the FDIC for additional information about asset classifications. There were no loans classified as "doubtful" or "loss" as of September 30, 2023 and December 31, 2022.

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

	Loans by Year of Origination at September 30, 2023							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial and industrial								
Pass	$ 74,308	$ 66,210	$ 54,941	$ 13,072	$ 16,476	$ 28,497	$ 212,614	$ 466,118
Special Mention	-	39	-	-	36	831	2,710	3,616
Substandard	-	87	400	-	5,122	432	2,345	8,386
Total Commercial and industrial	**$ 74,308**	**$ 66,336**	**$ 55,341**	**$ 13,072**	**$ 21,634**	**$ 29,760**	**$ 217,669**	**$ 478,120**
YTD gross charge-offs	**$ -**	**$ 473**	**$ -**	**$ -**	**$ 204**	**$ 719**	**$ -**	**$ 1,396**
Owner-occupied								
Pass	$ 52,280	$ 130,360	$ 117,444	$ 68,680	$ 33,630	$ 186,294	$ 3,817	$ 592,505
Special Mention	-	-	-	1,365	3,303	3,059	-	7,727
Substandard	-	-	-	-	3,180	4,476	-	7,656
Total Owner-occupied	**$ 52,280**	**$ 130,360**	**$ 117,444**	**$ 70,045**	**$ 40,113**	**$ 193,829**	**$ 3,817**	**$ 607,888**
YTD gross charge-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ 72**	**$ -**	**$ -**	**$ 72**
Investor								
Pass	$ 49,959	$ 202,565	$ 184,732	$ 137,158	$ 137,311	$ 508,770	$ 16,199	$ 1,236,694
Special Mention	-	-	-	-	-	18,837	-	18,837
Substandard	-	-	-	-	-	13,603	-	13,603
Total Investor	**$ 49,959**	**$ 202,565**	**$ 184,732**	**$ 137,158**	**$ 137,311**	**$ 541,210**	**$ 16,199**	**$ 1,269,134**
Construction and development								
Pass	$ 17,384	$ 76,954	$ 23,087	$ -	$ 8,018	$ 17,604	$ 23,394	$ 166,441
Special Mention	-	-	-	-	-	-	-	-
Substandard						1,751	-	1,751
Total Construction and development	**$ 17,384**	**$ 76,954**	**$ 23,087**	**$ -**	**$ 8,018**	**$ 19,355**	**$ 23,394**	**$ 168,192**
Multi-family								
Pass	$ 16,227	$ 61,656	$ 69,992	$ 54,102	$ 26,235	$ 45,999	$ 1,386	$ 275,597
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	228	-	228
Total Multi-family	**$ 16,227**	**$ 61,656**	**$ 69,992**	**$ 54,102**	**$ 26,235**	**$ 46,227**	**$ 1,386**	**$ 275,825**
YTD gross charge-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 123**	**$ -**	**$ 123**
Residential mortgage and first lien home equity loans								
Pass	$ 7,228	$ 19,148	$ 17,849	$ 25,192	$ 10,863	$ 72,499	$ 138	$ 152,917
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	364	524	1,340	3,342	-	5,570
Total Residential mortgage and first lien home equity loans	**$ 7,228**	**$ 19,148**	**$ 18,213**	**$ 25,716**	**$ 12,203**	**$ 75,841**	**$ 138**	**$ 158,487**
Home equity—second lien loans and revolving lines of credit								
Pass	$ 1,702	$ 1,509	$ 215	$ 204	$ 790	$ 5,236	$ 36,151	$ 45,807
Special Mention	-	-	-	-	-	48	-	48
Substandard	-	-	-	-	-	384	-	384
Total Home equity—second lien loans and revolving lines of credit	**$ 1,702**	**$ 1,509**	**$ 215**	**$ 204**	**$ 790**	**$ 5,668**	**$ 36,151**	**$ 46,239**
Consumer and other								
Pass	$ 1,158	$ 2,267	$ 240	$ 2,765	$ 165	$ 1,157	$ 12,449	$ 20,201
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	7	-	7
Total Consumer and other	**$ 1,158**	**$ 2,267**	**$ 240**	**$ 2,765**	**$ 165**	**$ 1,164**	**$ 12,449**	**$ 20,208**
YTD gross charge-offs	**$ 2**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2**
Total Loans								
Pass	$ 220,246	$ 560,669	$ 468,500	$ 301,173	$ 233,488	$ 866,056	$ 306,148	$ 2,956,280
Special Mention	-	39	-	1,365	3,339	22,775	2,710	30,228
Substandard	-	87	764	524	9,642	24,223	2,345	37,585
Total Loans	**$ 220,246**	**$ 560,795**	**$ 469,264**	**$ 303,062**	**$ 246,469**	**$ 913,054**	**$ 311,203**	**$ 3,024,093**
YTD gross charge-offs	**$ 2**	**$ 473**	**$ -**	**$ -**	**$ 276**	**$ 841**	**$ -**	**$ 1,593**

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

The following table presents 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.

	December 31, 2022			
	Pass	Special Mention	Substandard	Total
	(in thousands)			
Commercial and industrial	$ 348,598	$ 3,343	$ 2,262	$ 354,203
Commercial real estate:				
Owner-occupied	514,802	12,431	6,193	533,426
Investor	950,127	-	988	951,115
Construction and development	134,681	7,915	280	142,876
Multi-family	215,589	-	401	215,990
Residential real estate:				
Residential mortgage and first lien home equity loans	91,652	-	2,195	93,847
Home equity—second lien loans and revolving lines of credit	33,405	-	146	33,551
Consumer and other	16,308	-	10	16,318
Total	$ 2,305,162	$ 23,689	$ 12,475	$ 2,341,326

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:

	September 30, 2023							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	PCD Non-accruing	Total Past Due	Total Current	Total
	(in thousands)							
Commercial and industrial	$ 788	$ 119	$ -	$ 2,207	$ 502	$ 3,616	$ 474,504	$ 478,120
Commercial real estate:								
Owner-occupied	4,783	-	-	2,631	2,535	9,949	597,939	607,888
Investor	3,045	405	-	-	11,493	14,943	1,254,191	1,269,134
Construction and development	879	1,545	-	-	207	2,631	165,561	168,192
Multi-family	-	-	-	228	-	228	275,597	275,825
Residential real estate:								
Residential mortgage and first lien home equity loans	2,370	-	-	1,729	2,429	6,528	151,959	158,487
Home equity—second lien loans and revolving lines of credit	773	-	-	189	-	962	45,277	46,239
Consumer and other	22	-	-	7	-	29	20,179	20,208
Total	$ 12,660	$ 2,069	$ -	$ 6,991	$ 17,166	$ 38,886	$ 2,985,207	$ 3,024,093

	December 31, 2022							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	PCI	Total Past Due	Total Current	Total
	(in thousands)							
Commercial and industrial	$ 79	$ -	$ -	$ 1,044	$ -	$ 1,123	$ 353,080	$ 354,203
Commercial real estate:								
Owner-occupied	149	-	-	3,349	830	4,328	529,098	533,426
Investor	708	-	-	988	-	1,696	949,419	951,115
Construction and development	-	-	-	-	300	300	142,576	142,876
Multi-family	-	-	-	402	-	402	215,588	215,990
Residential real estate:								
Residential mortgage and first lien home equity loans	86	-	-	311	1,863	2,260	91,587	93,847
Home equity—second lien loans and revolving lines of credit	291	-	-	146	-	437	33,114	33,551
Consumer and other	-	-	-	10	-	10	16,308	16,318
Total	$ 1,313	$ -	$ -	$ 6,250	$ 2,993	$ 10,556	$ 2,330,770	$ 2,341,326

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

Loans are placed on nonaccrual status when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely, generally when the loan becomes 90 days or more past due. Interest previously accrued on nonaccrual loans but not collected is reversed against current period interest income. Nonaccrual loans by loan portfolio class, including loans acquired with credit deterioration, as of September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023			December 31, 2022
	Non-Accrual and PCD Non-Accruing Loans			
	With a Related Allowance	Without a Related Allowance	Total	Total non-accrual and PCI Loans
	(in thousands)			
Commercial and industrial	$ -	$ 2,709	$ 2,709	$ 1,044
Commercial real estate:				
Owner-occupied	740	4,426	5,166	4,179
Investor	11,493	-	11,493	988
Construction and development	10	197	207	300
Multi-family	-	228	228	402
Residential real estate:				
Residential mortgage and first lien home equity loans	575	3,583	4,158	2,174
Home equity—second lien loans and revolving lines of credit	-	189	189	146
Consumer and other	-	7	7	10
Total	$ 12,818	$ 11,339	$ 24,157	$ 9,243

The total recorded investment in loans secured by residential real estate property that were in the process of foreclosure was $628,000 and $494,000 at September 30, 2023 and December 31, 2022. The Company had no foreclosed residential real estate property held at September 30, 2022 or December 31, 2022.

Loans totaling $489.4 million and $193.6 million at September 30, 2023 and December 31, 2022, respectively, were pledged as collateral for FHLB borrowings.

The outstanding principal balance and related carrying amount of PCD loans were as follows as of the dates indicated:

	September 30, 2023	December 31, 2022
	(in thousands)	
Outstanding principal balance	$ 22,194	$ 5,501
Carrying amount	17,166	2,993

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit quality within the loan portfolio is continuously monitored by management and is reflected within the ACL on loans. The ACL on loans is an estimate of expected losses inherent within the Company's existing loan portfolio. The ACL on loans is adjusted through a credit loss expense or benefit and reduced by loan charge offs, net of recoveries.

The loan loss estimation process involves procedures to appropriately consider the unique characteristics of the Company's loan portfolio segments. When computing ACL levels, credit loss assumptions are estimated using a model that categorizes loan pools based on collateral type, vintage year of origination, loan to collateral values (LTVs), loss history and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Evaluations of the portfolio and individual credits are inherently subjective, as they require estimates, assumptions and judgments as to the facts and circumstances of particular situations. Determining the appropriateness of the ACL is complex and requires judgement by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the ACL and credit loss expense.

The Company estimates the ACL using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The Company uses a third-party software application to calculate the quantitative portion of the ACL using a methodology and assumptions specific to each loan pool. The qualitative portion of the allowance is based on general economic forecasts and conditions and other internal and external factors affecting the Company as a whole, as well as specific loans. Factors considered include the following: loan delinquency levels and

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

trends, concentrations of credit, average loan risk ratings and trends, the Company's lending policies and underwriting standards and the Company's lending management's experience depth and ability. The Company utilizes economic forecasts over a two-year reasonable and supportable forecast period followed by a cliff reversion to historical data.

The Company primarily utilizes a vintage method to estimate the quantitative portion of the allowance for credit losses with the exception of Malvern loan portfolio. The vintage loss rate approach creates segments of loans as outlined above and the loan segments are further sorted by loan origination year. Historical charge offs percentages, net of recoveries are calculated for each loan segment. An average life is also estimated for each loan segment based on the Company's historical loan data. The actual historical charge offs as a percent of total loans are calculated for each vintage year within each loan segment and projected based on historical charge off data for future years within the average life horizon of each loan segment. Those charge off percentages are added together to obtain an aggregated vintage loss percentage which is then multiplied by the outstanding loan balances at period end to obtain the quantitative portion of the ACL.

The quantitative and qualitative portions of the allowance are added together to determine the total ACL, which reflects management's expectations of future conditions based on reasonable and supportable forecasts.

For the acquired Malvern loan portfolio, the Company utilizes a probability of default/loss given default methodology. Based on the available data and composition of the Malvern loan portfolio, the Company determined that this was the most appropriate methodology. Under the probability of default/loss given default methodology, loans are segmented similarly to the vintage method and an average life is also determined for each loan segment consistent with the vintage methodology. The probability of default is the likelihood that a loan will not be repaid and will default. It is calculated for each loan category. Loss Given Default is the fractional loss due to default. Factors to determine the probability of default are historical loan charge-offs, loan risk ratings and other qualitative factors such as loan delinquency levels and economic forecasts. The economic forecasts utilized to determine the probability of default are the same as the forecasts used in the vintage method. Factors to determine the loss given default include LTVs and historical loss rates. Based on these factors each loan is assigned a probability of default and loss given default. The probability of default is then multiplied by the loss given default to determine the required ACL.

The methodology for estimating the amount of expected credit losses reported in the ACL has two basic components: a collective, or pooled, component for estimated expected credit losses for pools of loans that share similar risk characteristics, and an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans. In estimating the ACL for the collective component, loans are segregated into loan pools based on loan purpose codes and similar risk characteristics.

The commercial real estate and residential mortgage loan portfolio segments include loans for both commercial and residential properties that are secured by real estate. The underwriting process for these loans includes analysis of the financial position and strength of both the borrower and, if applicable, guarantor, experience with similar projects in the past, market demand and prospects for successful completion of the proposed project within the established budget and schedule, values of underlying collateral, availability of permanent financing, maximum loan-to-value ratios, minimum equity requirements, acceptable amortization periods and minimum debt service coverage requirements, based on property type. The borrower's financial strength and capacity to repay their obligations remain the primary focus of underwriting. Financial strength is evaluated based upon analytical tools that consider historical and projected cash flows and performance in addition to analysis of the proposed project for income-producing properties. Additional support offered by guarantors is also considered when applicable. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

The commercial and industrial loan portfolio segment includes commercial loans made to many types of businesses for various purposes, such as short-term working capital loans that are usually secured by accounts receivable, inventory, or equipment. The Company's credit underwriting process for commercial and industrial loans includes analysis of historical and projected cash flows and performance, evaluation of financial strength of both borrowers and guarantors as reflected in current and detailed financial information and evaluation of underlying collateral to support the credit.

The consumer loan portfolio segment is comprised of loans which are underwritten after evaluating a borrower's capacity, credit and collateral. Several factors are considered when assessing a borrower's capacity, including the borrower's employment, income, current debt, assets and level of equity in the property. Credit is assessed using a credit report that provides credit scores and the borrower's current and past information about their credit history. Loan-to-value and debt-to-income ratios, loan amount and lien position are also considered in assessing whether to originate a loan.

The ACL for individual loans, such as non-accrual and PCD loans, that do not share risk characteristics with other loans are evaluated individually. Collateral-dependent loans are loans in which repayment of the loan is expected to be provided substantially through the sale of the collateral. The expected credit loss for collateral-dependent loans is measured as the

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

difference between the amortized cost basis of the loan and the fair value of the collateral, adjusted for the estimated cost to sell. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or the "as is" value of the collateral, normally from recently received and reviewed appraisals. Current appraisals are ordered on a regular basis based on the inspection date or more often if market conditions necessitate. If the calculated expected credit loss is determined to be permanent or not recoverable, the amount of the expected credit loss is charged off. For non-collateral-dependent loans, the expected credit loss is measured as the difference between the discounted value of expected future cash flows, based on the effective interest rate at origination, and the amortized cost basis of the loan, or the net realizable value. The ACL is the difference between the loan's net realizable value and its amortized cost basis (net of previous charge offs and deferred loan fees and costs).

The Company may also purchase loans or acquire loans through a business combination. At the purchase or acquisition date, loans are evaluated to determine whether there has been more than insignificant credit deterioration since origination. Loans that have experienced more than insignificant credit deterioration since origination are referred to as PCD loans. In its evaluation of whether a loan has experienced more than insignificant deterioration in credit quality since origination, the Company takes into consideration loan ratings, past due and nonaccrual status. At the purchase or acquisition date, the amortized cost basis of PCD loans is equal to the purchase price and an initial estimate of credit losses. The initial recognition of expected credit losses on PCD loans has no impact on net income. When the initial measurement of expected credit losses on PCD loans is calculated on a pooled loan basis, the expected credit losses are allocated to each loan within the pool. Any difference between the initial amortized cost basis and the unpaid principal balance of the loan represents a noncredit discount or premium, which is accreted (or amortized) into interest income over the life of the loan. Subsequent changes to the ACL on PCD loans are recorded through the credit loss expense. For purchased loans that are not deemed to have experienced more than insignificant credit deterioration since origination and are therefore not deemed PCD, any discounts or premiums included in the purchase price are accreted (or amortized) over the contractual life of the individual loan.

Loans are charged off against the ACL, with any subsequent recoveries credited back to the ACL.

The following table presents the activity in the allowance for credit losses on loans by loan class for the periods indicated:

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
Three Months Ended September 30, 2023									
Balance—beginning of period	$ 11,165	$ 4,536	$ 7,539	$ 1,778	$ 3,342	$ 1,076	$ 680	$ 335	$ 30,451
ACL on PCD acquired loans	231	110	6,428	31	-	67	33	1	6,901
Charge offs	(1,124)	-	-	-	(123)	-	-	-	(1,247)
Recoveries	111	13	-	-	-	1	-	-	125
Credit loss expense [(1)]	2,943	522	1,724	486	327	236	278	134	6,650
Balance—end of period	$ 13,326	$ 5,181	$ 15,691	$ 2,295	$ 3,546	$ 1,380	$ 991	$ 470	$ 42,880

(1) includes initial provision on non-PCD aquired loans of $5.5 million as discussed in Note 2 - Business Combination.

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
Nine Months Ended September 30, 2023									
Balance—beginning of period	$ 6,256	$ 5,466	$ 9,623	$ 1,447	$ 1,930	$ 444	$ 182	$ 126	$ 25,474
Adoption of ASC Topic 326	3,756	(1,367)	(1,992)	474	1,344	545	587	299	3,646
ACL on PCD acquired loans	231	110	6,428	31	-	67	33	1	6,901
Charge offs	(1,396)	(72)	-	-	(123)	-	-	(2)	(1,593)
Recoveries	153	108	-	-	-	3	-	-	264
Credit loss expense [(1)]	4,326	936	1,632	343	395	321	189	46	8,188
Balance—end of period	$ 13,326	$ 5,181	$ 15,691	$ 2,295	$ 3,546	$ 1,380	$ 991	$ 470	$ 42,880

(1) includes initial provision on non-PCD aquired loans of $5.5 million as discussed in Note 2 - Business Combination.

The loan credit loss expense in the three and nine months ended September 30, 2023 was primarily due to loans acquired with the acquisition of Malvern. The loan credit loss expense for the three months ended September 30, 2023 was impacted by $1.1 million in net charge offs during the quarter which were added back to the ACL. The loan credit loss expense for the nine months ended September 30, 2023 was impacted by net charge offs of $1.3 million.

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

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

		Commercial real estate				Residential real estate			
	Commercial	Owner-	Investor	Construction	Multi-family	Residential mortgage and first lien home	Home equity-second lien loans and	Consumer and	Total
					(in thousands)				
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 (reversal) 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			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
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 (reversal) 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

The following table summarize information regarding the allowance for credit losses as of the dates indicated:

	September 30, 2023							
	Loan Balances				Allowance for Credit Losses Balances			
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCD Non-accruing (1)	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	PCD (1)	Total
				(in thousands)				
Commercial and industrial	$ 2,207	$ 475,411	$ 502	$ 478,120	$ -	$ 13,326	$ -	$ 13,326
Commercial real estate:								
Owner-occupied	2,631	602,722	2,535	607,888	-	4,794	387	5,181
Investor	-	1,257,641	11,493	1,269,134	-	10,197	5,494	15,691
Construction and development	-	167,985	207	168,192	-	2,285	10	2,295
Multi-family	228	275,597		275,825	-	3,546	-	3,546
Residential real estate:								
Residential mortgage and first lien home equity loans	1,729	154,329	2,429	158,487	-	1,301	79	1,380
Home equity—second lien loans and revolving lines of credit	189	46,050		46,239	-	991	-	991
Consumer and other	7	20,201		20,208	-	470	-	470
Total	$ 6,991	$ 2,999,936	$ 17,166	$ 3,024,093	$ -	$ 36,910	$ 5,970	$ 42,880

(1) PCD loans are evaluated on an individual basis.

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following table is disclosed related to the allowance for loan losses in the prior period.

	December 31, 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	$ 1,044	$ 353,159	$ -	$ 354,203	$ 413	$ 5,843	$ -	$ 6,256
Commercial real estate:								
Owner-occupied	3,806	528,790	830	533,426	-	5,466	-	5,466
Investor	988	950,127	-	951,115	-	9,623	-	9,623
Construction and development	-	142,576	300	142,876	-	1,447	-	1,447
Multi-family	402	215,588	-	215,990	-	1,930	-	1,930
Residential real estate:								
Residential mortgage and first lien home equity loans	311	91,673	1,863	93,847	-	444	-	444
Home equity—second lien loans and revolving lines of credit	146	33,405	-	33,551	-	182	-	182
Consumer and other	10	16,308	-	16,318	-	126	-	126
Total	$ 6,707	$ 2,331,626	$ 2,993	$ 2,341,326	$ 413	$ 25,061	$ -	$ 25,474

(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.

A loan is individually evaluated for impairment 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.

The Company also records an ACL for unfunded loan commitments that is recorded in other liabilities in the Consolidated Statements of Financial Condition. The ACL on unfunded loan commitments is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience and credit risk. The credit risk is evaluated similarly to the analysis for the ACL on loans. Net adjustments to the reserve for unfunded loan commitments are recorded to credit loss expense. The ACL on unfunded loan commitments totaled $300,000 at December 31, 2022. Upon adoption of ASC Topic 326 on January 1, 2023, the ACL on unfunded loan commitments increased to $354,000. The ACL on unfunded loan commitments totaled $483,000 at September 30, 2023.

The Company adopted Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. There were no loan modifications to borrowers experiencing financial difficulty in the three months ended September 30, 2023. For the nine months ended September 30, 2023, one commercial and industrial loan with a balance of $22,000 at September 30, 2023 was modified, whereby the borrower was experiencing financial difficulty at the time of modification. The modification was a principal reduction and resulted in a charge off in the amount of $272,000. There was one additional commercial and industrial loan that was modified in the preceding twelve months, whereby the borrower was experiencing financial difficulty at the time of modification and that loan was partially charged off in the amount of $756,000 in 2022 and the remaining balance was paid off during 2022.

Under the previous methodology, if a borrower was experiencing financial difficulties and a concession was made by way of a modification of terms the Company would not otherwise consider, the modified loan would be classified as a TDR. At December 31, 2022 the Company had seven TDRs on nonaccrual status totaling $1.9 million. This balance included two commercial and industrial loans totaling $497,000, three commercial real estate owner occupied loans totaling $1.2 million, one residential mortgage loan totaling $212,000 and one home equity loan totaling $1,000. At December 31, 2022, the Company had one commercial real estate owner-occupied TDR in the amount $458,000 which was performing according to the terms of their modification.

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

There were no new TDRs executed during the three months ended September 30, 2022. 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.

Note 8 – Borrowings

The balance in borrowings at September 30, 2023 and December 31, 2022 consisted of FHLB advances and other secured borrowings. All of the Company's outstanding FHLB advances are fixed rate with original maturity periods ranging from one month to five years. All of the FHLB advances are interest only with a balloon payment due at maturity. FHLB advances and other secured borrowings totaled $117.4 million and $15.7 million, respectively, at September 30, 2023. FHLB advances and other secured borrowings totaled $85.8 million and $5.1 million, respectively, at December 31, 2022. FHLB advances had a weighted average interest rate of 4.56% and 3.40% at September 30, 2023 and December 31, 2022, respectively.

As part of the Malvern acquisition, the Company assumed $130.0 million in FHLB advances and $25.5 million of subordinated notes. During the three months ended September 30, 2023, the Company paid off a significant portion of the FHLB advances. The subordinated notes will mature on February 15, 2027.

As a member of the FHLB, the Company is eligible to borrow funds up to 50% of total assets from the FHLB subject to its stock and collateral requirements. Based on available qualified collateral as of September 30, 2023, the Company had the ability to borrow an additional $292.1 million from the FHLB. The Company's borrowing facility at September 30, 2023 included $907,000 in pledged securities, $12.3 million in eligible to be pledged securities and $489.4 million in commercial real estate loan collateral. At December 31, 2022, the Company had $1.3 million in pledged securities, $83.0 million in eligible to be pledged securities and $193.6 million in commercial real estate loan collateral. The Company also has access to the Federal Reserve's Bank Term Funding Program which is available until at least March 11, 2024 and under this program the Company's available borrowing capacity was $84.9 million as of September 30, 2023 based on the par value of investment securities pledged as collateral.

The following table presents the contractual maturities of the Company's FHLB advances at September 30, 2023:

	September 30, 2023 (in thousands)
October 1, 2023 - September 30, 2024	$ 87,434
October 1, 2024 - September 30, 2025	-
October 1, 2025 - September 30, 2026	30,000
Total	$ 117,434

Note 9 – Stockholders' Equity

During the nine months ended September 30, 2023, the Company purchased 550,000 shares of its common stock for an aggregate purchase price of $5.5 million. During the nine months ended September 30, 2022, the Company purchased 245,942 shares of its common stock for an aggregate purchase price of $3.4 million. On July 17, 2023, the Company issued 5.9 million shares of its common stock in connection with its acquisition of Malvern.

Note 10 – Goodwill and Other Intangible Assets

The Company's intangible assets consist 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.

Note 10 – Goodwill and Other Intangible Assets (continued)

The Company performed a qualitative assessment of goodwill as of August 31, 2023 which is the Company's established annual assessment date and determined that none of the Company's goodwill was impaired as of August 31, 2023. As of September 30, 2023 no triggering events were identified and therefore, the Company did not perform an interim impairment evaluation.

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, 2023 or December 31, 2022.

Amortization expense of the core deposit intangibles was $373,000 and $71,000 for the three months ended September 30, 2023 and 2022, respectively and $501,000 and $224,000 for the nine months ended September 30, 2023 and 2022, respectively which 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, 2023 were $10.9 million and $44.2 million, respectively. The unamortized balance of the core deposit intangibles and the amount of goodwill at December 31, 2022 were $1.1 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 $33,000 and $133,000 for the three and nine months ended September 30, 2023 and $99,000 and $213,000 for the three and nine months ended months ended September 30, 2022. The unamortized LSRs totaled $487,000 at September 30, 2023 and $486,000 at December 31, 2022.

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, 2023 and December 31, 2022, the Company had net deferred tax assets of $23.9 million and $13.2 million, respectively. The significant increase is primarily related to the Malvern acquisition. 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 the 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, 2023 or December 31, 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 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

Note 11 – Income Taxes (continued)

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 recorded a tax benefit for the three months ended September 30, 2023 reflecting an effective tax rate of 5.78% compared to an effective tax rate of 24.70% for the same period of 2022. The Company's effective tax rate for the nine months ended September 30, 2023 was 25.50% compared to 24.21% for the same period in 2022.

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 months ended September 30, 2023 and 2022.

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, 2023 and December 31, 2022, commitments to extend credit totaled $483.4 million and $396.4 million, respectively. At September 30, 2023 and December 31, 2022, the Company had outstanding standby letters of credit of $14.9 million and $5.8 million, respectively.

The Company had recorded allowance for credit losses on unfunded commitments of $483,000 and $300,000 at September 30, 2023 and December 31, 2022 respectively.

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.

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.

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

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, 2023 and December 31, 2022 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.

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, 2023			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale:		(in thousands)		
U.S. Government-sponsored agency securities	$ 21,979	$ -	$ 21,979	$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	38,892	-	38,892	-
Issued by GNMA	11,767	-	11,767	-
U.S. Treasury securities	3,892	3,892	-	-
SBA pools	1,677		1,677	
Asset-backed securities	742	-	742	-
Corporate obligations	8,779	-	8,779	-
Total securities available for sale	$ 87,728	$ 3,892	$ 83,836	$ -
Derivative assets	20,762	-	20,762	-
Total	$ 108,490	$ 3,892	$ 104,598	$ -
Derivative liabilities	$ 20,762	$ -	$ 20,762	$ -

	December 31, 2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale:		(in thousands)		
U.S. Government-sponsored agency securities	$ 30,268	$ -	$ 30,268	$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	36,616	-	36,616	-
Issued by GNMA	11,706	-	11,706	-
U.S. Treasury securities	3,867	3,867	-	-
SBA pools	2,000		2,000	
Asset-backed securities	917	-	917	-
Corporate obligations	13,582	-	13,582	-
Total securities available for sale	$ 98,956	$ 3,867	$ 95,089	$ -
Derivative assets	13,505	-	13,505	-
Total	$ 112,461	$ 3,867	$ 108,594	$ -
Derivative liabilities	$ 13,505	$ -	$ 13,505	$ -

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

Fair Value on a Nonrecurring Basis

Individually evaluated loans, net of ACL

Individual evaluated loans, net of ACL 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. Individually evaluated loans, net of ACL, are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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, 2023			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Individually evaluated loans, net of ACL	$ 1,002	$ -	$ -	$ 1,002
Total	$ 1,002	$ -	$ -	$ 1,002

	December 31, 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)			
Impaired loans	$ 1,202	$ -	$ -	$ 1,202
Total	$ 1,202	$ -	$ -	$ 1,202

The information in the preceding tables does not include PCD 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, 2023				
	Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)
	(dollars in thousands)				
Individually evaluated loans, net of ACL	$ 1,002	Fair value of collateral (1)	Appraised Value (2)	8%	8%

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

	Quantitative Information about Level 3 Fair Value Measurements December 31, 2022				
	Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)
	(dollars in thousands)				
Impaired loans	$ 1,202	Fair value of collateral (1)	Appraised Value (2)	8% - 13%	9%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are unobservable.
(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 PCD loans.

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, 2023				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	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	$ 180,210	$ 180,210	$ 180,210	$ -	$ -
Interest bearing time deposits with banks	498	476	-	476	-
Investment securities available for sale	87,728	87,728	3,892	83,836	-
Investment securities held to maturity	45,198	38,548	-	38,548	-
Restricted investment in bank stocks	8,106	8,106	-	8,106	-
Other investments	10,346	10,346	-	10,346	-
Net loans	2,977,898	2,789,302	-	-	2,789,302
Accrued interest receivable	14,778	14,778	-	14,778	-
Derivative assets	20,762	20,762	-	20,762	-
Loan servicing rights	487	497	-	-	497
Financial Liabilities:					
Non-maturity deposits	2,345,873	2,345,873	2,345,873	-	-
Time deposits	621,582	607,627	-	607,627	-
Borrowings	133,142	132,115	-	132,115	-
Subordinated debentures	55,263	52,915	-	52,915	-
Accrued interest payable	3,223	3,223	-	3,223	-
Derivative liabilities	20,762	20,762	-	20,762	-

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

	December 31, 2022				
			Fair Value Measurements Using:		
	Carrying Amount	Estimated Fair Value	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	$ 125,916	$ 125,916	$ 125,916	$ -	$ -
Interest bearing time deposits with banks	1,293	1,253	-	1,253	-
Investment securities available for sale	98,956	98,956	3,867	95,089	-
Investment securities held to maturity	47,193	42,465	-	42,465	-
Restricted investment in bank stocks	6,214	6,214	-	6,214	-
Other investments	8,372	8,372	-	8,372	-
Net loans	2,312,340	2,242,552	-	-	2,242,552
Accrued interest receivable	8,164	8,164	-	8,164	-
Derivative assets	13,505	13,505	-	13,505	-
Loan servicing rights	486	494	-	-	494
Financial Liabilities:					
Non-maturity deposits	1,762,111	1,762,111	1,762,111	-	-
Time deposits	531,841	516,470	-	516,470	-
Borrowings	90,932	84,806	-	84,806	-
Subordinated debentures	29,731	28,320	-	28,320	-
Accrued interest payable	1,218	1,218	-	1,218	-
Derivative liabilities	13,505	13,505	-	13,505	-

Note 14 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks 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.

Note 14 – Derivatives and Hedging Activities (continued)

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.

Fair Values of Derivative Instruments as of September 30, 2023

	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	$ 155,208	Other Assets	$ 20,762	$ 155,208	Other Liabilities	$ 20,762
Total derivatives not designated as hedging instruments [(1)]			$ 20,762			$ 20,762
Cash collateral [(2)]			20,210			-
Net Derivative Amounts			$ 552			$ 20,762

Fair Values of Derivative Instruments as of December 31, 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	$ 103,199	Other Assets	$ 13,505	$ 103,199	Other Liabilities	$ 13,505
Total derivatives not designated as hedging instruments [(1)]			$ 13,505			$ 13,505
Cash collateral [(2)]			13,330			-
Net Derivative Amounts			$ 175			$ 13,505

(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) 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, 2023 and December 31, 2022, 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 $20.8 million and $13.5 million, respectively. As of September 30, 2023, the Company received $20.2 million in cash collateral related to these agreements. The Company did not post any cash collateral as of September 30, 2023. As of December 31, 2022, the Company received $13.3 million in cash collateral related to these agreements. The Company did not post any cash collateral as of December 31, 2022 related to these agreements. If the Company had breached any of these provisions at September 30, 2023, it could have been required to settle its obligations under the agreements at their termination value of $20.8 million.

Note 15 – Leases

As of September 30, 2023, the Company leased seventeen locations under non-cancellable operating leases, which expire at various dates through the year ending January 31, 2031 including four locations acquired in the Malvern acquisition**.** 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. The Company currently does not have any finance leases.

At September 30, 2023, the Company's operating lease right-of-use assets and operating lease liabilities totaled $8.7 million and $9.1 million, respectively, and are carried in the Consolidated Statements of Financial Condition in other assets and other liabilities, respectively. As of December 31, 2022 the Company's operating lease right-of-use assets and operating lease liabilities totaled $7.0 million and $7.3 million, respectively.

Note 15 – Leases (continued)

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

At September 30, 2023:	
Weighted average remaining lease term	5.05 years
Weighted average discount rate	3.61%

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

September 30, 2024	$ 623
September 30, 2025	2,140
September 30, 2026	1,890
September 30, 2027	1,731
September 30, 2028	1,611
Thereafter	2,018
Total Lease Payments	$ 10,013
Less: Imputed interest	$ (895)
Total lease liabilities	$ 9,118

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Operating lease cost (cost resulting from lease payments) (in thousands)	$ 618	$ 487	$ 1,704	$ 1,395

Total lease rental expense was $2.1 million and $1.7 million for the nine months ended September 30, 2023 and 2022, respectively. Total lease rental expense was $725,000 and $585,000 for the three months ended September 30, 2023 and 2022, respectively. Total rental expense includes certain common area maintenance charges.

Note 16 – Subsequent Events

Management has evaluated subsequent events through the date of issuance of the Consolidated Financial Statements and does not believe any other events warrant recording or disclosure in these Consolidated Financial Statements.

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, 2023 and the results of operations for the three and nine months ended September 30, 2023 and 2022 ("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, 2022, as filed with the FDIC, and the other information therein. The Consolidated Statement of Financial Condition as of September 30, 2023, 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, 2023 and 2022, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 are unaudited. The Consolidated Statement of Financial Condition as of December 31, 2022 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, integrate acquired businesses (including Malvern) and recognize anticipated operations efficiencies, 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 declines in housing market values; the effects of the recent turmoil in the banking industry (including the failures of several financial institutions in early 2023); the negative impact of diseases and pandemics, including COVID-19, on First Bank, its operations, customers, employees, credit quality, financial position, and liquidity; 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, 2022 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 $3.56 billion, total loans of $3.02 billion, total deposits of $2.97 billion and total stockholders' equity of $361.0 million at September 30, 2023. 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, 2023, we operated twenty six full-service branches in Cinnaminson, Delanco, Denville, Ewing, Fairfield, Flemington (2), Hamilton, Lawrence, Monroe, Pennington, Randolph, Somerset, Williamstown, and Morristown, New Jersey, Doylestown, Trevose, Warminster, West Chester, Paoli, Malvern, Coventry, Devon, Lionville, Glen Mills, Pennsylvania, and Palm Beach, Florida. 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.

On July 17, 2023, pursuant to the Agreement and Plan of Merger dated December 13, 2022, as amended (the "Merger Agreement"), Malvern Bancorp, Inc. ("Malvern") merged with and into FB Merger Subsidiary LLC, the wholly-owned subsidiary of First Bank ("Merger Sub"), with Merger Sub as the surviving entity, immediately followed by the merger of Malvern Bank, National Association ("Malvern Bank") with and into First Bank, with First Bank as the surviving institution (collectively, the "Merger"). Immediately following the acquisition, the assets of Merger Sub were incorporated into the Bank.

Subject to the terms of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of Malvern common stock was converted into the right to receive $7.80 in cash and 0.7733 shares of First Bank common stock, with cash paid in lieu of fractional shares pursuant to the Merger Agreement. At the Effective Time, each outstanding Malvern restricted stock award was converted into the right to receive the Merger consideration, and each Malvern stock option was converted into the right to receive a cash payment equal to (a) the excess, if any, of (i) the 0.7733 exchange ratio multiplied by the average closing price of First Bank common stock for the 20 trading days ending on the tenth day prior to the closing date of the Merger, plus $7.80 in cash, over (ii) the exercise price of the Malvern stock option, minus (b) all applicable taxes required to be withheld. Any Malvern stock option with a per share exercise price that equaled or exceeded the stock option consideration was canceled, with no consideration being paid. To effect the Merger, First Bank issued approximately 5.9 million shares of its common stock and $59.3 million in cash to Malvern shareholders, in the aggregate.

After acquisition accounting adjustments, at the time of the acquisition, First Bank added $953.8 million in assets, $92.0 million in investments, $727.7 million in loans, $671.9 million in deposits, $130.0 million in Federal Home Loan Bank advances, and $25.5 million in subordinated debt, and the acquisition resulted in $26.3 million in goodwill.

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 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 Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("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 credit losses on loans and securities, the evaluation of goodwill for impairment and the determination of income taxes are critical accounting estimates.

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

Allowance for Credit Losses ("ACL"). We adopted the Current Expected Credit Loss ("CECL") model on January 1, 2023. The CECL model applies 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 requires 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. The largest component of the Company's ACL is on loans.

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit quality within the loan portfolio is continuously monitored by management and is reflected within the ACL on loans. The ACL on loans is adjusted through a credit loss expense or benefit and reduced by loan charge offs, net of recoveries. The adequacy of our ACL is evaluated regularly and at least quarterly. The loan loss estimation process involves procedures to appropriately consider the unique characteristics of our loan portfolio segments. When computing ACL levels, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Our CECL model is based on a vintage approach which estimates future losses over the expected life of the loan based on historical loan charge offs, net of recoveries and adjusted for qualitative factors. We evaluate our key assumptions and projections, such as the expected life of each loan segment and our economic projections, on at least a quarterly basis. Evaluations of the portfolio and individual credits are inherently subjective, as they require estimates, assumptions and judgments as to the facts and circumstances of particular situations. Determining the appropriateness of the ACL is complex and requires judgement by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the ACL and credit loss expense. Furthermore, the majority of our loans are secured by real estate in New Jersey and 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 ACL may be necessary due to economic, operating, regulatory and other conditions beyond our control. We believe that our ACL is adequate to cover probable losses which are specifically identifiable, as well as losses inherent in our portfolio which are probable but not specifically identifiable.

The ACL for individual loans, such as non-accrual and purchase credit deteriorated loans, that do not share risk characteristics with other loans are evaluated individually. Collateral-dependent loans are loans in which repayment of the loan is expected to be provided substantially through the sale of the collateral. The expected credit loss for collateral-dependent loans is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral, adjusted for the estimated cost to sell.

We are required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires us to reduce the security's amortized cost basis down to its fair value through earnings. We also evaluate the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition.

We segment our held to maturity ("HTM") portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company's historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government. This assumption will be reviewed and attested to quarterly.

Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document provides additional details on the methodology used to determine the ACL.

Business Combinations. Assets acquired and liabilities assumed in business combinations are measured at fair value as of the acquisition date. In many cases, determining the fair value of the assets acquired and liabilities assumed requires the Company to estimate the timing and amount of cash flows expected to result from these assets and liabilities and to discount these cash flows at appropriate rates of interest, which require the utilization of significant estimates and judgment in accounting for the acquisition.

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, 2023 which is our established annual assessment date and determined that none of our goodwill was impaired as of August 31, 2023. As of September 30, 2023 and December 31, 2022, 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 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 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, 2023 or December 31, 2022.

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, 2023, we had net deferred tax assets of $23.9 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, 2023. 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 loss for the three months ended September 30, 2023 was $1.3 million compared to $10.2 million of net income for the same period in 2022. Diluted loss per share was $0.05 for the three months period ended September 30, 2023 compared to diluted earnings per share of $0.52 for the same period in 2022. The decrease in net income was primarily due to an increase in non-interest expenses and an increase in credit loss expenses, primarily due to the Malvern acquisition, which was partially offset by an increase in net interest income and a decrease in income tax expense. The decrease in diluted earnings per share for the comparable periods was due to lower net income coupled with an increase in diluted weighted average shares.

Net income for the nine months ended September 30, 2023 and 2022 was $12.5 million and $27.2 million, respectively, or $0.59 and $1.38 per diluted share, respectively. The decrease in net income and diluted earnings per share was $14.7 million and $0.79, or 54.0% and 57.2%, respectively, for the comparative periods. The decrease in net income for the nine-month comparative period was also primarily due to an increase in non-interest expenses and an increase in credit loss expense, primarily due to the

Malvern acquisition, which was partially offset by an increase in net interest income and a decrease in income tax expense. The decrease in the diluted earnings per share for the nine-month comparative period was primarily due to comparatively lower net income coupled with an increase in diluted weighted average shares.

The annualized return on average assets ("ROAA") and average equity ("ROAE") for the three months ended September 30, 2023 were negative 0.14% and negative 1.43%, respectively, compared with 1.57% and 14.46%, respectively, for the same period in the prior year. Annualized ROAA and ROAE for the nine months ended September 30, 2023 were 0.55% and 5.33%, respectively, compared with 1.42% and 13.23% for the same period in the prior year.

Excluding merger-related expenses and other one-time expenses, adjusted net income for the third quarter of 2023 was $10.1 million, compared to $10.2 million for the same period in 2022. Third quarter 2023 adjusted diluted earnings per share was $0.42, adjusted ROAA was 1.13%, and adjusted ROAE was 11.38%. Third quarter 2022 adjusted diluted earnings per share was $0.52, adjusted ROAA was 1.57% and adjusted ROAE was 14.46%. Adjusted net income for the nine months ended September 30, 2023 was $24.6 million, or $1.17 adjusted diluted earnings per share, compared to $27.2 million in adjusted net income, or $1.38 adjusted diluted earnings per share, for the same nine month period in 2022. Adjusted ROAA for the nine months ended September 30, 2023 was 1.08% and adjusted ROAE was 10.49%, compared with 1.42% and 13.23%, respectively, for the same period in the prior year.

The following tables provide the calculation and reconciliation of these non-GAAP financial measures. These measures should not be directly compared to similarly titled measures reported by other companies, as we cannot guarantee they calculate similar measures in the same way. We believe these measures are useful to management and investors in monitoring our results of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands, except for share data)			
Net income	$ (1,271)	$ 10,206	$ 12,517	$ 27,187
Add: Merger-related expenses(1)	5,552	-	6,091	-
Add: Credit loss expense on acquired loan portfolio(1)	4,323	-	4,323	-
Add: Losses on sale of acquired loans, net(1)	609	-	609	-
Add: Losses on sale of investment securities, net(1)	416	-	580	-
Add: Impact of tax rate change	506	-	506	-
Adjusted net income	$ 10,135	$ 10,206	$ 24,626	$ 27,187
Diluted weighted average common shares outstanding	24,029,910	19,668,133	21,057,655	19,742,399
Average assets	$ 3,565,350	$ 2,575,742	$ 3,048,270	$ 2,555,848
Average equity	$ 353,372	$ 280,093	$ 313,926	$ 274,726
Adjusted diluted earnings per share	$ 0.42	$ 0.52	$ 1.17	$ 1.38
Adjusted return on average assets (2)	1.13%	1.57%	1.08%	1.42%
Adjusted return on average equity (2)	11.38%	14.46%	10.49%	13.23%

(1) Items are tax-effected using a federal income tax rate of 21%.
(2) Annualized.

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. The average interest yields and costs include fees, costs, premiums and discounts, which are considered adjustments to interest rates.

	Three Months Ended September 30,					
	2023			2022		
	Average Balance	Interest	Average Rate (5)	Average Balance	Interest	Average Rate (5)
	(dollars in thousands)					
Interest earning assets						
Investment securities (1) (2)	$ 169,244	$ 1,255	2.94%	$ 145,783	$ 835	2.27%
Loans (3)	3,003,703	46,088	6.09%	2,224,829	26,673	4.76%
Interest bearing deposits with banks, Federal funds sold and other	182,128	2,395	5.22%	74,493	406	2.16%
Restricted investment in bank stocks	10,284	196	7.56%	5,248	72	5.44%
Other investments	9,162	2	0.09%	8,223	20	0.96%
Total interest earning assets (2)	3,374,521	49,936	5.87%	2,458,576	28,006	4.52%
Allowance for loan losses	(41,216)			(25,283)		
Non-interest earning assets	232,045			142,449		
Total assets	$ 3,565,350			$ 2,575,742		
Interest bearing liabilities						
Interest bearing demand deposits	$ 674,417	$ 4,038	2.38%	338,639	$ 397	0.47%
Money market deposits	952,042	8,386	3.49%	713,594	1,458	0.81%
Savings deposits	174,412	490	1.11%	182,771	228	0.49%
Time deposits	655,288	5,556	3.36%	350,859	654	0.74%
Total interest bearing deposits	2,456,159	18,470	2.98%	1,585,863	2,737	0.68%
Borrowings	163,746	1,914	4.64%	64,330	258	1.59%
Subordinated debentures	51,101	940	7.36%	29,685	440	5.93%
Total interest bearing liabilities	2,671,006	21,324	3.17%	1,679,878	3,435	0.81%
Non-interest bearing deposits	507,866			590,421		
Other liabilities	33,106			25,350		
Stockholders' equity	353,372			280,093		
Total liabilities and stockholders' equity	$ 3,565,350			$ 2,575,742		
Net interest income/interest rate spread (2)		28,612	2.70%		24,571	3.71%
Net interest margin (2) (4)			3.36%			3.97%
Tax equivalent adjustment (2)		(18)			(8)	
Net interest income		$ 28,594			$ 24,563	

(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,					
	2023			2022		
	Average Balance	Interest	Average Rate (5)	Average Balance	Interest	Average Rate (5)
	(dollars in thousands)					
Interest earning assets						
Investment securities (1) (2)	$ 155,128	$ 3,319	2.86%	$ 140,452	$ 2,185	2.08%
Loans (3)	2,590,409	111,536	5.76%	2,179,357	72,697	4.46%
Interest bearing deposits with banks, Federal funds sold and other	143,922	5,403	5.02%	101,101	627	0.83%
Restricted investment in bank stocks	9,327	454	6.51%	5,428	200	4.93%
Other investments	8,902	172	2.58%	8,129	61	1.00%
Total interest earning assets (2)	2,907,688	120,884	5.56%	2,434,467	75,770	4.16%
Allowance for loan losses	(33,664)			(24,608)		
Non-interest earning assets	174,246			145,989		
Total assets	$ 3,048,270			$ 2,555,848		
Interest bearing liabilities						
Interest bearing demand deposits	$ 445,318	$ 6,492	1.95%	$ 322,353	$ 595	0.25%
Money market deposits	840,688	20,177	3.21%	719,028	2,548	0.47%
Savings deposits	155,370	1,202	1.03%	184,767	572	0.41%
Time deposits	586,827	12,703	2.89%	340,822	1,293	0.51%
Total interest bearing deposits	2,028,203	40,574	2.67%	1,566,970	5,008	0.43%
Borrowings	149,042	4,939	4.43%	69,571	796	1.53%
Subordinated debentures	36,949	1,821	6.57%	29,659	1,321	5.94%
Total interest bearing liabilities	2,214,194	47,334	2.86%	1,666,200	7,125	0.57%
Non-interest bearing deposits	490,211			593,638		
Other liabilities	29,939			21,284		
Stockholders' equity	313,926			274,726		
Total liabilities and stockholders' equity	$ 3,048,270			$ 2,555,848		
Net interest income/interest rate spread (2)		73,550	2.70%		68,645	3.59%
Net interest margin (2) (4)			3.38%			3.77%
Tax equivalent adjustment (2)		(33)			(23)	
Net interest income		$ 73,517			$ 68,622	

(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.

	Three Months Ended Sepember 30, 2023 versus 2022 Increase (Decrease) Due to Change in (1)		
	Average Volume	Average Rate	Net Change
		(in thousands)	
Interest income			
Investment securities (2)	$ 148	$ 272	$ 420
Loans	10,790	8,625	19,415
Interest bearing deposits with banks, Federal funds sold and other	1,006	983	1,989
Restricted investment in bank stocks	88	36	124
Other investments	2	(20)	(18)
Total interest income (2)	12,034	9,896	21,930
Interest expense			
Interest bearing demand deposits	708	2,933	3,641
Money market deposits	635	6,293	6,928
Savings deposits	(11)	273	262
Time deposits	963	3,939	4,902
Total interest bearing deposits	2,295	13,438	15,733
Borrowings	740	916	1,656
Subordinated debentures	375	125	500
Total interest expense	3,410	14,479	17,889
Net interest income (2)	$ 8,624	$ (4,583)	$ 4,041

(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, 2023 versus 2022 Increase (Decrease) Due to Change in (1)		
	Average Volume	Average Rate	Net Change
		(in thousands)	
Interest income			
Investment securities (2)	$ 247	$ 887	$ 1,134
Loans	15,280	23,559	38,839
Interest bearing deposits with banks, Federal funds sold and other	369	4,407	4,776
Restricted investment in bank stocks	176	78	254
Other investments	6	105	111
Total interest income (2)	16,078	29,036	45,114
Interest expense			
Interest bearing demand deposits	309	5,588	5,897
Money market deposits	502	17,127	17,629
Savings deposits	(104)	734	630
Time deposits	1,517	9,893	11,410
Total interest bearing deposits	2,224	33,342	35,566
Borrowings	1,557	2,586	4,143
Subordinated debentures	349	151	500
Total interest expense	4,130	36,079	40,209
Net interest income (2)	$ 11,948	$ (7,043)	$ 4,905

(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 3.36% for the three months ended September 30, 2023, compared to 3.97% for the same period in 2022. The net interest margin is calculated by dividing net interest income by average interest earning assets. The decrease in the margin compared to the prior year quarter was due to a 236 basis point increase in our cost of interest bearing liabilities partially offset by a 135 basis point increase in our average rate on interest earning assets during a period of significantly higher interest rates. For the nine months ended September 30, 2023, our net interest margin on a tax equivalent basis was 3.38%, compared to 3.77% for the same period in 2022. The decrease in the margin compared to the prior year period was a result of a higher cost on interest bearing liabilities of 229 basis points partially offset by a 140 basis point increase in our average rate on interest earning assets during a period of significantly higher interest rates. The inverted treasury yield curve, deposit pricing pressures and our focus on maintaining excess on-balance sheet liquidity all had a negative impact on the margin during the three and nine months ended September 30, 2023.

Our net interest margin is also impacted by the level of prepayment penalty fees on paid off loans, business combination accounting accretion from our acquisitions and the continued impact of Paycheck Protection Program (PPP) fees. Total PPP fees during the first nine months of 2023 were $61,000 compared to $1.6 million for the first nine months of 2022. Total PPP fees during the three months ended September 30, 2023 were $12,000 compared to $200,000 for the first the three months ended September 30, 2022. Loan prepayment penalty fees totaled $199,000 and $651,000, respectively, for the three and nine months ended September 30, 2023. Loan prepayment penalty fees totaled $503,000 and $1.6 million respectively, for the three and nine months ended September 30, 2022. Business combination accounting accretion totaled $2.7 million for both the three and nine months ended September 30, 2023, compared to $47,000 and $219,000 for the comparable 2022 periods.

Net interest income on a tax equivalent basis increased $4.0 million, or 16.4%, to $28.6 million for the three months ended September 30, 2023, compared to $24.6 million for the same period in 2022. The increase in net interest income for the three months ended September 30, 2023 compared to the same period of 2022 was due to an increase of $21.9 million in interest income as compared to a $17.9 million increase in interest expense for the comparative period. Interest income on loans increased $19.4 million, or 72.8%, to $46.1 million for the three months ended September 30, 2023, compared to $26.7 million for the same period of 2022. Interest income on deposits with banks and federal funds sold and all other interest earning assets increased $2.1 million, or 420.7%, to $2.6 million for the three months ended September 30, 2023, compared to $498,000 for the same period of 2022. Tax equivalent interest income on investment securities increased $410,000, or 49.6%, to $1.2 million for the three months ended September 30, 2023, compared to $827,000 for the same period in 2022. Interest expense on deposits increased by $15.7 million, or 574.8%, to $18.5 million for the three months ended on September 30, 2023, compared to $2.7 million for the same period of 2022. Interest expense on borrowings increased by $1.7 million, or 641.9%, to $1.9 million for the three months ended on September 30, 2023, compared to $258,000 for the same period of 2022.

The increase in loan interest income for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was primarily due to the increase in average loans of $778.9 million coupled with an increase of 1.33% in the average rate on loans. The increase in interest expense on deposits for the three months ended September 30, 2023 compared to the same prior year period was due to an increase in average interest bearing deposits of $870.3 million and the 230 basis point increase in the average rate on interest bearing deposits.

Net interest income on a tax equivalent basis increased $4.9 million, or 7.1%, to $73.5 million for the nine months ended September 30, 2023, compared to $68.6 million for the same period in 2022. The increase in net interest income for the nine months ended September 30, 2023 compared to the same period of 2022 was due to an increase of $45.1 million in interest income as compared to a $40.2 million increase in interest expense for the comparative period in 2022. Interest income on loans increased $38.8 million, or 53.4%, to $111.5 million for the nine months ended September 30, 2023, compared to $72.7 million for the same period of 2022. Interest income on deposits with banks and federal funds sold and interest earning assets increased $5.1 million, or 578.9% to $6.0 million for the nine months ended September 30, 2023, compared to $888,000 for the same period of 2022. Interest income on investment securities increased $1.1 million, or 52.0%, to $3.3 million for the nine months ended September 30, 2023, compared to $2.2 million for the same period in 2022. Interest expense on deposits increased by $35.6 million, or 710.2%, to $40.6 million for the nine months ended on September 30, 2023, compared to $5.0 million for the same period of 2022. Interest expense on borrowings increased by $4.1 million, or 520.5%, to $4.9 million for the nine months ended on September 30, 2023, compared to $796,000 for the same period of 2022.

The increase in loan interest income for the nine months ended September 30, 2023 compared to the same prior year period was due to the increase in average loans of $411.1 million coupled with an increase of 1.30% in the average rate on loans. The increase in interest expense on interest-bearing liabilities for the nine months ended September 30, 2023 compared to nine months ended September 30, 2022 was due to an increase in average interest bearing liabilities of $548.0 million and the 229 basis point increase in the average rate on interest bearing liabilities.

Average investment securities were $169.2 million for the three months ended September 30, 2023 compared to $145.6 million for the same period in 2022. The average tax equivalent yield on investment securities for the three months ended September 30, 2023 increased 67 basis points to 2.94% compared to 2.27% for the same period in 2022. Our investment securities yield is affected by the U.S. Treasury yield curve and the types and durations of securities purchased. Higher average securities outstanding coupled with higher investment yield resulted in interest income on investment securities on a tax equivalent basis increasing $420,000, or 50.3%, for the three months ended September 30, 2023 compared to the same period in 2022.

Average investment securities were $155.1 million for the nine months ended September 30, 2023 compared to $140.5 million for the same period in 2022. The average tax equivalent yield on investment securities for the nine months ended September 30, 2023 increased 78 basis points to 2.86% compared to 2.08% for the same period in 2022. Our investment securities yield is affected by the U.S. Treasury yield curve and the types and durations of securities purchased. Higher average securities outstanding coupled with higher investment yield resulted in interest income on investment securities on a tax equivalent basis increasing $1.1 million, or 51.9%, for the nine months ended September 30, 2023 compared to the same period in 2022.

Average deposits with banks and federal funds were $182.1 million for the three months ended September 30, 2023 compared to $74.5 million for the same period in 2022. The average yield on deposits with banks and federal funds for the three months ended September 30, 2023 increased 306 basis points to 5.22% compared to 2.16% for the same period in 2022. Increased federal funds rate coupled with a significantly higher deposits with banks and federal funds balance resulted in interest income increasing $2.0 million, or 489.9% for the three months ended September 30, 2023 compared to the same period in 2022.

Average deposits with banks and federal funds were $143.9 million for the nine months ended September 30, 2023 compared to $101.1 million for the same period in 2022. The average yield on deposits with banks and federal funds for the nine months ended September 30, 2023 increased 419 basis points to 5.02% compared to 0.83% for the same period in 2022. Increased federal funds rate coupled with an increase in deposits with banks and federal funds balances resulted in interest income increasing $4.8 million, or 761.7% for the nine months ended September 30, 2023 compared to the same period in 2022.

Average interest bearing liabilities increased $991.1 million, or 59.0%, to $2.67 billion for the three months ended September 30, 2023, compared to $1.68 billion for the same period in 2022. The increase was due to average balance increases in all categories of deposits and an increase in average borrowings. The cost of average interest bearing liabilities increased 236 basis points to 3.17% for the three months ended September 30, 2023 compared to 0.81% for the same period in 2022. Interest expense on average interest bearing liabilities increased $17.9 million for the three months ended September 30, 2023 compared to the same period in 2022. The increase in interest expense for the three month comparative period was due to the increase in rates paid on interest bearing deposits and borrowings and an increase in interest bearing liability balances. Average interest bearing deposits for the three month comparative period increased approximately $870.3 million while average rates increased 230 basis points. As reflected in our results over the last several quarters, deposit pressure has continued as short-term interest rates continue to move higher and deposit balances have shifted out of non-interest bearing to interest bearing accounts, which has resulted in increasing cost of deposits. Time deposits, which represented 18.3% of deposits at September 30, 2022, increased to 21.0% at September 30, 2023. Our total cost of deposits increased from 0.50% during the quarter ended September 30, 2022 to 2.47% for the quarter ended September 30, 2023. Non-interest bearing deposits as a percent of deposits decreased to 16.6% at September 30, 2023 compared to 26.7% at September 30, 2022.

Average interest bearing liabilities increased $548.0 million, or 32.9%, to $2.2 billion for the nine months ended September 30, 2023, compared to $1.67 billion for the same period in 2022. The increase was due to average balance increases in all deposit categories and an increase in average borrowings. The cost of average interest bearing liabilities increased 229 basis points to 2.86% for the nine months ended September 30, 2023 compared to 0.57% for the same period in 2022. Interest expense on average interest bearing liabilities increased $40.2 million for the nine months ended September 30, 2023 compared to the same period in 2022. The increase in interest expense for the nine month comparative period was due to the increase in rates paid on interest bearing deposits and borrowings and an increase in interest bearing liability balances. Average interest bearing deposits for the nine month comparative period increased approximately $461.2 million while average rates increased 224 basis points. As reflected in our results over the last several quarters, deposit pressure has continued as short-term interest rates continue to move higher and deposit balances have shifted out of non-interest bearing to interest bearing accounts, which has resulted in increasing cost of deposits. Our total cost of deposits increased from 0.31% during the nine months ended September 30, 2022 to 2.15% for the nine months ended September 30, 2023.

After a prolonged period of a historically lower interest rate environment, the Federal Open Market Committee ("FOMC") began raising the targeted Federal funds rate to address inflation. The targeted Federal Funds upper limit rate was 0.25% prior to the first rate increase in March 2022. The Federal Reserve raised the Federal funds rate a total of 425 basis points during 2022 with the targeted Federal Funds upper limit rate at 4.50% at year-end 2022. During the first three quarters of 2022, our net interest margin expanded, benefiting from an increase in our asset yields that outpaced the costs of our interest bearing liabilities. The continued increase in short-term rates contributed to a severely inverted treasury yield curve by the end of 2022 and contributed to higher interest expense as 2022 progressed. In the latter part of 2022, we began to experience net interest margin pressure based on the rise in deposit costs. The FOMC has continued to increase rates with additional 25 basis point increases in each of February, March, May and July 2023.

In the current rate and economic environment, we will continue our focus on liquidity to ensure our liquidity position remains satisfactory to meet our funding requirements. Also, 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 deposits, which is expected to assist in managing our cost of funds. While we expect deposit pricing pressures to continue we also expect to benefit from increasing loan rates, particularly on our floating rate loans. In addition, the Malvern acquisition has given us significant liquidity and balance sheet optionality which will allow us to mitigate the increases to our cost of funds. Our margin will be closely monitored during this current period of expected rising deposit interest rates.

Credit Loss Expense

On January 1, 2023, the Company adopted ASC Topic 326, which replaces the incurred loss methodology, and is referred to as CECL.

We recorded a total credit loss expense for the third quarter of 2023 of $6.6 million compared to $216,000 for the same period in 2022. The loan credit loss expense in the third quarter of 2023 included $5.5 million initial provision for non-PCD loans acquired in Malvern acquisition**.** We recorded a total credit loss expense for the nine months ended September 30, 2023 of $8.2 million compared to $2.2 million for the same period in 2022. The loan credit loss expense for the three and nine months ended September 30, 2023 was also primarily due to the Malvern acquisition and other loan growth during the periods. Supporting our allowance for credit losses were strong asset quality metrics at both September 30, 2023 and 2022.

Our asset quality for the comparative periods presented has remained sound. Our ratio of nonperforming loans to total loans was 0.80% at September 30, 2023 compared to 0.27% at December 31, 2022 and 0.23% at September 30, 2022. The allowance for loan losses to total loans ratio was 1.42% at September 30, 2023 compared to 1.09% at December 31, 2022 and 1.08% at September 30, 2022. The allowance for loan losses to nonperforming loans ratio was 177.50% at September 30, 2023 compared to 407.58% at December 31, 2022 and 480.61% at September 30, 2022. See "Allowance for Credit 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, 2023, non-interest income represented 0.67% and 3.0%, respectively, of our total net revenue, defined as net interest income plus total non-interest income. That compares to 3.7% and 5.1%, respectively, of our net revenue for the same periods in 2022. While our strategic focus on net interest income continues, we have benefitted from targeted programs we have implemented to generate non-interest income. The expansion of our customer base, organically and through acquisition, coupled with the introduction of enhanced product offerings has contributed to the level of service fees on deposit accounts. In addition, we are growing our SBA loan business and have a loan swap program in place for certain borrowers that also generates non-interest income.

Non-interest income totaled $193,000 for the three months ended September 30, 2023, compared to $944,000 for the same period in 2022, a decrease of $751,000. The decrease in non-interest income for the three months ended September 30, 2023 compared to the same period in 2022 was primarily the result of losses on sale of loans of $706,000 and losses on sale of securities of $527,000, and $98,000 decrease in gain on recovery of acquired loans. Partially offsetting these losses and decreases were a $185,000 increase in loan fees, a $175,000 increase in bank owned life insurance and a $176,000 increase in other non-interest income. For the nine months ended September 30, 2023, non-interest income totaled $2.3 million compared to $3.7 million for the same period in 2022, a decrease of $1.4 million. The decrease in non-interest income for the nine months ended September 30, 2023 compared to the same period in 2022 was primarily due to losses on sale of loans of $685,000 and losses on sale of securities of $734,000, a $55,000 decrease in loan fees and a $361,000 decrease in gain on recovery of acquired loans. Partially offsetting these losses and decreases were a $179,000 increase in bank owned life insurance and a $257,000 increase in other non-interest income.

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, 2023, non-interest expense totaled $23.5 million, which was $11.7 million, or 100.1%, higher than the same prior year period. The increase was primarily due to increases in merger-related expenses and salaries and employee benefits expenses, and to a lesser extent, occupancy and equipment cost, regulatory fees, data processing expenses, and other expense.

For the nine months ended September 30, 2023, non-interest expense totaled $50.8 million, which was $16.5 million, or 48.1%, higher than the prior year period. The increase for the nine months ended September 30, 2023 compared to the same prior year period was also primarily due to higher merger-related expenses and salaries and employee benefits costs, occupancy and equipment, legal fees, regulatory fees, data processing expenses, and other expenses. The increases were partially offset by a decrease in other professional fees and other real estate owned expenses.

Our largest component of non-interest expense is salaries and employee benefits. Salaries and employee benefits expense totaled $9.3 million for the three months ended September 30, 2023 compared to $6.9 million for the same period in 2022. Salaries and employee benefits expense was $25.3 million for the nine months ended September 30, 2023, compared to $20.1 million for the same period in 2022. The increase in salaries and employee benefits expense was $2.4 million, or 35.6%, for the three-month comparative period and $5.2 million, or 25.8%, for the nine-month comparative period. The increase for the comparative periods was due to increased headcount, primarily due to the Malvern merger, new locations and growth initiatives, merit adjustments and inflationary market adjustments, and increases in employee benefit costs. Our full-time equivalent staff was 286 at September 30, 2023 compared to 238 at December 31, 2022 and 228 at September 30, 2022.

Merger-related expenses totaled $7.0 million for the three months ended September 30, 2023. There were no merger-related expenses in the third quarter of 2022. Merger-related expenses totaled $7.7 million for the nine months ended September 30, 2023. There were no merger-related expenses in the first nine months of 2022. The merger-related expenses were primarily legal, information technology expenses, professional fees, and severance pays associated with the acquisition of Malvern Bancorp.

Occupancy and equipment expense is generally 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 $438,000, or 29.7%, for the three months ended September 30, 2023 compared to the prior year period. Occupancy and equipment expense increased $825,000, or 19.3%, for the nine months ended September 30, 2023 compared to the prior year period. The increase in the three and nine month comparative periods was primarily due to acquiring additional facilities in the Malvern acquisition, the establishment of our new northern New Jersey regional banking center in Fairfield, New Jersey and the Bank's move into an upgraded branch and regional center in West Chester, Pennsylvania.

Regulatory fees increased $343,000, or 136.1%, and $667,000, or 98.4%, respectively for the three and nine months ended September 30, 2023 compared to the prior year period. The increase in both comparative periods was due to an increase in assessments by the FDIC resulting from the acquisition of Malvern deposits.

Other expense rose $997,000 and $1.4 million, respectively, for the three and nine months ended September 30, 2023 compared to the same period in 2022. 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 relative to the growth of the company, a return to a more normal business environment following the easing of pandemic-era practices and inflationary pressures.

Our efficiency ratio for the three months ended September 30, 2023 was 54.71% compared to 46.01% for the same period last year. Our efficiency ratio for the nine months ended September 30, 2023 was 56.25% compared to 47.40% for the same period in 2022. Our efficiency ratio was impacted by the interest rate environment, inflationary pressures and the impact from strategic investments. With our continued focus on efficiency our objective is to maintain or improve our operating efficiency moving forward. The efficiency ratio is a non-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 GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-GAAP measures (total net revenue) to derive the efficiency ratio measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Non-interest expense	$ 23,486	$ 11,737	$ 50,764	$ 34,268
Less: Merger-related expenses	7,028	-	7,710	-
Adjusted non-interest expense (numerator)	$ 16,458	$ 11,737	$ 43,054	$ 34,268
Net interest income	$ 28,594	$ 24,563	$ 73,517	$ 68,622
Non-interest income	193	944	2,285	3,674
Total net revenue	28,787	25,507	75,802	72,296
Loss on sale of investment securities, net	527	-	734	-
Loss on sale of acquired loans	771	-	771	-
Adjusted total revenue (denominator)	$ 30,085	$ 25,507	$ 77,307	$ 72,296
Efficiency ratio	54.71%	46.01%	55.69%	47.40%

Income Tax Expense

We recorded income tax benefit of $78,000 for the three months ended September 30, 2023, compared to the tax expense of $3.3 million for the same period in 2022. The tax benefit was primarily driven by negative pre-tax income which was partially offset by a decreased effective tax rate of 5.8% compared to the same period of last year. Our effective tax rate for the three months ended September 30, 2022 was 24.7%.

We recorded income tax expense of $4.3 million for the first nine months of 2023 compared to $8.7 million for the same period in 2022. Lower income tax expense was primarily driven by lower pre-tax income which was slightly offset by a higher effective tax rate. Our effective tax rate for the nine months ended September 30, 2023 was 25.5% compared to 24.2% for the same period in 2022. Income tax expense in 2023 was impacted by a $506,000 tax expense recorded due to the revaluation of our deferred tax assets, primarily due to the impact on state taxes from the Malvern acquisition. Excluding this expense, the effective tax rate for the first nine months of 2023 would have been 22.49%. The lower adjusted effective tax rate is primarily due to the impact of the Malvern acquisition on state income tax expense

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 benefit of our real estate investment trust and our participation in a historic tax credit. We continue to work with our tax advisors to identify opportunities to reduce our overall tax liability.

FINANCIAL CONDITION

ASSETS

Total assets grew from $2.73 billion at December 31, 2022 to $3.56 billion at September 30, 2023, an increase of $825.5 million, or 30.2%, primarily as a result of the acquisition of Malvern Bancorp. This increase was primarily attributable to the Malvern acquisition and included growth in cash and cash equivalents, loans, premises and equipment, bank owned life insurance, goodwill, deferred tax asset, and other assets partially offset by a decline in available for sale ("AFS") investment securities. Growth was funded primarily by an increase in deposits, borrowings and subordinated debentures.

Loans

Our loan portfolio consists primarily of commercial real estate and commercial and industrial loans. Loans, net of deferred fees and costs, increased from $2.34 billion at December 31, 2022 to $3.02 billion at September 30, 2023, a net increase of $683.0 million, or 29.2%.

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

	September 30, 2023	December 31, 2022
	(in thousands)	
Commercial and industrial	$ 478,120	$ 354,203
Commercial real estate:		
Owner-occupied	607,888	533,426
Investor	1,269,134	951,115
Construction and development	168,192	142,876
Multi-family	275,825	215,990
Total commercial real estate	2,321,039	1,843,407
Residential real estate:		
Residential mortgage and first lien home equity loans	158,487	93,847
Home equity—second lien loans and revolving lines of credit	46,239	33,551
Total residential real estate	204,726	127,398
Consumer and other	20,208	16,318
	3,024,093	2,341,326
Net deferred loan fees and costs	(3,315)	(3,512)
Total loans	$ 3,020,778	$ 2,337,814

At September 30, 2023, total commercial loans represented 92.7% 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 loans ("C&I") typically consist of loans for working capital needs of small- to mid-sized businesses. Commercial and industrial loans increased by $123.9 million, or 35.0%, to $478.1 million at September 30, 2023, compared to $354.2 million at December 31, 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 $477.6 million, or 25.9%, to $2.32 billion at September 30, 2023 compared to $1.84 billion at December 31, 2022. The two largest components of our commercial real estate portfolio are investor and owner-occupied loans. Investor commercial real estate loans increased $318.0 million while owner-occupied commercial real estate loans increased $74.5 million during the first nine months of 2022. Multi-family loans increased $59.8 million and construction and development loans increased $25.3 million during the first nine months of 2023. Multi-family and construction and development loans represented 9.1% and 5.6% of total loans, respectively, at September 30, 2023. The increase in commercial real estate loans for the first nine months of 2023 was due to new loan originations during the first nine months of the year coupled with loans acquired with Malvern acquisition compared to the first half of 2022.

Residential real estate loans totaled $204.7 million at September 30, 2023 compared to $127.4 million at December 31, 2022, an increase of $60.7 million. Home equity-second lien loans and revolving lines of credit increased $12.7 million from December 31, 2022 to September 30, 2023, and residential mortgage and first lien home equity loans also increased by $64.6 million.

Consumer and other loans totaled $20.2 million and $16.3 million at September 30, 2023 and December 31, 2022, respectively. Consumer and other loans represented 0.7% of total loans at September 30, 2023 and at December 31, 2023, respectively.

Nonperforming Assets

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:

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	$ 2,207	$ 1,044
Commercial real estate:		
Owner-occupied	2,631	3,349
Investor	-	988
Construction and development	-	-
Multi-family	228	402
Residential real estate:		
Residential mortgage and first lien home equity loans	1,729	311
Home equity—second lien loans and revolving lines of credit	189	146
Consumer and other	7	10
Total nonaccrual loans	6,991	6,250
Total PCD/PCI Non-accruing loans	17,166	2,993
Total nonperforming loans	24,157	9,243
Other real estate owned, net	-	-
Total nonperforming assets	$ 24,157	$ 9,243
Nonaccrual loans to total loans	0.23%	0.27%
Nonperforming loans to total loans	0.80%	0.40%
Nonperforming assets to total assets	0.68%	0.34%

Nonperforming loans totaled $24.2 million or 0.80% of total loans at September 30, 2023, compared to $9.2 million or 0.40% of total loans at December 31, 2022. The increase in nonperforming loans was primarily due to adding PCD loans acquired in the Malvern acquisition.

We had no OREO on September 30, 2023 and December 31, 2022. Nonperforming assets as a percentage of total assets were 0.68% at September 30, 2023 and 0.34% at December 31, 2022.

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 Credit Losses

As of September 30, 2023, our Allowance for Credit Losses ("ACL") included an ACL on loans of $42.9 million, an ACL on HTM securities of $227,000 and an ACL on off-balance sheet commitments of $483,000. The ACL on loans is estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications. 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 ACL consists of several significant criteria, which include a specific allowance for identified distressed credits 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 credit losses takes place quarterly.

The following tables provide information regarding loans charged off, loan recoveries, and the allowance for credit losses for each of the periods presented. Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology and the prior period information in the following tables are reflective of our previous methodology.

	September 30, 2023	December 31, 2022
	(in thousands)	
Allowance for credit losses on loans	$ 42,880	$ 25,474
Total loans, net of deferred fees and costs	$ 3,020,778	$ 2,337,814
Nonaccrual loans	$ 6,991	$ 6,250
Allowance for credit losses to total loans	1.42%	1.09%
Allowance for credit losses to nonaccrual loans	613.36%	407.58%
Nonaccrual loans to total loans	0.23%	0.27%

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
As of September 30, 2023									
ACL	$ 13,326	$ 5,181	$ 15,691	$ 2,295	$ 3,546	$ 1,380	$ 991	$ 470	$ 42,880
% of total ACL	31.08%	12.08%	36.59%	5.35%	8.27%	3.22%	2.31%	1.10%	100.00%
% of total loans	2.79%	0.85%	1.24%	1.36%	1.29%	0.87%	2.14%	2.33%	1.42%
Loan portfolio balance	$ 478,120	$ 607,888	$ 1,269,134	$ 168,192	$ 275,825	$ 158,487	$ 46,239	$ 20,208	$ 3,024,093
% of total loans	15.81%	20.10%	41.97%	5.56%	9.12%	5.24%	1.53%	0.67%	100.00%
Nine Months ended September 30, 2023									
Loan charge offs	$ 1,396	$ 72	$ -	$ -	$ 123	$ -	$ -	$ 2	$ 1,593
Loan recoveries	153	108	-	-	-	3	-	-	264
Net charge offs (recoveries)	$ 1,243	$ (36)	$ -	$ -	$ 123	$ (3)	$ -	$ 2	$ 1,329
Avergage loan amounts outstanding	$ 418,592	$ 557,101	$ 1,037,084	$ 149,260	$ 241,698	$ 135,032	$ 34,806	$ 17,753	$ 2,591,326
Annualized net charge offs (recoveries) during the period to average loans outstanding	0.40%	-0.01%	0.00%	0.00%	0.07%	0.00%	0.00%	0.02%	0.07%

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
As of December 31, 2022									
ALLL Amount	$ 6,256	$ 5,466	$ 9,623	$ 1,447	$ 1,930	$ 444	$ 182	$ 126	$ 25,474
% of total ALLL	24.56%	21.46%	37.78%	5.68%	7.58%	1.74%	0.71%	0.49%	100.00%
% of total loans	0.27%	0.23%	0.41%	0.06%	0.08%	0.02%	0.01%	0.01%	1.09%
Loan portfolio balance	$ 354,203	$ 533,426	$ 951,115	$ 142,876	$ 215,990	$ 93,847	$ 33,551	$ 16,318	$ 2,341,326
% of total loans	15.13%	22.78%	40.62%	6.10%	9.23%	4.01%	1.43%	0.70%	100.00%
Year ended December 31, 2022									
Loan charge offs	$ 1,480	$ 306	$ -	$ 62	$ -	$ -	$ -	$ 6	$ 1,854
Loan recoveries	613	31	-	-	59	7	-	-	710
Net (recoveries) charge offs	$ 867	$ 275	$ -	$ 62	$ (59)	$ (7)	$ -	$ 6	$ 1,144
Avergage loan amounts outstanding	$ 324,721	$ 502,208	$ 906,301	$ 115,405	$ 201,243	$ 98,853	$ 31,476	$ 23,822	$ 2,204,029
Net (recoveries) charge offs during the period to average loans outstanding	0.27%	0.05%	0.00%	0.05%	-0.03%	-0.01%	0.00%	0.03%	0.05%

		Commercial real estate				Residential real estate			
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
					(in thousands)				
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 (recoveries) charge offs	$ 1,010	$ 285	$ -	$ 62	$ -	$ (5)	$ -	$ 5	$ 1,357
Avergage loan amounts outstanding	$ 324,457	$ 495,322	$ 894,605	$ 111,360	$ 196,212	$ 126,789	$ 28,995	$ 1,615	$ 2,179,355
Annualized net (recoveries) charge offs 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%

The allowance for credit losses on loans was $42.9 million at September 30, 2023, compared to $25.5 million at December 31, 2022. The credit loss expense for loans was $8.2 million for the first nine months of 2023 compared to a provision for loan losses of $2.2 million during the first nine months of 2022. During the first nine months of 2023 we recorded $1.3 million in net charge offs compared to net charge offs of $1.4 million during the first nine months of 2022. The credit loss expense for loans for the first nine months of 2023 was due primarily to the day 1 allowance of $5.5 million for credit losses recorded on non-PCD Malvern loans and loan growth during the nine months and the charge offs recorded. Our allowance for credit losses continues to be supported by stable and solid asset quality metrics and improving economic conditions. The allowance for credit losses constituted 1.42% of total loans at September 30, 2023, compared to 1.09% at December 31, 2022. The increase in the ACL on loans as a percentage of total loans was primarily due to the adoption of CECL and management's current assessment of future economic conditions. Management believes that the allowance for credit losses at September 30, 2023 remains adequate in relation to losses inherent in the loan portfolio.

For the nine months ended on September 30, 2023 and September 30, 2022 annualized net charge offs as a percentage of loans were 0.07%. Our allowance for credit losses as a percentage of nonaccrual loans was 613.36% at September 30, 2023, compared to 407.58% at December 31, 2022.

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 $132.9 million or 3.7% of total assets at September 30, 2023, compared to $146.1 million or 5.3% of total assets at December 31, 2022, a decrease of $13.2 million or 9.0%. The decrease was primarily due to the sale of various types of available for sale securities, as well as regular maturities and principal paydowns on our residential mortgage-backed securities. We acquired $92.0 million of investment securities from Malvern but approximately $81.6 million were sold during the quarter ended September 30, 2023.

ASC Topic 326 was adopted by the Company on January 1, 2023. ASC Topic 326 introduces the CECL methodology for estimating allowances for credit losses. ASC Topic 326 applies to all financial instruments carried at amortized cost, including HTM securities.

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

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	$ 23,000	$ -	$ (1,021)	$ 21,979
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	46,187	-	(7,295)	38,892
Issued by GNMA	13,706	-	(1,939)	11,767
U.S. Treasury securities	3,989	-	(97)	3,892
SBA pools	1,684	-	(7)	1,677
Asset-backed securities	764	-	(22)	742
Corporate obligations	9,140	2	(363)	8,779
Total	$ 98,470	$ 2	$ (10,744)	$ 87,728

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	$ 31,834	$ 3	$ (1,569)	$ 30,268
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	42,630	1	(6,015)	36,616
Issued by GNMA	13,436	-	(1,730)	11,706
U.S. Treasury securities	3,980	-	(113)	3,867
SBA Pools	2,000	-	-	2,000
Asset-backed securities	943	-	(26)	917
Corporate obligations	13,961	64	(443)	13,582
Total	$ 108,784	$ 68	$ (9,896)	$ 98,956

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	$ 10,944	$ -	$ (2,185)	$ 8,759	$ -
Issued by GNMA	476	-	(65)	411	-
Obligations of state and political subdivisions	7,255	-	(532)	6,723	(5)
Corporate obligations	26,750	-	(4,095)	22,655	(222)
Total	$ 45,425	$ -	$ (6,877)	$ 38,548	$ (227)

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities held to maturity	(in thousands)			
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	$ 11,632	$ -	$ (1,773)	$ 9,859
Issued by GNMA	488	-	(48)	440
Obligations of state and political subdivisions	8,323	17	(367)	7,973
Corporate obligations	26,750	-	(2,557)	24,193
Total	$ 47,193	$ 17	$ (4,745)	$ 42,465

We conduct an impairment evaluation on AFS securities with unrealized losses to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. We also evaluate the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income (“AOCI”), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition. Prior to implementation of ASC Topic 326, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

We did not record an ACL on the AFS securities at September 30, 2023 or upon implementation of CECL on January 1, 2023. As of both periods, the Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold. At September 30, 2023 and December 31, 2022, unrealized losses were higher due to market uncertainty resulting from inflation and rising interest rates from the time of the security purchase.

The Company segments its HTM portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company’s historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government. This assumption will be reviewed and attested to quarterly.

At September 30, 2023, the Company had no HTM securities that were past due 30 days or more as to principal or interest payments. The Company had no HTM securities classified as nonaccrual at September 30, 2023.

The following tables present the activity in the ACL for the held to maturity debt securities:

	Obligations of state and political subdivisions	Corporate obligations	ACL Total
	(in thousands)		
Three Months Ended September 30, 2023			
Balance—beginning of period	$ 5	$ 222	$ 227
Credit loss expense	-	-	-
Balance—end of period	$ 5	$ 222	$ 227

	Obligations of state and political subdivisions	Corporate obligations	ACL Total
	(in thousands)		
Nine Months Ended September 30, 2023			
Balance—beginning of period	$ -	$ -	$ -
Adoption of ASC Topic 326	5	219	224
Credit loss expense	-	3	3
Balance—end of period	$ 5	$ 222	$ 227

The carrying value of our AFS investment securities portfolio at September 30, 2023 was $87.7 million, a decrease of $11.2 million from $99.0 million at December 31, 2022. The decrease was primarily due to the aforementioned sales of securities and principal paydowns from our residential mortgage-backed securities portfolio. As of September 30, 2023, the AFS portfolio had net unrealized losses of $10.7 million compared to $9.8 million at December 31, 2022.

HTM investment securities totaled $45.2 million at September 30, 2023, compared to $47.2 million at December 31, 2022, a decrease of $2.0 million or 4.2%. The decrease in HTM securities was primarily due to principal paydowns from our residential mortgage-backed securities portfolio.

We evaluate quarterly all securities with unrealized losses to determine whether the losses are credit related. At September 30, 2023 and December 31, 2022, we determined that all unrealized losses were temporary in nature and not credit related.

Mortgage-Backed Securities

We held $71.3 million and $68.2 million (amortized cost) of MBS at September 30, 2023 and December 31, 2022, 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 $4.9 million for the nine months ended September 30, 2023. 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 $2.29 billion at December 31, 2022 to $2.97 billion at September 30, 2023, an increase of $673.5 million, or 29.4%. Non-interest bearing demand deposits decreased $10.2 million, or 2.0%, while interest bearing deposits increased $683.7 million, or 38.2%. The increase in interest bearing deposits for the first nine months of 2023 was due to increases in interest bearing demand deposits, money market deposits and time deposits. The increase in interest bearing deposits was primarily due to the Malvern acquisition and also a combination of a growing customer base and expanding relationships with our existing customers. Included in our total deposits were $167.6 million of brokered deposits at September 30, 2023 compared to $181.6 million at December 31, 2022.

Borrowings

At September 30, 2023 and December 31, 2022 borrowings consisted of FHLB advances and secured borrowings. 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 $117.4 million and $85.8 million at September 30, 2023 and December 31, 2022, respectively, which represented 3.7% and 3.2% of total assets at those respective period-ends. During the first quarter of 2023, we increased borrowings to replace deposit declines, help fund loan growth and increase our on-balance sheet cash position. Based on our strong liquidity position we paid off FHLB advances during the second quarter of 2023. During the third quarter of 2023, we increased borrowings to maintain our strong liquidity position. Our utilization of FHLB advances in 2023 will continue to focus on meeting asset and liability goals.

At September 30, 2023 and December 31, 2022 borrowings also included certain loan participations sold. Due to 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 are accounted for as secured borrowings. These secured borrowings totaled $15.7 million and $5.1 million at September 30, 2023 and December 31, 2022, respectively.

Subordinated Debentures

At September 30, 2023 and December 31, 2022, we had $55.3 million and $29.7 million, respectively, in subordinated debentures outstanding. On May 29, 2020 we completed a $30.0 million private placement of fixed-to-floating rate subordinated debentures. 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 three-month term SOFR (Secured Overnight Financing Rate) plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025.

As part of the Malvern acquisition, the Company assumed $25.5 million of subordinated notes. On February 7, 2017, Malvern had issued $25.0 million in aggregate principal amount of its 6.125% fixed-to-floating rate subordinated notes. From February

7, 2017 to February 15, 2022, the Notes had a fixed rate of 6.125%. During the period ended March 31, 2022, the rate on the Notes converted from fixed to a variable interest rate. The notes are currently paying interest at three-month term SOFR plus 4.40% till the maturity date February 15, 2027. The notes are callable at par since February 15, 2022.

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.

We maintained a strong liquidity position in the third quarter of 2023. Total cash and cash equivalents increased by $54.3 million during the nine months ended September 30, 2023 to $180.2 million. During the quarter ended September 30, 2023, the Bank utilized asset sales to allow some higher cost deposits to run-off and paid off a significant amount of borrowings during the quarter. The reduction in outstanding borrowings has also increased our available borrowing capacity. The Bank's current liquidity position coupled with the balance sheet flexibility gained after the Malvern Bancorp acquisition provides the Bank with a strong liquidity base and a diverse source of funding options. Based on the actions taken during the first nine months of 2023, our available liquidity to adjusted estimated uninsured deposits ratio was approximately 106.9% at September 30, 2023. Available liquidity includes cash and due from banks, market value of the Bank's investment securities, and currently available funding sources minus pledged securities and restricted cash. Adjusted estimated uninsured deposits totaled $624.9 million and were calculated by taking estimated uninsured deposits of $976.3 million at September 30, 2023 minus estimated uninsured deposits of states and political subdivisions which are secured or collateralized as required under state law which totaled $351.4 million at September 30, 2023.

On at least a quarterly basis, a comprehensive liquidity analysis is reviewed by the Asset Liability Committee and Board of Directors. The analysis provides a summary of the current liquidity measurements, projections, and future liquidity positions given various levels of liquidity stress. Management also maintains a detailed Contingency Funding Plan designed to respond to overall stress in the financial condition of the banking industry or a prospective liquidity problem specific to First Bank.

As of September 30, 2023, our liquid assets (cash and cash equivalents and eligible unpledged securities) totaled $230.6 million, or 6.5% of total assets, compared to $209.0 million, or 7.6% of total assets, at December 31, 2022. Our cash and cash equivalents increased $54.3 million from $125.9 million at December 31, 2022, to $180.2 million at September 30, 2023. The increase was primarily due to the increase in deposits and borrowings during the first nine months of 2023 offset somewhat by the increase in loans. At September 30, 2023, 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 our 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, 2023 we had the ability to borrow $292.1 million. We had additional borrowing capacity of $80.0 million through three correspondent banks at September 30, 2023, as well as access to the Federal Reserve's Bank Term Funding Program. The Bank Term Funding Program is available until at least March 11, 2024 and under this program our available borrowing capacity was $85.4 million as of September 30, 2023.

At September 30, 2023, our outstanding commitments to extend credit totaled $483.4 million.

We have competitively positioned our deposit products and services to continue to add to lower cost core deposits throughout our attractive markets. Based on projected loan and deposit growth, we expect liquidity to remain adequate to support our operations.

CAPITAL AND REGULATORY MATTERS

On September 30, 2023 our prior share repurchase program expired. This share repurchase program allowed for the repurchase of up to 1.2 million shares of our common stock in the open market. Under this program we repurchased 550,000 shares of our common stock for an aggregate purchase price of $5.5 million.

Stockholders' Equity

Total stockholders' equity increased from $289.6 million at December 31, 2022 to $361.0 million at September 30, 2023, an increase of $71.5 million, or 24.7%. The increase was primarily the result of 5.9 million shares issued for the Malvern acquisition and net income of $12.5 million, partially offset by $5.5 million in common stock repurchases and cash dividends paid of $3.8 million during the first nine months of 2023.

Our tangible stockholders' equity ratio was 8.72% as of September 30, 2023 and 9.96% as of December 31, 2022. Tangible stockholders' equity excludes intangible assets. The tangible stockholders' equity ratio is a non-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-GAAP tangible stockholders' equity ratio:

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Stockholders' equity	$ 361,037	$ 289,562
Less: Goodwill and other intangible assets, net	55,554	19,405
Tangible stockholders' equity (numerator)	$ 305,483	$ 270,157
Total assets	$ 3,558,426	$ 2,732,940
Less: Goodwill and other intangible assets, net	55,554	19,405
Adjusted total assets (denomintor)	$ 3,502,872	$ 2,713,535
Tangible stockholders' equity ratio	8.72%	9.96%

Accumulated Other Comprehensive Income (Loss)

Our accumulated other comprehensive income or loss position consists of net unrealized gains or losses on investment securities available for sale, net of tax. Based on changes in the U.S. Treasury yield curve, AFS securities values moved higher at September 30, 2023 compared to December 31, 2022. At September 30, 2023, the AFS portfolio had net unrealized losses, net of tax, of $8.0 million compared to $7.3 million in unrealized losses, net of tax, at December 31, 2022.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. 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.

We are subject to Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. These 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 these 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. As of September 30, 2023 and December 31, 2022, the fully phased in capital conservation buffer was 2.5%.

Under the regulatory prompt corrective action 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 risk-based capital of 8.0% of risk-weighted assets, and (iv) a total risk-based capital ratio of 10.0% of risk-weighted assets.

Our capital amounts and classifications are subject to qualitative judgments 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
			(dollars in thousands)			
At September 30, 2023:						
Tier 1 leverage capital	$ 313,025	8.92%	$ 140,372	4.00%	$ 175,465	5.00%
Common equity tier 1 capital	313,025	9.00%	156,596	4.50%	226,195	6.50%
Tier 1 risk-based capital	313,025	9.00%	208,795	6.00%	278,394	8.00%
Total risk-based capital	395,775	11.37%	278,394	8.00%	347,992	10.00%
At December 31, 2022:						
Tier 1 leverage capital	$ 276,988	10.41%	$ 106,436	4.00%	$ 133,045	5.00%
Common equity tier 1 capital	276,988	10.40%	119,822	4.50%	173,076	6.50%
Tier 1 risk-based capital	276,988	10.40%	159,762	6.00%	213,016	8.00%
Total risk-based capital	332,493	12.49%	213,016	8.00%	266,270	10.00%

At September 30, 2023 and December 31, 2022, 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, 2023 and December 31, 2022:

	Net Interest Income			
	September 30, 2023		December 31, 2022	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock (1)				
+ 400	$ 114,068	(6.5%)	$ 97,491	3.6%
+ 300	116,049	(4.9%)	96,628	2.7%
+ 200	118,023	(3.3%)	95,784	1.8%
+ 100	119,994	(1.7%)	94,937	0.9%
+ 0 (Static)	122,024	-	94,130	-
- 100	123,988	1.6%	93,076	(1.1)%
- 200	125,626	3.0%	91,415	(2.9)%
- 300	126,432	3.6%	89,241	(5.2)%
- 400	127,308	4.3%	86,109	(8.5)%

(1) Change in interest rates in basis points.

Economic Value At Risk

The Company's EVE model projects the Company's 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, 2023 and December 31, 2022:

	Economic Value of Equity			
	September 30, 2023		December 31, 2022	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock (1)				
+ 400	$ 302,050	(19.8%)	$ 277,605	(18.4)%
+ 300	318,259	(15.5%)	292,589	(14.0)%
+ 200	335,602	(10.9%)	307,663	(9.5)%
+ 100	354,069	(6.0%)	323,160	(5.0)%
+ 0 (Static)	376,707	-	340,074	-
- 100	394,580	4.7%	355,163	4.4%
- 200	407,982	8.3%	366,419	7.8%
- 300	418,582	11.1%	373,674	9.9%
- 400	426,061	13.1%	379,628	11.6%

(1) Change in interest rates in basis points.

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 2022 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). Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective 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, as of the end of the period covered by this report, 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, 2023, 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.

For information regarding the Company’s risk factors, see Item 1A. in First Bank’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022 as filed with the FDIC, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 as filed with the FDIC.

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

On August 2, 2023, 2,500 shares of First Bank 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, respectively. The aggregate proceeds from such issuances were $15,175.

The Company did not purchase any number of shares of the Company’s common stock during the three months ended September 30, 2023.

On October 7, 2022, the Company 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 share repurchase program was also approved by the Company’s board and ran 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 Company 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.

An Exhibit Index has been filed as part of this report and is incorporated herein by reference.

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, 2023

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

Exhibit Index

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated December 13, 2022, by and among First Bank, Malvern Bancorp, Inc. and Malvern Bank, National Association (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on December 14, 2022)
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)
4.1	Indenture, dated February 7, 2017, by and between Malvern Bancorp, Inc., as Issuer, and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to Malvern Bancorp, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2022, as filed with the Securities and Exchange Commission on December 27, 2022 (File No. 000-54835))
4.2	First Supplemental Indenture, dated July 17, 2023, by and between U.S. Bank Trust Company, National Association, First Bank and Malvern Bancorp, Inc.
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

Exhibit 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

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, 2023

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

Exhibit 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

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, 2023

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

Exhibit 32.1

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, 2023, 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, 2023

/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)