Federal Deposit Insurance Corporation

Washington, D.C. 20439

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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 No: 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)

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

Common Stock, par value $5.00 per share	**FRBA**	**NASDAQ Global Market**
(Title of each class)	(Trading symbol)	(Name of each exchange in which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 and 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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting common stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter, was $179.7 million.

There were 25,100,108 shares of common stock outstanding at March 8, 2024

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement for the 2024 Annual Meeting of Shareholders to be held on April 24, 2024 (the "2024 Proxy Statement") are incorporated by reference in Part III of this Annual Report on Form 10-K. The 2024 Proxy Statement will be filed within 120 days of December 31, 2023.

	Form 10-K Item Incorporated from Proxy Statement by Reference
Item 10.	Directors and Executive Officers of the Registrant
Item 11.	Executive Compensation
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Item 13.	Certain Relationships and Related Transactions
Item 14.	Principal Accountant Fees and Services

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Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding First Bank's future financial and business performance, business and growth strategy, projected plans, objectives for our business, products and risk management, integration of the acquired businesses and anticipated results related thereto, our ability to recognize anticipated operational efficiencies, our market presence and desirability of the markets we operate in, competition in our markets, our competitive strength, consumers behavior and relative expectations, our share repurchase programs, anticipated changes in statutes, regulations or regulatory policies applicable to us and their impacts on our business, and other projections based on macroeconomic and industry conditions and 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 important factors that could affect First Bank's 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 and integrating suitable acquisitions (including integrating Malvern Bancorp, Inc. ("*Malvern*")*, sustain its internal growth rate, and provide competitive products and services that appeal to its customers and target markets; difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which First Bank operates and in which its loans are concentrated, including the effects of inflation, declines in housing markets and public sentiment regarding the financial services industry; the chance that we may experience material weaknesses in our internal control over financial reporting or otherwise fail to maintain an effective system of internal controls in the future; an increase in unemployment levels and slowdowns in economic growth; 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, both up and down, 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; 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 pandemic: the extensive federal and state regulation, supervision and examination governing almost every aspect of First Bank's operations, including the effect of any changes in regulations affecting financial institutions; First Bank's ability to comply with applicable capital and liquidity requirements, including the ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets; and possible changes in trade, monetary and fiscal policies, accounting standards, laws and regulations and other activities of governments, agencies, and similar organizations.*

For discussion of these and other risks, uncertainties, and assumptions, including the important factors that may cause actual results to differ from expectations, please refer to Item 1A. Risk Factors in this Annual Report on Form 10-K and any updates to those risk factors set forth in First Bank's subsequent Quarterly Reports on 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. 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.

Throughout this Annual Report on Form 10-K, references to "we," "us," "our," "Bank" and "Company" refer to First Bank and its wholly-owned subsidiaries unless otherwise indicated.

PART I

Item 1. Business.

General

We are a New Jersey-chartered commercial bank which commenced operations in April 2007. We are regulated by the New Jersey Department of Banking and Insurance ("DOBI") and the Federal Deposit Insurance Corporation ("FDIC"). We are headquartered in Hamilton, Mercer County, in central New Jersey. As of December 31, 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 and Glen Mills, Pennsylvania, and Palm Beach, Florida. We target business from individuals, businesses, and governmental entities located in our primary service regions throughout New Jersey and eastern Pennsylvania, with a particular focus on the corridor between New York City and Philadelphia.

We focus on traditional deposit and loan products with businesses and individuals living and working in our markets as the source of most of our business. The majority of our deposits come from individuals and businesses located in close proximity to our branches. Most of our lending customers come from the New York City to Philadelphia corridor. By providing a superior customer experience, including access to our decision makers, and by expanding our brand into communities located in our target markets, we can continue to grow our business, increase profitability and create value for our shareholders.

Business Strategy

We provide personalized banking services to satisfy the needs of our individual and business customers, as we strive to position our business for long-term growth and profitability. We believe that our relationship- oriented approach is key to our growth. We believe that the consolidation of local community banks by larger financial institutions has resulted in competitors that are not intimately familiar with the needs of individuals and businesses in our service regions and a general curtailment of services and increased fees. Our business strategy is to continue to pursue business from those customers who, as a result of these trends, are underserved or undervalued by larger financial institutions.

In addition to planned organic growth, we continue to consider opportunities to grow our business through acquisitions of whole banks, business lines or branches that complement our growth strategy and market expansion objectives. Our five whole bank acquisitions over the past ten years and our acquisition of two branches in 2021 are examples of acquisitions consistent with our strategy.

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.

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.

Lending Activities

We offer a set of lending products to meet the needs of our customers located within our market areas, including commercial and industrial loans, commercial real estate loans (including owner-occupied, investor, construction and development, and multi-family loans), residential real estate loans and consumer and other loans.

Commercial and Industrial Loans. We offer commercial and industrial loans to small to mid-sized businesses for general business purposes. Commercial and industrial loans are made on a line of credit and term basis to finance inventory, equipment or short-term working capital. These loans are generally secured by business assets with the personal guarantees of the principal owners. The terms of these loans are generally one to five years.

Commercial Real Estate Loans. We offer a variety of real estate loans to businesses and real estate investors for the acquisition and refinancing of commercial real estate. Commercial real estate loans represent the largest component of our loan portfolio and are composed of owner-occupied, investor, construction and development, and multi-family loans.

- ***Owner-occupied ("CREO").*** CREO loans are made for the acquisition of new property or the refinancing of existing property. These loans typically relate to commercial businesses and are secured by the underlying real estate used in the business or real property of the principals.
- ***Investor ("CREI").*** CREI loans include investor-owned and tenanted investment properties. We provide a variety of CREI loans secured by different types of properties including retail, industrial, office and mixed use.
- ***Construction and Development Loans.*** Construction and development loans are generally made to builders and developers who wish to build new residential or commercial structures. Construction and development loans include land loans to acquire vacant land for future development.
- ***Multi-Family Loans.*** Multi-family loans generally consist of loans secured by apartment buildings.

Residential Real Estate Loans. Residential real estate loans are comprised of residential mortgages, first and second lien home equity loans and revolving lines of credit. Residential mortgages and first lien home equity loans are comprised of loans made with first liens on owner-occupied one to four family residences. These loans tend to have longer terms of fifteen to thirty years and are typically originated on a fixed rate basis. We also offer home equity loans as second lien loans and revolving lines of credit. Second lien home equity loans are usually originated on a fixed rate basis with terms of five, ten or fifteen years. Revolving lines of credit allow customers to borrow and pay back over the life of the loan (five, ten or fifteen years) with full repayment due at maturity and tend to be floating rate products.

Consumer and Other Loans. We offer a variety of non-residential real estate loans to individuals for personal and household purposes, such as to finance the purchase of an automobile, and other loans.

In managing the growth of the loan portfolio, we have focused on: (i) the application of prudent underwriting criteria; (ii) active involvement by senior management and the Board of Directors in the loan approval process; (iii) active monitoring of loans to ensure that repayments are made in a timely manner and to identify potential problem loans; and (iv) the review of various aspects of our loan portfolio by independent consultants. We work throughout the lending process to manage and mitigate risks within our portfolio.

For further information on the composition of our loan portfolio, see Note 4 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, state and municipal governments, mortgage-backed securities and certificates of deposit of federally-insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in corporate debt securities, mutual funds, certain restricted bank stock and other investments. Our investment objectives are to provide and maintain liquidity, maintain acceptable levels of interest rate and credit risk, provide an alternate source of low-risk investments when demand for loans slows, and generate a favorable return.

Deposit Activities and Other Sources of Funds

Deposits, borrowings and loan repayments are the major sources of our funds for lending and investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows, capital markets activity and loan prepayments are significantly influenced by interest rates and economic and market conditions.

Deposits. Deposits are generated in our markets through the offering of a broad selection of deposit instruments, including non-interest bearing demand deposits (such as checking accounts), interest bearing demand accounts, money market accounts, savings accounts and certificates of deposit. In addition to accounts for individuals, we also offer commercial checking accounts and cash management services designed for the businesses operating in our market areas. We may also utilize brokered deposits. We consistently market various products to grow deposits to fund loan growth and enhance liquidity.

With deposits representing our principal funding source, our focus continues to be further expanding our geographic footprint, strengthening our brand image through marketing initiatives and providing products and services that attract lower cost core deposits. Bringing our relationship-driven brand of banking to new markets and communities is an important factor in attracting a lower cost diversified deposit base to fund loans at appropriate spreads.

Deposit account terms vary according to the minimum balance required, the time the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability, and customer preferences and needs. Our deposit pricing strategy has generally been to offer competitive rates to ensure we can continue to generate deposits to fund loan growth.

Borrowings. Although deposits are our primary source of funds, we may utilize various types of borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when we desire additional capacity to fund loan demand or when they meet our asset and liability management goals.

Our borrowings primarily consist of advances from the Federal Home Loan Bank of New York ("FHLB"). The FHLB functions as a government-sponsored enterprise providing credit for member financial institutions. As a member, we are required to own FHLB capital stock and may apply for advances on the security of such stock and certain of our commercial real estate loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

We also had access to the Federal Reserve's Bank Term Funding Program which was available until March 11, 2024 and under this program the Company's available borrowing capacity was $72.2 million as of December 31, 2023 based on the par value of investment securities pledged as collateral. We also have access to the Federal Reserve's Discount Window.

We also had lines of credit for short-term borrowings with three correspondent banks at December 31, 2023 totaling $80.0 million.

Capital Markets Activities

During the year ended December 31, 2023, we purchased 550,000 shares of our outstanding common stock through our share repurchase programs for an aggregate purchase price of $5.5 million. During the year ended December 31, 2022, we purchased 251,922 shares of outstanding common stock for an aggregate purchase price of $3.5 million.

Competition

The banking business is highly competitive. We face substantial competition and potential future competition both in attracting deposits and in originating loans. We compete with numerous commercial banks, savings banks, and savings and loan associations, many of which have more assets, and larger capital and lending limits than ours. Our larger competitors have greater financial resources to finance wide-ranging advertising campaigns. Other competitors also include money market mutual funds, mortgage bankers, insurance companies, stock brokerage firms, regulated small loan companies, credit unions and issuers of commercial paper and other securities.

We compete for business by providing high quality, personal service to customers, customer access to our decision makers and competitive interest rates and fees. We seek to hire and retain quality employees who desire greater responsibility than may be available working for a larger employer. Additionally, the local real estate and other business activities of our Board of Directors help us develop business relationships by increasing our profile in the communities and markets we serve. We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Federal law permits affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry.

Human Capital

At December 31, 2023, we employed 280 full-time employees and 8 part-time employees. None of these employees are covered by a collective bargaining agreement, and we believe that our employee relations are good.

We are dedicated to recruitment and career development practices that support our employees and promote diversity in our workforce at all levels of the Bank. We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. As part of the Bank's compensation philosophy, market competitive programs are maintained for employees to attract and retain superior talent. In addition to competitive base wages, additional programs include annual cash bonus compensation opportunities, equity award opportunities, a Bank-matched 401(k) Plan, health and welfare benefits, paid time off, family leave, and employee assistance programs.

Corporate Information

Our main corporate office is located at 2465 Kuser Road, Hamilton, New Jersey 08690, and our telephone number is (877) 821-2265. Our website is www.firstbanknj.com. Our website and the information contained on, or that can be accessed through, the website will not be deemed to be incorporated by reference in, and are not considered part of, this document.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto are available on our website free of charge as soon as reasonably practicable after filing or furnishing them to the FDIC. Also available on the website are the Company's corporate code of ethics that applies to all of our employees, including principal officers and directors, and charters for the Nominating and Governance Committee, the Audit and Risk Management Committee and the Compensation and Personnel Committee. We intend to satisfy the disclosure requirements regarding any amendment to, or waiver of, a provision of the code of ethics by posting such information on our website.

SUPERVISION AND REGULATION

Overview

The Bank operates within a system of banking laws and regulations that are primarily intended to protect bank customers, depositors, the Deposit Insurance Fund ("DIF") and the banking system overall. These laws and regulations govern the permissible operations and management, activities, reserves, loans and investments of the Bank, and are not designed to provide protections to shareholders. Compliance with government regulations may have material effects upon our capital expenditures, earnings and competitive position. See "Risk Factors — Risks Related to the Financial Services Industry Generally." We are subject to significant government regulation, which could affect our business, financial condition and results of operations.

The Bank is a commercial bank chartered under the laws of the State of New Jersey and is subject to the New Jersey Banking Act of 1948. As such, it is subject to regulation, supervision and examination by the DOBI. As an insured bank that is not a member of the Federal Reserve System, the Bank is also subject to regulation, supervision and examination by the FDIC. Each of these agencies regulates aspects of activities conducted by the Bank.

The following descriptions summarize some of the key laws and regulations to which the Bank is subject. These descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations. Future changes in these laws and regulations, or in the interpretation and application thereof by their administering agencies, cannot be predicted, but could have a material effect on the business and results of the Bank.

Regulatory Developments

The Dodd-Frank Act, enacted in 2010, has resulted in broad changes to the U.S. financial system; its provisions resulted in enhanced regulation and supervision of the financial services industry. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, ("EGRRCPA") was signed into law. While the EGRRCPA preserves the fundamental elements of the post Dodd-Frank regulatory framework, it includes modifications that are intended to result in meaningful regulatory relief for smaller and certain regional banking organizations. For banks with less than $10 billion in total consolidated assets, such as ourselves, EGRRCPA introduced an alternative capital ratio, known as the "Community Bank Leverage Ratio," which we discuss below under "Capital Adequacy Guidelines," and repealed the Volcker Rule, which prohibits proprietary trading and certain relationships with private equity funds and hedge funds. In addition, as a result of EGRRCPA we are eligible for an 18-month (rather than 12-month) examination cycle and for reduced call report requirements.

Consumer Protection

We are subject to a number of federal and state laws designed to protect consumers and borrowers and to, among other things, promote lending to various sectors of the economy and population. Federal laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Electronic Fund Transfer Act, the Home Mortgage Disclosure Act, the privacy provisions of the Gramm-Leach-Bliley Act and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and established the Consumer Financial Protection Bureau ("CFPB"). Various New Jersey consumer financial protection statutes also apply to us.

The Dodd-Frank Act requires mortgage lenders to make a "reasonable and good faith determination" that borrowers have a "reasonable ability" to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Mortgage loans that meet the definition of "qualified mortgage" ("QM") are entitled to a presumption that the lender satisfied the ability-to-repay requirements. CFPB regulations generally established a maximum 43% debt-to-income ratio for borrowing if the loan was to meet the QM definition. Recent CFPB final rules have eliminated the 43% debt-to-income limit and replaced it with price-based thresholds. Under the revised regulation, a loan receives a conclusive presumption that the consumer had the ability to repay if the annual percentage rate does not exceed the average prime offer rate for a comparable transaction by 1.5 percentage points or more as of the date the interest rate is set. A rebuttable presumption of ability to repay arises if the annual percentage rate exceeds the average prime offer rate for a comparable transaction by 1.5 percentage points or more but by less than 2.25 percentage points. The revised regulation had a mandatory compliance date of October 1, 2022.

Insured Deposits

Our deposits are insured by the DIF, which is administered by the FDIC. The Dodd-Frank Act permanently increased the standard maximum deposit insurance amount per depositor per account ownership category to $250,000.

The FDIC's risk-based premium system provides for quarterly assessments is based on a risk-based calculation that the agency has revised from time to time. Effective January 1, 2023, the updated range of assessment rates (inclusive of possible adjustments) for banks our size is 2.5 basis points to 32 basis points of an institution's average total consolidated assets minus its average tangible equity. The assessment rate applicable to a specific institution is determined, for institutions of less than $10 billion of assets, by statistical modeling estimating the probability of failure over a three-year period, along with examination ratings.

As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. The agency also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the DIF.

The FDIC also may terminate the deposit insurance of any insured depository institution, including us, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of our deposit insurance.

Capital Adequacy Guidelines

The bank regulators view capital levels as important indicators of an institution's financial soundness. FDIC-insured depository institutions are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution's capital adequacy is based on the regulator's assessment of numerous factors. The Bank is subject to several regulatory capital requirements. The current regulations applicable to all banks took effect on January 1, 2015 and were fully phased in as of January 1, 2019. The Bank is required to maintain the following minimum capital ratios, expressed as a percentage of risk-weighted assets: (i) Common Equity Tier 1 capital ratio ("CET-1") of 4.5%; (ii) Tier 1 capital ratio (CET-1 capital plus "Additional Tier 1 capital") of 6.0%; and (iii) Total capital ratio (Tier 1 capital plus Tier 2 capital) of 8.0%. In addition, the Bank is subject to a Tier 1 leverage ratio of 4.0% (calculated as Tier 1 capital divided by average consolidated assets).

The capital rules also require a "capital conservation buffer." The purpose of the capital conservation buffer is to absorb losses during periods of economic stress. Banks that do not maintain the necessary buffer face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall. The buffer requirement fully phased in on January 1, 2019. The Bank is required to maintain a 2.5% capital conservation buffer, which is composed entirely of CET1 capital, on top of the minimum risk-weighted asset ratios described above, resulting in the following minimum capital ratios: (i) CET1 capital ratio of 7%; (ii) Tier 1 capital ratio of 8.5%; and (iii) Total capital ratio of 10.5%. The capital conservation buffer does not apply to the leverage ratio.

At December 31, 2023, the Bank was in compliance with the minimum CET-1 capital, Tier 1 capital, total capital, and leverage capital requirements. The Bank also exceeded the fully phased-in capital conservation buffer.

As an alternative to the risk-based and leverage capital requirements and the capital conservation buffer, EGRRCPA provided that banks with less than $10 billion of total consolidated assets (and that meet certain other prerequisites) may maintain a single leverage ratio, known as the community bank leverage ratio ("CBLR"). The CBLR is the ratio of tangible equity relative to average total consolidated assets. Compliance with the CBLR framework, rather than the risk-based capital requirements, can be elected by qualifying institutions. The federal bank agencies initially set the CBLR at 9.0%, but the ratio was temporarily lowered to 8% by the Coronavirus Aid, Relief and Economic Security Act of 2020. The ratio increased to 8.5% for 2022 and reverted to 9% thereafter. Eligible institutions may opt into and out of the CBLR framework on their quarterly call report. At this time, we do not anticipate that we will opt in to the CBLR standard.

Prompt Corrective Action

In addition to the minimum capital requirements, each insured depository institution such as the Bank is assigned to one of five capital categories under the prompt corrective action framework: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," depending on the institution's risk-based and leverage capital ratios. Each institution's primary federal regulator, in our case the FDIC, must take certain mandatory actions and has discretion to take other supervisory actions when an institution falls into any of the undercapitalized categories. A well-capitalized institution is not subject to any restrictions on its activities and enjoys certain regulatory advantages such as eligibility to engage in financial activities under the Gramm-Leach-Bliley Act and (in most cases) streamlined application reviews. Adequately-capitalized status is necessary to undertake a variety of regulated activities. An institution that is adequately capitalized but not well capitalized may be restricted in its ability to rely on brokered deposits. An undercapitalized institution must, among other things, submit a plan to its primary federal regulator to restore its capital adequacy, may not pay dividends, and may not accept, renew, or roll over brokered deposits. More onerous conditions apply to significantly undercapitalized institutions, and critically undercapitalized institutions typically must find a merger partner or be placed in receivership.

An institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0%, (ii) has a Tier 1 risk-based capital ratio of at least 8.0%, (iii) has a CET-1 risk-based capital ratio of at least 6.5%, (iv) has a leverage ratio of at least 5.0%, and (v) is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC. At December 31, 2023, we were well capitalized. The requirements for adequately capitalized status are (i) a total risk-based capital ratio of 8.0% or greater, (ii) a tier 1 risk-based capital ratio of 6.0% or greater, (iii) a CET-1 capital ratio of 4.5% or greater, and (iv) a leverage ratio of 4.0% or greater. An institution will be classified as undercapitalized if it fails to meet any of the four capital standards for being adequately capitalized. An institution is significantly undercapitalized if it has (i) a total risk-based capital ratio of less than 6.0%, (ii) a tier 1 risk-based capital ratio of less than 4.0%, (iii) a CET- 1 risk-based capital ratio of less than 3.0%, or (iv) a leverage ratio of less than 3.0%. If an institution's ratio of tangible capital to total assets falls to 2.0% or less, the institution will be classified as critically undercapitalized. For supervisory reasons, including an unsatisfactory examination rating, an institution's primary federal regulator may downgrade the institution to a lower category.

Liquidity

We are required to maintain a sufficient amount of liquid assets to ensure our safe and sound operation and to satisfy our obligations, but the FDIC does not impose specific, quantitative requirements on banks of our size.

Dividends

Under New Jersey law, we may declare and pay dividends only if after payment of the dividend our capital stock will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce its surplus. In addition, we cannot pay dividends in such amounts as would reduce our capital below regulatory imposed minimums, including, pursuant to FDIC regulations, if the payment of the dividend would cause us to become undercapitalized or in the event the Bank is already undercapitalized. The FDIC has stated that dividends should be reasonable and paid out of earnings and should be paid only after we have eliminated any losses and established necessary reserves and prudent capital levels.

Community Reinvestment Act

The Community Reinvestment Act of 1977, as amended (the "CRA"), directs the federal banking agencies to assess each insured depository institution's record of meeting the credit needs of its entire community, including low- and moderate income neighborhoods, consistent with the safe and sound operation of the institution. Each agency must then take this record into account in evaluating the institution's application for a "deposit facility," a term that includes bank mergers. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. As part of a CRA assessment the appropriate federal banking agency assigns an institution one of four ratings: "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Non-Compliance." Evidence of discriminatory or other illegal credit practices may have an adverse effect. The CRA requires public disclosure of an institution's CRA rating and the underlying written assessment. The Bank received a "Satisfactory" rating on its most recent CRA Performance Evaluation as of April 29, 2021.

CRA performance may affect merger and other applications in at least two ways. The federal banking regulators may discourage insured depository institutions with unsatisfactory CRA performance from filing applications and often will deny an application from such an institution. Separately, any interested party may comment on an applicant's CRA performance, regardless of the applicant's CRA rating, and such comments typically lengthen the agency's review of the application. On October 24, 2023, the FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency issued a final rule to strengthen and modernize the CRA regulations. Under the final rule, banks with assets of at least $2 billion as of December 31 in both of the prior two calendar years will be a "large bank." The agencies will evaluate large banks under four performance tests: the Retail Lending Test, the Retail Services and Products Test, the Community Development Financing Test, and the Community Development Services Test. The applicability date for the majority of the provisions in the CRA regulations is January 1, 2026, and additional requirements will be applicable on January 1, 2027.

Bank Secrecy Act / USA PATRIOT Act

Under the Bank Secrecy Act ("BSA") and the USA PATRIOT Act of 2001, all financial institutions are required to take certain actions to prevent money laundering and terrorist financing, including establishing compliance programs, identifying their customers, conducting customer due diligence, and reporting suspicious activity. Financial institutions also are required to respond to requests for information from specified federal and law enforcement agencies. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign "shell banks" and persons from jurisdictions of particular concern. The Financial Crimes Enforcement Network ("FinCEN") within the U.S. Treasury Department, as well as the federal banking agencies have adopted regulations implementing these requirements. The effectiveness of institutions in combating money laundering activities is a factor to be considered in applications submitted to regulators. We have in place a BSA and USA PATRIOT Act compliance program and engage in very few transactions of any kind with foreign financial institutions or foreign persons.

Office of Foreign Assets Control Regulation

The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others that are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, the sanctions contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government of a sanctioned country or other specially designated nationals have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Privacy and Cybersecurity

Several federal statutes and regulations require insured depository institutions to take steps to protect nonpublic consumer financial information. The Bank has prepared a privacy policy, which it must disclose to consumers annually. In some cases, the Bank must obtain a consumer's consent before sharing information with an unaffiliated third party, and the Bank must allow a consumer to opt out of the Bank's sharing of information with its affiliates for marketing and certain other purposes. Additional conditions come into play in the Bank's information exchanges with credit reporting agencies. The Bank's privacy practices and the effectiveness of its systems to protect consumer privacy are one of the subjects covered in the FDIC's periodic compliance examinations.

The federal banking agencies pay close attention to the cybersecurity practices of insured depository institutions, their holding companies and affiliates. The interagency council of the agencies, the Federal Financial Institutions Examination Council (the "FFIEC"), has issued several policy statements and other guidance for banks as new cybersecurity threats arise. The FFIEC has recently focused on such matters as compromised customer credentials and business continuity planning. Examinations by the banking agencies include review of an institution's information technology and its ability to thwart cyberattacks.

Commercial Loans

The federal banking agencies have promulgated guidance governing banks with concentrations in commercial real estate lending. The guidance provides that a bank is generally considered to have a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total commercial real estate loans represent 300% or more of total risk-based capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior thirty-six months. The Bank's commercial real estate loan concentration is above the 300% threshold and has increased by more than 50% during the prior thirty-six months. Management has employed heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and maintenance of increased capital levels as needed to support the level of commercial real estate lending. In addition, by law, our total loans to any one borrower may not exceed 15% of our unimpaired capital and surplus, including capital notes. The limit increases by 10% for loans that are fully secured by readily marketable collateral.

The risk-based capital rules that took effect in 2015 presumptively risk weight commercial real estate loans at 100% but impose a 150% risk weight on loans deemed to be highly volatile, a determination based on several factors. Among other things, the capital rules require that a borrower contribute 15% of the equity of a financed project in order for the loan to qualify for the lower risk weight, and the contribution cannot take the form of the borrower's interest in the financed property. In the absence of such a contribution (or other conditions), the 150% risk weight applies. EGRRCPA narrowed the types of loans potentially subject to the higher risk weight and allowed a borrower's interest in the financed property to count toward the 15% contribution but did not eliminate the 150% risk weight entirely. As of December 31, 2023 we had $7.1 million in loans with a risk weighting of 150%. If we chose to opt into the CBLR standard, these risk weights and the differentiation between types of commercial real estate loans would no longer apply. However, at this time, we do not anticipate that we will opt in to the CBLR standard.

Transactions with Affiliates and Insiders

Insured depository institutions are subject to restrictions on their ability to conduct transactions with affiliates. Section 23A of the Federal Reserve Act and its implementing regulation, Regulation W, impose quantitative limits, qualitative requirements, and collateral standards on certain "covered transactions" by an insured depository institution with, or for the benefit of, its affiliates. "Covered transactions" subject to Section 23A and Regulation W include loans, extensions of credit, investment in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act and Regulation W generally require transactions by an insured depository institution with, or for the benefit of, an affiliate be on terms and under circumstances that are substantially the same or at least as favorable to the insured depository institution as those prevailing at the time for comparable transactions with or involving unaffiliated third parties.

The Federal Reserve's Regulation O imposes restrictions and procedural requirements in connection with the extension of credit by an insured depository institution to its and its affiliates' directors, executive officers, principal shareholders and their related interests. Section 18(z) of the Federal Deposit Insurance Act regulates purchases and sales of assets between an insured depository institution and its executive officers, directors, principal shareholders and their related interests.

Change in Control Act / Bank Holding Company Act

Under the Change in Bank Control Act, no person (including a company or other business entity) may acquire "control" of a bank, unless the appropriate federal agency, the FDIC, in the Bank's case, has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. The agency takes into consideration certain factors, including the competence, experience, integrity and financial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means the acquiring person will own, control, or hold with power to vote 25 percent or more of any class of voting stock of the institution. There is a presumption of control upon the acquisition of 10% or more of a class of voting stock under certain circumstances, such as where the bank involved has its shares registered under the Securities Exchange Act of 1934.

Under the Bank Holding Company Act of 1956, as amended, any "company" as defined in the Act would be required to receive the prior approval of the Federal Reserve Board to acquire "control" of the Bank, as defined in that statute and Federal Reserve Board regulations, and would then be regulated as a bank holding company.

New Jersey law specifies similar prior approval requirements by the DOBI.

Other Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of insured depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it or any implementing regulations would have on our financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to us could have a material effect on our business.

Filer Status

Under the Securities and Exchange Commission ("SEC") rules, the Company's current filer status is a smaller reporting company and accelerated filer. This is due to the Company's public float being between $75 million and $250 million as of June 30, 2023 and over $100 million in annual revenues in its most recent fiscal year. The Company's filing status was as a smaller reporting company and a non-accelerated filer in 2022 because the Company's public float was between $75 million and $250 million as of June 30, 2022 and under $100 million in annual revenues in its most recent fiscal year. If the Company's annual revenues continue to exceed $100 million in a given fiscal year and its public float increases to over $250 million, its category will change to an accelerated filer (not a smaller reporting company). The categorization of "accelerated" or "large accelerated filer" drives the requirement for a public company to obtain an auditor attestation of its internal control over financial reporting. All public companies are required to obtain and file annual financial statement audits, as well as provide management's assertion on effectiveness of internal control over financial reporting, but the external auditor attestation of internal control over financial reporting is not required if a company is not an accelerated or large accelerated filer.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. There are risks, many beyond our control that could cause our financial condition or results of operations to differ materially from management's expectations. Some of the risks that may affect us are described below. Before deciding to invest in our common stock, you should carefully consider the risks described below together with all the information contained herein, including our financial statements and the notes thereto. Any risk described below, by itself or together with one or more other factors, may adversely affect our business, results of operations, financial condition, prospects and the market price and liquidity of our common stock, perhaps materially. The risks presented below are not the only risks that we face. Additional risks that we do not presently know or that we currently deem immaterial may also have an adverse effect on our business, results of operations, financial condition, prospects and the market price and liquidity of our common stock. In such a case, you may lose all or part of your investment. Further, to the extent that any of the information contained in this document constitutes forward- looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Forward-Looking Statements" on Page 1 of this document.

Risks Related to Our Business:

A lack of liquidity could adversely affect our financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to gather deposits, make investments and effectively manage the repayment and maturity schedules of loans to ensure that there is adequate liquidity to fund our operations and pay our obligations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff, which are strongly influenced by external factors such as changes in interest rates, local and national economic conditions, the availability and attractiveness of alternative investments, and perceptions of the stability of the financial services industry generally and of our institution specifically. Further, the demand for deposits may be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the Federal Reserve, or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, which would increase our funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and borrowings from the FHLB of New York. We also have borrowing capacity through three correspondent banks and had the ability to participate in the Federal Reserve's Bank Term Funding Program as needed. The Bank Term Funding Program ended on March 11, 2024 but we can reallocate collateral to access the Federal Reserve's discount window. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets, changes in the value of investment securities, negative views and expectations about the prospects for the financial services industry, a decrease in our business activity as a result of a downturn in markets, or adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as repaying borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our loan portfolio has a significant concentration in commercial loans.

Our loan portfolio is made up largely of commercial real estate loans and commercial and industrial loans. These types of loans generally expose a lender to a higher degree of credit risk of nonpayment and loss than other loans because of several factors, including dependence on the successful operation of a business or a project for repayment, the collateral securing these loans may not be sold as easily as for other loans, and loan terms may include a balloon payment rather than full amortization over the loan term. In addition, commercial real estate and commercial and industrial loans typically involve larger loan balances to single borrowers or groups of related borrowers. Underwriting and portfolio management activities cannot completely eliminate all risks related to these loans. Any significant failure to pay on time by our customers or a significant default by our customers could materially and adversely affect us.

At December 31, 2023, we had $2.29 billion of commercial real estate loans, which represented 75.9% of our total loan portfolio. Our commercial real estate loans include loans secured by owner-occupied and non- owner-occupied tenanted properties for commercial uses, construction and development loans and multi- family loans. In addition, we make both secured and unsecured commercial and industrial loans. At December 31, 2023, we had $506.8 million of commercial and industrial loans, which represented 16.8% of our total loan portfolio. Unsecured loans generally involve a higher degree of risk of loss than do secured loans because, without collateral, repayment is wholly dependent upon the success of the borrowers' businesses. Secured commercial and industrial loans are generally collateralized by accounts receivable, inventory, equipment or other assets owned by the borrower and typically include a personal guarantee of the business owner. Compared to real estate, such collateral is more difficult to monitor, its value is harder to ascertain, it may depreciate more rapidly, and it may not be as readily saleable if repossessed.

Loans secured by owner-occupied real estate and commercial and industrial loans are both reliant on the underlying operating businesses to provide cash flow to meet debt service obligations, and as a result they are more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate market. Many factors, including continuing global economic difficulties could reduce or halt growth in our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner in the current economic climate, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in credit loss expense and/or an increase in charge offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening of the commercial real estate market may increase the likelihood of default on these loans, which could negatively impact our loan portfolio's performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.

As discussed above in "*Item 1. Business — Supervision and Regulation*," federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels or restrict our ability to originate new loans secured by commercial real estate. We can provide no assurance that capital would be available at that time.

On December 18, 2023, the FDIC issued an advisory entitled "Managing Commercial Real Estate Concentrations in a Challenging Economic Environment" (the "2023 Advisory"), replacing an advisory issued in 2008 and updating previously issued guidance. The 2023 Advisory express concerns regarding challenges in the CRE market and identifies key risk-management actions to help institutions with market conditions, including maintaining strong capital levels, ensuring appropriate credit loss allowances, closely managing loan portfolios, maintaining updated financial and analytical information, bolstering loan workout infrastructure, and maintaining adequate liquidity and diverse funding sources. The FDIC stated that it will "expect each board of directors and management team to strive for strong capital and appropriate allowance for credit loss levels, and to implement robust credit risk-management practices." If the FDIC were to scrutinize our board and management actions and require certain capital levels or specific practices, our earnings could be adversely affected and our cost of compliance could increase.

The nature of our commercial loan portfolio may expose us to increased lending risks.

Given the recent growth in our loan portfolio, a portion of our commercial loans are unseasoned, meaning that they were originated relatively recently. Our limited time with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge off levels above our expectations, which could negatively affect our performance.

The small to mid-sized businesses that we lend to may have fewer resources to mitigate the effects of a downturn in the economy, which may impair a borrower's ability to repay a loan to us that could materially harm our operating results.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid-sized businesses. These small to mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to mid-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations and financial condition.

Our allowance for credit losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for credit losses to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about external factors, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for credit losses and may require an increase in our allowance for credit losses.

Although we believe that our allowance for credit losses at December 31, 2023 was adequate to cover lifetime expected losses included in the portfolio, we cannot provide assurances that we will not further increase the allowance for credit losses or that our regulators will not require us to increase this allowance. Either of these occurrences could adversely affect our earnings.

Additionally, we adopted a new accounting standard, referred to as Current Expected Credit Loss ("CECL"), effective January 1, 2023. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. This has changed our current method of recording allowances for credit losses, which has required us to increase our allowance for credit losses and increased the types of data we needed to collect and review to determine the appropriate level of the allowance for credit losses.

Changes in interest rates may adversely affect our earnings and financial condition.

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest earning assets, the average balance of our interest bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest earning assets and our interest bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee ("FOMC") of the Federal Reserve, and market interest rates.

A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on interest earning assets and compresses our net interest margin. In addition, the economic value of equity could decline if interest rates increase. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. When interest bearing liabilities mature or re-price more quickly than interest earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest earning assets mature or re-price more quickly than interest bearing liabilities, falling interest rates could reduce our net interest income.

Changes in interest rates may also affect demand for our products and services, competition for deposits, the fair value of our financial assets and liabilities, the average duration of our mortgage-backed securities portfolio and other interest-earning assets, levels of delinquencies and defaults on loans, our provision and allowance for credit losses, and loan prepayments.

We attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. FOMC increased the federal funds rate by 25 basis points on March 17, 2022, 50 basis points on May 5, 2022, 75 basis points on June 16, 2022, 75 basis points on July 28, 2022, 75 basis points on September 22, 2022, 75 basis points on November 3, 2022, and 50 basis points on December 15, 2022. FOMC increased the federal funds rate by 25 basis points on February 2, 2023, 25 basis points on March 23, 2023, 25 basis points on May 4, 2023, and 25 basis points on July 27, 2023.

Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability.

We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and may increase our cost of funds.

We also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non-bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

We may experience impairments of goodwill or other intangible assets in the future.

As of December 31, 2023, our consolidated balance sheet included goodwill of $44.2 million and other intangible assets of $10.8 million. Our business acquisitions typically result in goodwill and other intangible assets, which affect the amount of future amortization expense and potential impairment expense. We make estimates and assumptions in valuing such intangible assets that affect our consolidated financial statements. In accordance with U.S. GAAP, our goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that an asset might be impaired. Impairment testing incorporates the current market price of our common stock, the estimated fair value of our assets and liabilities, and certain information of similar companies. Impairment testing may be based on valuation models that estimate fair value. In preparing the valuation models, we consider a number of factors, including operating results, business plans, economic conditions, future cash flows, and transactions and market data. There are inherent uncertainties related to these factors and our judgment in applying them to the impairment analyses. It is possible that future impairment testing could result in the identification of a decline in the fair value of our goodwill or other intangible assets, which may be less than the carrying value. If we determine that impairment exists at a given point in time, our earnings and the book value of goodwill or other related intangible asset will be reduced by the amount of the impairment. If we record an impairment loss related to our goodwill or other intangible assets, it could have a material adverse effect on our business, financial condition, results of operations and the trading price of our securities. Notwithstanding the foregoing, the results of impairment testing on our goodwill or other intangible assets have no impact on our tangible book value or regulatory capital levels.

Our growth has substantially increased our expenses and impacted our results of operations.

Although we believe that our growth strategy will support our long-term profitability and franchise value, the expense associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our locations, has and may continue to negatively affect our results. In addition, in order for our existing branches to contribute to our long-term profitability, we will need to be successful in attracting and maintaining cost-efficient deposits at these locations. In order to successfully manage our growth, we need to effectively execute policies, procedures and controls to maintain our credit quality and oversee our operations. We can provide no assurance that we will be successful in this strategy.

Our lending limit may restrict our growth.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Based upon our current capital levels, the amount we may lend is less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We may accommodate larger loans by selling participations in those loans to other financial institutions, but this ability may not always be available.

We must maintain and follow high underwriting standards to grow safely.

Our ability to grow our assets safely depends on maintaining disciplined and prudent underwriting standards and ensuring that our relationship managers and lending personnel follow those standards. The weakening of these standards for any reason, such as to seek higher yielding loans, or a lack of discipline or diligence by our employees in underwriting and monitoring loans, may result in loan defaults, foreclosures and additional charge offs and may necessitate that we significantly increase our allowance for credit losses. As a result, our business, results of operations, financial condition or prospects could be adversely affected.

Our growth-oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees.

We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

We may need to raise additional capital to execute our growth-oriented business strategy.

In order to continue our growth, we will be required to maintain our regulatory capital ratios at levels higher than the minimum ratios set by our regulators. Accordingly, we may be required to raise additional capital in the future. We can offer no assurance that we will be able to raise capital in the future, or that the terms of any such capital will be beneficial to our existing shareholders. Our ability to raise additional capital, if needed, will depend on our financial performance and conditions in the capital markets, which are outside of our control. In the event we are unable to raise capital in the future, we may incur increased costs and may not be able to continue our growth strategy.

Our ability to pay dividends is subject to regulatory limitations which may affect our ability to pay dividends to shareholders.

As described in "*Item 1. Business — Supervision and Regulation,*" our ability to pay dividends to our shareholders may be restricted by law or regulation. Therefore, investors should not purchase shares of common stock with a view for a current return on their investment in the form of additional cash dividends.

We may not be able to successfully integrate banks or other businesses that we may acquire.

We continue to actively pursue an acquisition strategy. Our strategy has been to carefully evaluate each acquisition opportunity presented to us to determine whether it fits into our strategic growth plan and ensure that it does not involve excessive risk to the Bank. We may not be able to successfully integrate the assets, liabilities, customers, systems and management personnel we acquire into our operations, and we may not be able to realize related revenue synergies and cost savings within our expected time frames. In addition, we will incur substantial legal, investment banking, accounting and other expenses in pursuing any other acquisitions. With respect to any completed acquisition, there will be potential goodwill impairment charges and fluctuations in the fair values of assets in the event projected financial results are not achieved within expected time frames.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates.

In recent times, shareholders and other stakeholders have begun to consider how corporations are addressing environmental, social and governance ("ESG") issues. Investors, as well as governments, customers and the general public, are increasingly focused on ESG practices and disclosures, and views about ESG are diverse and rapidly changing. These shifts in investing priorities may result in adverse effects on the trading price of the Company's common stock if investors determine that the Company has not made sufficient progress on ESG matters. The Company could also face potential negative ESG-related publicity in traditional media or social media if shareholders or other stakeholders determine that we have not adequately considered or addressed ESG matters.

If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Additionally, damage to our reputation could undermine the confidence of our current and potential clients in our ability to provide financial services. Such damage could also impair the confidence of our counterparties and business partners, and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the "First Bank" brand and associated trademarks. Defense of our reputation, including through litigation, could result in costs adversely affecting our business, results of operations, financial condition or prospects.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to have, and periodically evaluate, procedures with respect to our internal control over financial reporting. In addition, as a public company, we are required to document and test our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act so that our management can certify as to the effectiveness of our internal control over financial reporting. Furthermore, pursuant to reporting requirements under the rules of the FDIC, management is required to prepare a report that contains an assessment by management of the effectiveness of our internal control over financial reporting (including the Call Report that is submitted to the FDIC) as of the end of each fiscal year. Similarly, our independent registered public accounting firm is required to examine, attest to and report on the effectiveness of our internal control over financial reporting in order to comply with Section 36 of the Federal Insurance Act (FDI Act) and Part 363 of the FDIC's regulations.

The rules that must be met for management to assess our internal controls over financial reporting are complex and require significant documentation and testing and possible remediation of internal control weaknesses. The effort to comply with regulatory requirements relating to internal controls causes us to incur increased expenses, and is likely to continue to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In addition, in connection with the attestation process, we may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation from its independent registered public accounting firm. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank's internal controls over financial reporting, investor confidence and the price of our common stock could be adversely affected and we may be subject to additional regulatory scrutiny.

We rely on third parties to provide key components of our business infrastructure, and a failure of these parties to perform for any reason could disrupt our operations.

Third parties provide key components of our business infrastructure such as data processing, Internet connections, network access, core application processing, statement production and account analysis. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third party servicers. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Risks Related to Tax Laws:

We may be adversely affected by changes in U.S. tax laws.

The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017, which substantially revised the Internal Revenue Code of 1986, as amended, and introduced significant changes to U.S. income tax laws. Effective January 1, 2018, the Tax Act reduced the U.S. statutory corporate income tax rate from 35% to 21%. While this decline in the federal corporate tax rate lowered our income tax expense as a percent of our taxable income in 2019 and 2018, other provisions of the Tax Act or future tax reform could negatively impact us. The Tax Act, among other things, contains other significant changes to the taxation of corporations, including limiting the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limiting the deduction for net operating losses to 80% of current year taxable income and eliminating net operating loss carrybacks, allowing immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits which may, as applicable, have an adverse effect on our profitability. The changes brought forth by the Tax Act may also have created, and may continue to create, an additional tax burden for many borrowers, particularly in high tax jurisdictions such as the State of New Jersey where we operate. This may result in our customers' inability to repay loans or maintain deposits at the Bank, decrease of demand for mortgage loans and overall adverse effect on the market for residential properties. Notwithstanding the reduction in the corporate income tax rate, the overall impact of any of the foregoing and other changes in federal tax laws is uncertain and could have a material adverse effect on our business, financial condition and results of operations.

The Inflation Reduction Act was signed into law by President Biden on August 16, 2022 which, amongst other things, implements a new alternative minimum tax of 15% on corporations with profits in excess of $1 billion, a 1% excise tax on stock repurchases, and several tax incentives to promote clean energy and climate initiatives. These provisions are effective beginning January 1, 2023. Based on its analysis of the provisions, we do not expect this legislation to have a material impact on our consolidated financial statements.

New Jersey legislative changes may increase our tax expense.

For New Jersey tax purposes, regular corporations are presently taxed at a rate equal to 9% of taxable income. New Jersey also imposed a temporary surtax of 2.5% which was effective through December 31, 2023. For 2019 and prospectively, New Jersey law requires combined filing for members of an affiliated group, but excludes companies that qualify as a New Jersey Investment Company ("ICs") and Real Estate Investment Trusts ("REITs"). The allocation and apportionment of taxable income to New Jersey may affect the overall tax rate. During 2023, the New Jersey Division of Taxation enacted certain tax reform legislation. Most notably to the Company, for periods ending on and after July 31, 2023, companies meeting the statutory definition of "captive" ICs and REITs are required to be included in the combined filing. This legislation included an exception if at least 50% of the shares, by vote or value, are owned or controlled, directly or indirectly, by a state or federally chartered bank, savings bank, or savings and loan association (financial institution) with assets of $15 billion or less. As of December 31, 2023 the Company qualified for this exception.

Risks Related to the Financial Services Industry Generally:

The financial services industry is subject to market uncertainty.

In addition to the impact on the economy generally, changes in interest rates, changes in the shape of the yield curve, changes in valuations in the debt or equity markets, or disruptions in the liquidity or other functioning of financial markets, including those recently experienced as a result of the public health crisis facing the United States, could directly impact us in one or more of the following ways:

- Net interest income, the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities, represents a significant portion of our earnings. Increases or decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the spread between the interest we earn on loans, securities and other interest earning assets, and the interest we pay on deposits, borrowings and other interest bearing liabilities. The net interest spread is affected by the differences between the maturity and repricing characteristics of our interest earning assets and interest bearing liabilities. Our interest earning assets may not reprice as slowly or rapidly as our interest bearing liabilities.

- The market value of our securities portfolio may decline and result in other than temporary impairment charges. The value of the securities in our portfolio is affected by factors that impact the U.S. securities markets in general as well as specific financial sector factors and entities. Uncertainty in the market regarding the financial sector has at times negatively impacted the value of securities within our portfolio. Further declines in these sectors may result in future other than temporary impairment charges.

- Asset quality may deteriorate as borrowers become unable to repay their loans.

Also, more generally, our business and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. In addition, economic and other conditions in foreign countries could affect the stability of global financial markets, which could hinder United States economic growth.

If the U.S. and global economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Weak economic conditions are characterized by numerous factors; such as deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors can individually or in aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions could have a material adverse effect on our financial condition and results of operations.

We are subject to significant government regulation, which could affect our business, financial condition and results of operations.

We are subject to extensive governmental supervision, regulation and control. These laws and regulations are subject to change, and may require substantial modifications to our operations or may cause us to incur substantial additional compliance costs. In addition, future legislation and government policy could adversely affect the commercial banking industry and our operations. Such governing laws can be anticipated to continue to be the subject of future modification. Our management cannot predict what effect any such future modifications will have on our operations. In addition, the primary focus of federal and state banking regulation is the protection of depositors and not the shareholders of the regulated institutions.

Current or proposed regulatory or legislative changes to laws applicable to the financial industry may impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations.

Changes in accounting standards or changes in how the accounting standards are interpreted or applied could materially impact the Company's financial statements.

From time to time, the Financial Accounting Standards Board ("FASB") or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and our independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report our financial statements. In some cases, we could be required to apply a new or revised standard retroactively, potentially resulting in restating a prior period's financial statements.

For example, in June 2016, the FASB issued a new accounting standard, ASU (Accounting Standards Update) 2016-13, Financial Instruments — Credit Losses (Topic 326), that will require the recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. The new guidance became effective for the Company on January 1, 2023. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. This has changed our current method of recording allowances for loan losses that are probable, which has required us to increase our allowance for credit losses and greatly increased the types of data we needed to collect and review to determine the appropriate level of the allowance for credit losses.

The laws that regulate our operations are designed for the protection of depositors and the public, not our shareholders.

The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting shareholders. These laws and regulations can materially affect our future business. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change.

We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase our cost of doing business or otherwise adversely affect us and create competitive advantages for non-bank competitors.

We cannot predict how changes in technology will impact our business; increased use of technology may expose us to service interruptions.

The financial services market, including banking services, is increasingly affected by advances in technology, including developments in:

- telecommunications;
- data processing;
- payment systems;
- automation;
- internet banking, including mobile banking;
- social media;

- debit cards and so-called “smart cards”; and
- remote deposit capture.

Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business customers including cash management services, Internet banking, mobile banking and electronic bill payment, as well as banking by phone. We also offer ATM and debit cards, wire transfers, ACH transfers and remote deposit capture. The successful operation and further development of these and other new technologies will likely require additional capital investment in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service which could expose us to claims by customers or other third parties. We also contract with third parties that provide sophisticated technology that may present additional operational risk. We can provide no assurance that we will have sufficient resources or access to the necessary technology to remain competitive in the future.

We may be vulnerable to cyberattacks or other security breaches affecting our electronic data and product delivery systems.

The financial services industry has experienced an increase in both the number and severity of reported cyberattacks aimed at gaining unauthorized systems access as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. We are increasingly dependent on technology systems to run our core operations and as a delivery channel to provide products and services to our customers. We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers’ transaction data may put us at risk for possible losses due to fraud or operational disruption. In many cases, in order for these systems to function, they must be connected to the Internet, directly or indirectly. These connections open our systems to potential attacks by third parties seeking to steal our data, our customers’ information or to disable our systems. A successful attack on our systems could adversely affect our results of operations by, among other things, harming our reputation among current and potential customers if their information is stolen, disrupting our operations if our systems are impaired, the loss of assets which could be stolen in an attack and the costs of remediating our systems after an attack. Although we have security safeguards and take numerous steps to protect our systems from a potential attack, we can provide no assurance that these measures will be successful in preventing intrusions into our systems. The occurrence of a breach of security involving our customers could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

While our Board of Directors takes an active role in cybersecurity risk tolerance, we rely to a large degree on management and outside consultants in overseeing cybersecurity risk management.

Our Board of Directors takes an active role in the cybersecurity risk tolerance of the Company and all members receive cybersecurity training annually. The Board reviews the annual risk assessments and approves information technology policies, which include cybersecurity. Furthermore, our Audit Committee is responsible for reviewing all audit findings related to information technology general controls, internal and external vulnerability, and penetration testing. We also engage outside consultants to support our cybersecurity efforts. However, our directors do not have significant experience in cybersecurity risk management outside of the Company and therefore, its ability to fulfill its oversight function remains dependent on the input it receives from management and outside consultants.

Severe weather, acts of terrorism, and geopolitical and other external events could impact our business.

Weather-related events have adversely impacted our market area in recent years, especially areas located near coastal waters and flood prone areas. Significant flooding and other storm-related damage may become increasingly common in the future. Additionally, financial institutions have been, and continue to be, targets of terrorist threats and cyberattacks aimed at compromising operating and communication systems, and the metropolitan New York area, including New Jersey, remain targets for potential acts of terrorism. Such events could cause significant damage, impact the stability of our facilities, result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans, and result in the loss of revenue. Financial markets also may be adversely affected by military conflicts, terrorism or other geopolitical events, or the anticipation of such events. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Public health emergencies, like the COVID-19 outbreak, may adversely impact our business, results of operations, financial condition and capital levels.

The COVID-19 pandemic caused significant economic dislocation in the United States and had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally, including curtailment of business activity, increased levels of unemployment, and supply chain disruptions in the markets in which we operate. As a result of a public health emergency, including the COVID-19 pandemic, and the related adverse local and national consequences, and as a result of governmental, consumer and business responses to any outbreak, we may be subject to the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, or results of operations: demand for our products and services may decline; if consumer and business activities are restricted, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could increase loan losses; our allowance for credit losses may have to be increased if borrowers experience financial difficulties; a material decrease in net income or a net loss over several quarters could affect our ability to pay cash dividends; cyber security risks may be increased as the result of an increase in the number of employees working remotely; critical services provided by third-party vendors may become unavailable; government actions and vaccine mandates in response to the pandemic may affect our workforce, human capital resources and infrastructure; and we may experience staffing shortages and unanticipated unavailability or loss of key employees, harming our ability to execute our business strategy.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

Governance

Cybersecurity is an integral part of our Board of Director's ("Board") risk analysis and discussions with management. While everyone at our Company plays a part in managing cybersecurity risks, primary cybersecurity oversight responsibility is shared by our Board of Directors, the Information Technology subcommittee of the Board of Directors and senior management. Our Board has established an Information Technology subcommittee that meets on at least a quarterly basis. The Information Technology committee of the Board provides oversight and governance of the Company's technology program. At least annually, the full Board is updated on the Company's cybersecurity risks and risk mitigation strategy by our Chief Technology Officer along with our Information Security Officer, who are responsible for the management of our Information Technology and Information Security programs. The Information Technology committee and the full Board also receive ad hoc updates, as needed, about material changes to the Company's cybersecurity program and/or the cybersecurity landscape, including briefings on major legislative and regulatory developments, from our Chief Technology Officer. Our Chief Technology Officer and his team regularly evaluate the Company's cybersecurity risk profile and lead the development of strategies to mitigate risks and address cybersecurity issues that may arise, in consultation with members of our senior management team. Our Chief Technology Officer has approximately 25 years of experience in his respective field.

Risk Management and Strategy

We have developed and implemented cybersecurity risk management processes intended to protect the confidentiality, integrity and availability of our critical systems and information. Our Cybersecurity risk assessment processes are designed to help identify material cybersecurity risks to our critical systems, information, products, services and broader enterprise information technology environment. We have formal policies and procedures that address cybersecurity incident response and disaster recovery from interference with our critical applications. Our Incident Response Plan provides a documented framework for responding to cybersecurity incidents in coordination across multiple departments. In the event of such an incident, our Incident Response Team, which is comprised of our Chief Technology Officer, Information Security Officer and representatives from Senior Management, would respond to such incident in accordance with our Incident Response Plan. Any cybersecurity incident that meets certain criteria will be communicated by the Incident Response Team to senior management and the Board in a timely manner, and will be evaluated by our Executive Management Team, comprised of certain executives, to assess the impact of the incident on the Company, considering qualitative and quantitative factors. In conducting this assessment and responding to an incident, we may utilize the services of third-party consultants. Cybersecurity user awareness training is mandatory for all new hires and for existing employees on an annual basis to help protect our employees and the Company against cybersecurity threats. This annual training is customized to address specific cybersecurity challenges and scenarios that we may face within the banking industry. Novel cybersecurity threats to the Company that are identified by our Information Technology team are communicated to all employees by email, as needed, in an effort to promote awareness and protect the Company from cyber attacks.

Our daily operations are monitored by a dedicated information technology team. Management along with third party security consultants conduct monitoring of our computer networks and have implemented systems and processes intended to secure our information technology systems and prevent unauthorized access to or loss of sensitive data, including through the use of encryption and authentication technologies. We assess the adequacy of our cybersecurity measures through annual penetration testing of our computer networks by external consultants, and we have performed tabletop simulations and drills at both a technical and management level around scenarios involving the loss of critical information and technology systems.

We maintain a risk-based approach to evaluating and overseeing cybersecurity risks presented by our third-party vendors. Third-party vendors that meet certain criteria, such as owning and operating any information technology networks and systems on which the Company relies, are evaluated to assess their performance across several domains, including data security and operations management. We seek to maintain effective communication with our third-party vendors to facilitate timely notification of cybersecurity incidents that might impact the Company.

Over the past fiscal year, we have not identified risks from known cybersecurity threats, including as a result of any previous cybersecurity incidents, that have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations or financial condition. Like other companies in our industry, we could, from time to time, experience threats and security incidents related to our and our third-party vendors' information systems. We will continue to monitor and assess our cybersecurity risk management program as well as invest in and seek to improve such systems and processes as appropriate. For more information on cybersecurity risk, please see Item 1A. Risk Factors.

Item 2. Properties.

As of December 31, 2023, our properties consisted of our corporate office location, which included a full-service branch office, one additional administrative office location, and twenty-five additional full-service branch offices. Nineteen properties are leased and seven are owned. The following table summarizes our properties by county and state as of December 31, 2023:

	Number of Properties
New Jersey	
Burlington County	2
Gloucester County	1
Hunterdon County	2
Mercer County	5
Middlesex County	1
Morris County	3
Essex County	1
Somerset County	1
Total New Jersey	16
Pennsylvania	
Bucks County	3
Chester County	6
Delaware County	1
Total Pennsylvania	10
Florida	
Palm Beach	1
Total Florida	1
Total	27

We believe that all of our properties are well maintained, in good operating condition and adequate for all of our present and anticipated needs.

Item 3. Legal Proceedings.

From time to time we are a party to various litigation matters incidental to the conduct of our business. There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or to which any of our property is subject, and the results of such matters will not have a material effect on our business or financial condition.

Item 4. Mine Safety Disclosures.

Not applicable.

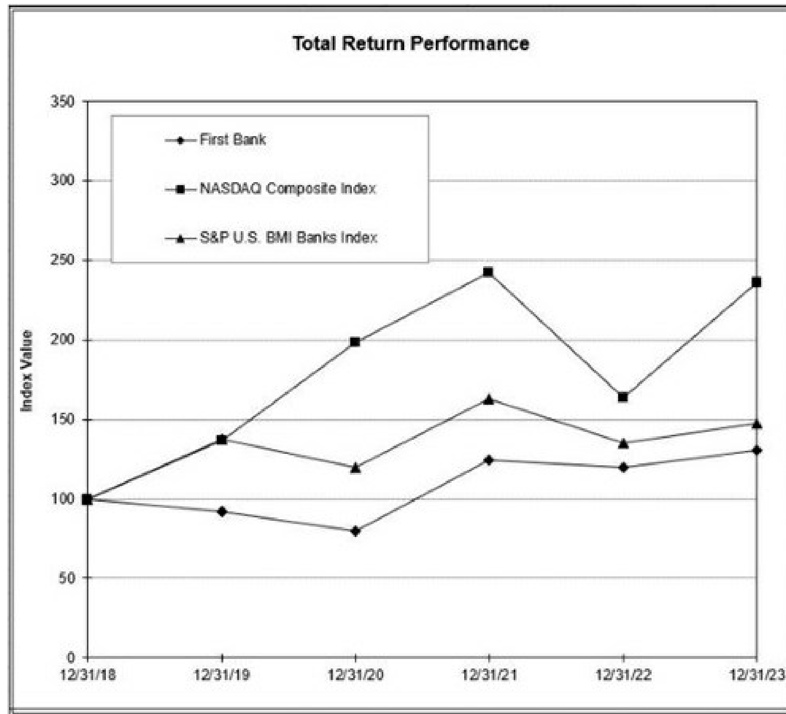
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Common Stock

First Bank's common stock is traded on the Nasdaq Global Market exchange under the ticker symbol "FRBA". As of March 8, 2024, there were approximately 833 stockholders of record of the Company's common stock. Certain shares of the Company's common stock are held in "nominee" or "street" name and therefore the number of such holders is not known or included in the foregoing number.

The following chart compares the Company's cumulative total shareholder return, on a dividend reinvested basis, over the past five years commencing December 31, 2018 and ending December 31, 2023, with the NASDAQ Composite Index and the S&P U.S. BMI Banks Index.



Index	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
First Bank	100.00	92.18	79.42	124.26	119.78	130.64
NASDAQ Composite Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P U.S. BMI Banks Index	100.00	137.36	119.83	162.92	135.13	147.41

Source: S&P Global Market Intelligence
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Unregistered Sales of Equity Securities and Use of Proceeds

On October 4, 2023, 2,500 shares of Common Stock were issued to a director of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $15,175. On October 11, 2023, 5,000 shares of Common Stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $30,350. On October 23, 2023, 1,000 shares of Common Stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $6,070. On November 6, 2023, 3,500 shares of Common Stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $21,245. On November 06, 2023, 3,500 shares of Common Stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $21,245. On November 15, 2023, 15,000 shares of Common Stock were issued to an officer of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.07. The aggregate proceeds from such issuances were $91,050. On December 27, 2023, 6,000 shares of Common Stock were issued to a director of First Bank upon the exercise of outstanding options to purchase such shares having an exercise price of $6.50. The aggregate proceeds from such issuances were $39,000. The additional capital will be used for general corporate purposes, including the support of additional growth. These issuances were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(2) of the Securities Act.

Item 6. Reserved.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The purpose of this discussion and analysis is to provide the reader with information pertinent to understanding and assessing First Bank and Subsidiaries results of operations and financial condition for each of the past two years, the changes in key items in First Bank's consolidated financial statements from year to year, and the primary reasons for those changes.

The objectives of this section are:

- To provide a narrative explanation of First Bank's consolidated financial statements that enables investors to see the company through the eyes of management;
- To enhance the financial disclosure and provide the context within which financial information should be analyzed; and
- To provide information about the quality of, and potential future variability of, First Bank's earnings and cash flow.

The discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this document.

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements with respect to the financial condition, results of operations and business of First Bank. These forward-looking statements involve risks and uncertainties. Certain factors that may cause actual results to differ materially from those contemplated by such forward-looking statements are described in the section "Forward-Looking Statements" on Page 1 of this document.

Company Overview

We are a New Jersey state-chartered commercial bank headquartered in Hamilton in Mercer County, New Jersey that began operations on April 23, 2007. We provide a traditional set of 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 target markets are located in the corridor between New York City and Philadelphia. As of December 31, 2023, we operated twenty six full-service branches, including four branches and our corporate and administrative offices in our primary market of Mercer County, New Jersey. Our other New Jersey branches are located in Williamstown, Gloucester County, Somerset, Somerset County, Monroe Township in Middlesex County, Flemington (2), Hunterdon County, two branches in Burlington County, three branches in Morris County and one branch in Essex County. We have six branches in Chester County, three branches in Bucks County and one in Delaware County, Pennsylvania. We also have one branch in Palm Beach County, Florida.

As part of our tax planning strategy, we have a New Jersey real estate investment trust indirect subsidiary and a Delaware investment company direct subsidiary. We also have three active wholly-owned subsidiaries which were formed to hold foreclosed assets.

As a provider of traditional loan and deposit services we face continuous competitive pressures as both banks and nonbanks compete for customers with a broad array of banking, investment and capital market products. Despite the increased competition we have grown our loan portfolio both in our existing markets and by expanding into contiguous markets, and we see opportunities for continued growth. We believe these markets have customers with banking needs that desire the personalized service we can provide. We believe that the key differentiating factors between us and our competitors 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.

The following selected consolidated financial data should be read in connection with the remainder of this section "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*," and the Company's consolidated financial statements and the related notes appearing in "*Item 8. Financial Statements and Supplementary Data*" of this Annual Report on Form 10-K. The Company derived the consolidated statements of income data for the years ended December 31, 2023 and 2022 and the consolidated statements of financial condition data at December 31, 2023 and 2022 from the audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The Company's historical results are not necessarily indicative of the results to be expected in any future period.

	At or For the Year Ended December 31,		
	2023 (5)	**2022**	**2021 (1)**
		(in thousands)	
SELECTED BALANCE SHEET DATA			
Total assets	$ 3,609,327	$ 2,732,940	$ 2,523,744
Total loans	3,021,501	2,337,814	2,125,437
Allowance for credit losses	42,397	25,474	23,746
Total deposits	2,967,569	2,293,952	2,114,602
Total borrowings	179,140	90,932	95,281
Total subordinated debentures	55,261	29,731	29,620
Total stockholders' equity	370,900	289,562	266,666
Average total assets	3,177,571	2,587,344	2,420,517
Average stockholders' equity	327,291	277,639	253,732

	At or For the Year Ended December 31,		
	2023 (5)	2022	2021 (1)
	(in thousands, except share data)		
SELECTED INCOME STATEMENT DATA			
Interest and dividend income	$ 174,017	$ 107,261	$ 91,114
Interest expense	69,501	14,888	9,224
Net interest income	104,516	92,373	81,890
Credit loss (benefit)	7,943	2,872	(232)
Net interest income after provision for loan losses	96,573	89,501	82,122
Non-interest income	(715)	5,120	7,754
Non-interest expense	68,700	46,733	43,152
Income before income taxes	27,158	47,888	46,724
Income tax expense	6,261	11,601	11,295
Net income	$ 20,897	$ 36,287	$ 35,429
COMMON SHARE DATA			
Basic earnings per share	$ 0.95	$ 1.86	$ 1.81
Diluted earnings per share	$ 0.95	$ 1.84	$ 1.79
Cash dividends per share	$ 0.24	$ 0.24	$ 0.15
Basic weighted average common shares outstanding	21,942,174	19,503,837	19,611,381
Diluted weighted average common shares outstanding	22,072,616	19,716,684	19,815,747
Book value per common share	$ 14.85	$ 14.89	$ 13.69
Common shares outstanding	24,968,122	19,451,755	19,472,364

	At or For the Year Ended December 31,		
	2023 (5)	2022	2021 (1)
SELECTED PERFORMANCE RATIOS			
Return on average assets	0.66%	1.40%	1.46%
Return on average equity	6.38%	13.07%	13.96%
Net interest margin (2)	3.47%	3.75%	3.56%
SELECTED ASSET QUALITY RATIOS			
Nonaccrual loans to total loans	0.26%	0.27%	0.61%
Nonperforming loans to total loans (3)	0.83%	0.40%	0.75%
Nonperforming assets to total assets (4)	0.69%	0.34%	0.67%
Allowance for credit losses to total loans	1.40%	1.09%	1.12%
Allowance for credit losses to nonperforming loans	169.66%	275.60%	148.03%
Net loan charge offs to average loans	0.06%	0.05%	0.00%
CAPITAL RATIOS			
Stockholders' equity to assets	10.28%	10.60%	10.57%
Tier 1 leverage capital	9.12%	10.41%	10.15%
Common equity tier 1 capital	9.22%	10.40%	10.65%
Tier 1 risk-based capital	9.22%	10.40%	10.65%
Total risk-based capital	11.58%	12.49%	12.97%

(1) Includes effects of the acquisition of two branches in December 2021.

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

(3) Nonperforming loans consist of nonaccrual loans, loans past due 90 days or more and still accruing and PCD/PCI non-accruing loans.

(4) Nonperforming assets consist of nonperforming loans, other real estate owned and other repossessed assets.

(5) Includes effects of Malvern acquisition on July 17, 2023.

Non-GAAP Financial Measures

The Company reports certain financial measures that are not recognized under generally accepted accounting principles in the United States of America ("GAAP"). To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we may use the following non-GAAP financial measures in this Annual Report on Form 10-K: efficiency ratio, adjusted non-interest expense, tangible stockholders' equity ratio, tangible stockholders' equity, adjusted total assets, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets and adjusted return on average equity. We believe that these non-GAAP financial measures, when used in conjunction with GAAP financial measures, provide useful information about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to the key metrics we use in our financial and operational decision making. These non-GAAP measures are also frequently used and widely followed by analysts, investors and other interested parties to evaluate companies in our industry. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and they should not be construed as an inference that our future results will be unaffected by any items adjusted for in these non-GAAP measures. In evaluating these non-GAAP measures, you should be aware that, in the future, we may incur expenses that are the same as or similar to some of those adjusted in this presentation. The non-GAAP financial measures that we use are not always necessarily comparable to similarly titled measures used by other companies due to different methods of calculation. Tables providing a reconciliation between certain GAAP financial measures and the related non-GAAP financial measures are included in the discussion below.

Malvern Bancorp, Inc and Malvern Bank Acquisition

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

Organic Growth Initiatives

In addition to the aforementioned acquisition, we continue to make investments in organically growing our business and franchise. In 2023, we opened a new northern New Jersey regional headquarters in Fairfield, New Jersey, located in Essex County. We also relocated our West Chester, Pennsylvania branch to a more accessible and visible location. Reflective of our focus on commercial lending, we have continued to enhance and expand our commercial lending service offerings, as evidenced by the recent establishment of new Asset Based Lending unit.

Capital

On October 26, 2021, we received regulatory approval for the repurchase of up to 1.3 million shares of First Bank common stock in the open market for an aggregate repurchase amount of up to $18,2 million. This share repurchase program was also approved by our board and ran through September 30, 2022.

On October 7, 2022, we received regulatory approval for the repurchase of up to 1.2 million shares of First Bank common stock in the open market for the aggregate repurchase amount of $19,2 million. This share repurchase program was also approved by our Board and ran through September 30, 2023.

During the year ended December 31, 2023, we purchased 550,000 shares of outstanding common stock through our share repurchase programs for an aggregate purchase price of $5.5 million. During the year ended December 31, 2022, we purchased 251,922 shares of outstanding common stock for an aggregate purchase price of $3.5 million.

We expect to continue to grow our balance sheet organically. Our loan pipeline and deposit generation activities remain active in a competitive marketplace. We also continue to explore acquisition opportunities that would help us achieve further economies of scale and enhanced shareholder value.

Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with 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 Financial Condition and Results of Operations. Our significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements located elsewhere in this document.

We define our critical accounting estimates as those 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 allowance for credit losses, fair value accounting of acquired loans and the evaluation of goodwill for impairment, are critical accounting estimates. Management has reviewed and approved these critical accounting estimates and has discussed these policies with the Audit and Risk Management Committee of our Board of Directors.

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

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

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 purchase credit deterioration ("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.

Principal and interest payments received on PCD loans, which were written down to $0 at the acquisition date are reported in the consolidated statements of income as gains on recovery of acquired loans. These loans were written down to $0 because there was no expectation of collecting the principal at the acquisition date. Payoffs on loans that had partial charge offs at the time of acquisition are reported in the consolidated statements of income in interest on loans, including fees, after retirement of principal.

Allowance for Credit Losses. 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 Allowance for Credit Losses ("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 primarily 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. Based on the nature of the acquired Malvern loan portfolio and the loan data available, we utilized a probability of default/loss given default method for these loans. 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 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 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 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.

For the acquired Malvern loan portfolio, the Company utilizes a probability of default/loss given default 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 formal evaluation process for determining the adequacy of the ACL takes place on a quarterly basis. As part of our formal process, our lending staff reevaluates the original rating assigned to the loans based on the current loan characteristics and updates the original rating accordingly. In addition, on a quarterly basis our Asset Quality Review ("AQR") Committee, which includes the President and CEO, Chief Lending Officer, Chief Credit Officer, Chief Financial Officer, Chief Accounting Officer and loan relationship and workout managers, formally reviews the ratings on all criticized and classified loans. The AQR Committee also oversees higher risk performing loans classified as special mention and substandard, and nonperforming loans. We define higher risk performing loans as those loans that exhibit certain weaknesses and require a higher level of monitoring because of factors such as payment performance, business conditions, nature of collateral or other factors. The AQR Committee reviews changes in risk ratings, approves strategies regarding problem credits and reviews distressed credit loan analyses. Risk classifications range from one to ten or from minimal risk to loss. Charge offs are also determined based on this review process. The AQR Committee confirms ACL allocations for all distressed credits each quarter.

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 Available for Sale ("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 was based upon factors such as the creditworthiness of the underlying issuer, historic payment history of each individual investment security and if applicable, 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 which is consistent with Interagency Policy Statement on ACL revised in April 2023. 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.

Goodwill and Other Intangible Assets. Our intangible assets consist primarily of goodwill and core deposit intangibles. 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.

In 2023 and 2022, we elected to perform a qualitative assessment of goodwill, as part of our established annual assessment date of August 31. Based on that assessment, we determined that it was more likely than not that the unit's fair value was not less than its carrying amount at both dates. We concluded that none of our goodwill was impaired as of August 31, 2023 or August 31, 2022. As of December 31, 2023 and December 31, 2022, no triggering events were identified and therefore, we did not perform an interim impairment evaluation at December 31, 2023 or December 31, 2022.

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 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 Small Business Administration ("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 December 31, 2023.

RESULTS OF OPERATIONS

Years Ended December 31, 2023 and 2022

Net Income

Net income for the years ended December 31, 2023 and 2022 was $20.9 million and $36.3 million, respectively. Diluted earnings per share for 2023 and 2022 were $0.95 and $1.84, respectively. Diluted earnings per share for 2023 and 2022 reflect the impact of shares repurchased during both years as part of our share repurchase programs. Shares repurchased totaled 550,000 and 251,922, respectively, for 2023 and 2022.

Our 2023 return on average assets and return on average equity were 0.66% and 6.38%, respectively, compared to 1.40% and 13.07%, respectively, for 2022.

The decrease in net income between the comparative periods of 42.4% was primarily due to higher non-interest expenses, lower non-interest income and higher credit loss expense in 2023 compared to 2022. The increase in non-interest expense was primarily due to higher merger-related expenses and higher expenses from the new employees and locations associated with Malvern acquisition. The lower non-interest income was primarily driven by losses on the sale of investment securities and loans. The higher credit loss expense was primarily due to the impact of the initial credit loss expense on the acquired Malvern loans. These items were partially offset by higher net interest income, primarily due to the impact of the growth in the balance sheet, primarily due to the Malvern acquisition.

Pre-tax income was $27.2 million for 2023 compared to $47.9 million for 2022, a decrease of $20.7 million or 43.3%.

Income tax expense for 2023 was $6.3 million compared to $11.6 million for 2022. The decrease of $5.3 million, or 46.0%, was primarily due to lower pre-tax income. Our annual effective tax rate for 2023 and 2022 was 23.1% and 24.2%, respectively.

For 2023, excluding merger related expenses, credit loss expense on acquired loans, and losses on sale of securities and loans, adjusted net income was $36.2 million, adjusted diluted earnings per share were $1.64, adjusted return on average assets was 1.14% and adjusted return on average equity was 11.06%. For 2022, excluding merger related expenses and gain on sale of loans, adjusted net income was $36.4 million, adjusted diluted earnings per share were $1.85, adjusted return on average assets was 1.41% and adjusted return on average equity was 13.11%.

The following table provides the derivation and reconciliation of the non-GAAP financial measures: adjusted net income, adjusted diluted earnings per share, adjusted return on average assets and adjusted return on average equity. We believe these measures are useful to management and investors in monitoring our results of operations.

	Year Ended December 31,	
	2023	2022
	(dollars in thousands, except share data)	
Net income	$ 20,897	$ 36,287
Add: Merger-related expenses (1)	6,358	357
Add: Credit loss expense on acquired loan portfolio(1)	4,323	-
Add (subtract): Losses (gains) on sale of loans, net(1)	3,312	(234)
Add: Losses on sale of investment securities, net(1)	1,303	-
Adjusted net income	$ 36,193	$ 36,410
Diluted weighted average common shares outstanding	22,072,616	19,716,684
Average assets	$ 3,177,571	2,587,344
Average equity	$ 327,291	277,639
Adjusted diluted earnings per share	$ 1.64	$ 1.85
Adjusted return on average assets	1.14%	1.41%
Adjusted return on average equity	11.06%	13.11%

(1) Tax-effected using a federal income tax rate of 21%.

Please see “*Non-GAAP Financial Measures*" earlier in this discussion for more information on these Non-GAAP Financial Measures.

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 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 on interest bearing liabilities to fund those interest earning assets.

The following table provides an analysis of net interest income by each major category of average interest earning assets and interest bearing liabilities, and the related interest yields and costs for the years ended December 31, 2023, 2022 and 2021. Average interest yields are derived by dividing interest income by the average balance of the related assets, and average interest costs are derived by dividing interest expense by the average balance of the related liabilities. Interest income and interest expense include fees, costs, premiums and discounts, which are considered adjustments to the respective average rates.

	Year Ended December 31,								
	2023			2022			2021		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(dollars in thousands)								
Interest earning assets									
Investment securities (1) (2)	$ 151,471	$ 4,352	2.87%	$ 143,460	$ 3,178	2.22%	$ 118,673	$ 2,353	1.98%
Loans (3)	2,697,024	160,846	5.96%	2,204,028	102,021	4.63%	2,036,855	88,136	4.33%
Interest bearing deposits with banks, Federal funds sold and other	150,500	7,756	5.15%	104,057	1,694	1.63%	134,109	248	0.18%
Restricted investment in bank stocks	9,084	706	7.77%	5,457	285	5.22%	7,312	348	4.76%
Other investments	9,319	398	4.27%	8,193	114	1.39%	6,727	64	0.95%
Total interest earning assets (2)	3,017,398	174,058	5.77%	2,465,195	107,292	4.35%	2,303,676	91,149	3.96%
Allowance for credit losses	(36,080)			(24,702)			(23,753)		
Non-interest earning assets	196,253			146,851			140,594		
Total assets	$ 3,177,571			$ 2,587,344			$ 2,420,517		
Interest bearing liabilities									
Interest bearing demand deposits	$ 498,075	$ 10,743	2.16%	$ 323,824	$ 1,395	0.43%	$ 225,945	$ 224	0.10%
Money market deposits	886,991	29,382	3.31%	719,743	5,923	0.82%	627,211	1,772	0.28%
Savings deposits	160,570	1,743	1.09%	184,510	989	0.54%	179,705	739	0.41%
Time deposits	593,798	18,413	3.10%	378,292	3,576	0.95%	458,980	2,949	0.64%
Total interest bearing deposits	2,139,434	60,281	2.82%	1,606,369	11,883	0.74%	1,491,841	5,684	0.38%
Borrowings	142,456	6,378	4.48%	69,916	1,244	1.78%	115,343	1,779	1.54%
Subordinated debentures	41,565	2,842	6.84%	29,672	1,761	5.93%	29,561	1,761	5.96%
Total interest bearing liabilities	2,323,455	69,501	2.99%	1,705,957	14,888	0.87%	1,636,745	9,224	0.56%
Non-interest bearing deposits	492,683			579,691			514,137		
Other liabilities	34,142			24,057			15,903		
Stockholders' equity	327,291			277,639			253,732		
Total liabilities and stockholders' equity	$ 3,177,571			$ 2,587,344			$ 2,420,517		
Net interest income/interest rate spread (2)		104,557	2.78%		92,404	3.48%		81,925	3.40%
Net interest margin (2) (4)			3.47%			3.75%			3.56%
Tax equivalent adjustment (2)		(41)			(31)			(35)	
Net interest income		$ 104,516			$ 92,373			$ 81,890	

(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.

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, related yields and associated funding costs. The following table demonstrates 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 years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31, 2023 versus 2022 Increase (Decrease) Due to Change in (1)			Year Ended December 31, 2022 versus 2021 Increase (Decrease) Due to Change in (1)		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
		(in thousands)			(in thousands)	
Interest income						
Investment securities (2)	$ 186	$ 988	$ 1,174	$ 528	$ 297	$ 825
Loans	25,695	33,130	58,825	7,506	6,379	13,885
Interest bearing deposits with banks, Federal funds sold and other	1,036	5,026	6,062	(68)	1,514	1,446
Restricted investment in bank stocks	243	178	421	(94)	31	(63)
Other investments	17	267	284	16	34	50
Total interest income (2)	27,177	39,589	66,766	7,888	8,255	16,143
Interest expense						
Interest bearing demand deposits	1,107	8,241	9,348	134	1,037	1,171
Money market deposits	1,673	21,786	23,459	297	3,854	4,151
Savings deposits	(143)	897	754	20	230	250
Time deposits	2,966	11,871	14,837	(585)	1,212	627
Total interest bearing deposits	5,603	42,795	48,398	(134)	6,333	6,199
Borrowings	2,086	3,048	5,134	(778)	243	(535)
Subordinated debentures	783	298	1,081	7	(7)	-
Total interest expense	8,472	46,141	54,613	(905)	6,569	5,664
Net interest income (2)	$ 18,705	$ (6,552)	$ 12,153	$ 8,793	$ 1,686	$ 10,479

(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) Interest is presented on a tax equivalent basis using a federal income tax rate of 21%.

After a prolonged period of a historically lower interest rate environment, the FOMC began raising the targeted Federal funds rate in March 2022 to address inflation. The targeted Federal Funds upper limit rate was 0.25% prior to the first rate increase in March 2022. In March, May, June, July, September, November and December, 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. The FOMC continued to increase rates with additional 25 basis point increases in each of February, March, May and July 2023 raising the targeted Federal Funds upper limit rate to 5.50% which is where the rate remained through December 31, 2023. The continued increase in short-term rates contributed to a severely inverted treasury yield curve which contributed to higher interest expense during 2023. Throughout 2023, we also focused on increasing liquidity to ensure our liquidity position was satisfactory to meet our funding requirements which also had a negative impact on our margin. 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 2023. These factors led to a declining margin during the first half of 2023, with our net interest margin decreasing to 3.28% during the three months ended June 30, 2023, due to an increase in our cost of interest bearing liabilities that outpaced the yield on interest earnings assets. However, during the second half of 2023, our margin improved from the low mark during the second quarter of 2023, primarily due to the impact of the Malvern acquisition.

Our tax equivalent net interest margin for the full year 2023 was 3.47% compared to 3.75% for 2022. The net interest margin is calculated by dividing net interest income by average interest earning assets. The decrease in our net interest margin was primarily driven by a 366.8% increase in our interest expense on interest bearing liabilities which was primarily driven by a $48.4 million increase in interest expense on interest bearing deposits. The increase in the interest income on average interest bearing assets was 62.23% which was primarily driven by $58.8 million increase in interest income on average loans.

Impacting our tax equivalent margin for 2023 and 2022 was loan prepayment penalty fees and amortization of premiums and discounts from fair value measurements of assets acquired and liabilities assumed in acquisitions. For the year ended December 31, 2023 loan prepayment penalty fees totaled $889,000 compared to $1.7 million for the year ended December 31, 2022. Amortization of premiums and discounts from fair value measurements of assets acquired and liabilities assumed in acquisitions totaled $7.5 million for 2023 compared to $163,000 for 2022.

Net Interest Income

Net interest income on a tax equivalent basis increased $12.1 million, or 13.1%, to $104.5 million for 2023, compared to $92.4 million for 2022. The increase between the years is primarily attributable to higher interest income on interest earning assets, principally loans, due to both higher average loan balances and a significantly higher interest rate environment during 2023 which resulted in an increasing loan yield. For 2023, total interest income increased $66.8 million, or 62.2%, to $174.1 million from $107.3 million in 2022. For 2023, interest income on loans increased $58.8 million, or 57.7%, to $160.8 million from $102.0 million in 2022. Partially offsetting higher interest income was a 366.8% rise in the cost of interest bearing liabilities due to the higher interest rate environment in 2023.

Interest Income

Leading interest income growth during 2023 was interest and fee income on loans. Interest and fees on loans increased $58.8 million, or 57.7%, to $160.8 million for 2023 compared to $102.0 million for 2022 due to an increasing loan yield and higher average loan balances. Average loans increased $493.0 million, or 22.4%, to $2.70 billion in 2023, compared to $2.20 billion in 2022, primarily due to Malvern acquired loans. Loan prepayment income was $889,000 in 2023 compared to $1.7 million in 2022. The average loan yield increased 133 basis points to 5.96% for 2023 compared to 4.63% for 2022. Our loan yield is affected by market rates, the level of variable and adjustable rate loans, repricing and refinancing activity, the level of nonaccrual loans, the level of fees paid, including prepayment penalty fees, and other factors. The higher loan yield reflects a significantly higher interest rate environment for the 2023 period, positively impacting the yield on loans, as well as securities and overnight funds.

Average investment securities increased $8.0 million, or 5.6%, to $151.5 million in 2023, compared to $143.5 million in 2022, while the average portfolio yield increased 65 basis points to 2.87% compared to 2.22% for 2022. As a result, interest income on investment securities on a tax equivalent basis for 2023 increased $1.2 million to $4.4 million compared to $3.2 million for 2022. The increase in average investment securities in 2023 was due primarily to purchases of U.S. Government-sponsored agency securities, corporate obligations and U.S. Treasury securities, partially offset by principal cash flows on our residential MBS and the sale of certain investment securities.

Interest Expense

Average interest bearing liabilities increased $617.5 million, or 36.2%, to $2.32 billion for 2023 compared to $1.71 billion for 2022 primarily due to deposits acquired in the Malvern acquisition. Interest expense on average interest bearing liabilities increased $54.6 million, or 366.8%, for the year ended December 31, 2023 compared to the same period in 2022. The increase was due primarily to a higher cost of funds due to a notably higher interest rate environment and an increase in average interest bearing deposits of $533.1 million. Driving the higher interest expense was the increase of 212 basis points in the average cost of interest bearing liabilities to 2.99% for 2023 compared to 0.87% in 2022.

Average interest bearing deposit growth in 2023 was due primarily to increases in interest bearing demand deposits, money market deposits, and time deposits. Average interest bearing demand, money market deposits, and time deposits grew $174.2 million, $167.3 million, and $215.5 million respectively, from 2022 to 2023. Partially offsetting the growth in interest bearing demand, money market deposits, and time deposits was a decline in average savings deposits of $23.9 million. During 2023, due to the higher rate environment, we increased interest rates to maintain our liquidity position. Our average cost of interest bearing deposits for 2023 was 2.82%, compared to 0.74% for 2022.

In the second half of 2022 and into 2023, we also experienced a shift from non-interest bearing deposits as certain depositors moved funds to interest bearing products. Our level of non-interest bearing balances was also impacted by the Malvern acquisition. Non-interest bearing balances represented 16.9% of deposits at December 31, 2023 compared to 22.0% at December 31, 2022. The higher level of interest bearing deposits contributed to increased interest expense and a lower margin.

Average borrowed funds, consisting primarily of FHLB advances, were $142.5 million for 2023 compared to $69.9 million for 2022. The average rate paid on borrowings was 4.48% and 1.78% for 2023 and 2022, respectively. The Company assumed $130.0 million in short-term FHLB advances from the Malvern acquisition which were paid off during the third quarter of 2023. We also added some FHLB advances at the end of 2023 to enhance our liquidity position heading into 2024. During 2023, we utilized FHLB advances to supplement deposit growth and ensure we maintained a strong liquidity position.

Subordinated debentures in our consolidated statements of financial condition and our average balance sheets include related unamortized debt issuance costs. The debt issuance costs are being amortized into interest expense over the expected life of the $30.0 million private placement issue completed May 29, 2020. The Bank also acquired $25.0 million in subordinated debentures in the Malvern acquisition. Subordinated debentures in our consolidated statements of financial condition and our average balance sheets also includes acquisition accounting fair value adjustments. The acquisition accounting fair value adjustment is being amortized into interest expense over the expected life. The average rate on our subordinated debentures for 2023 was 6.84%, compared to 5.93% for 2022. Average subordinated debentures were $41.6 million in 2023 compared to $29.7 million in 2022.

Federal Reserve monetary policy and the effects of geopolitical issues on the economy will be key variables that will impact margin performance in 2024. We believe we are well positioned to react effectively to any changes in monetary policy. Our liquidity profile is strong, and our prudent interest rate risk management will allow us to react quickly to any interest rate scenario, which should allow us to reach our profitability goals for 2024 in any interest rate environment.

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 provide for credit losses by a charge to current income to maintain the allowance for credit losses (“ACL”) at an adequate level to cover probable losses which are specifically identifiable, as well as losses inherent in our portfolio which are probable but not specifically identifiable, determined according to our documented allowance adequacy methodology. The provision for credit losses is determined after a detailed review of our loan portfolio which focuses on, including other things, credit risk ratings, delinquent and nonaccrual loans and the level of problem credits.

We recorded a credit loss expense of $7.9 million for the year ended December 31, 2023, compared to $2.9 million for the year ended December 31, 2022. Credit loss expense in 2023 included a $7.9 million credit loss expense on loans, a $54,000 credit loss expense on unfunded lending commitments, and a credit loss benefit of $24,000 on HTM securities. Credit loss expense for 2023 and 2022 reflected the strong growth in loans. During 2023, the credit loss expense on loans included a $5.5 million initial expense for the non-PCD loans acquired in the Malvern acquisition. Also impacting the level of credit loss expense on loans were net charge offs of $1.5 million or 0.06% of average loans for the year ended December 31, 2023 compared to net charge offs of $1.1 million or 0.05% of average loans for the year ended December 31, 2022.

Certain ACL adjustments during 2023 did not impact credit loss expenses including the initial adoption of CECL and allowance for credit losses on certain acquired PCD loans. See additional documentation elsewhere in this document for the impact of the initial adoption of CECL and the impact of acquired PCD loans.

It was our assessment, based on our ACL methodology, judgment and analysis, that the allowance for credit losses was adequate in relation to lifetime expected losses in the portfolio at December 31, 2023 and 2022.

Non-Interest Income

Our non-interest income in 2023 consisted of losses on sales of loans, losses on sales of investment securities, income from bank-owned life insurance ("BOLI"), other non-interest income, service fees on deposit accounts, loan fees and gains on recovery of acquired loans. Due to the losses on sale of investment securities and loans, the Company had losses in non-interest income for the year ended December 31, 2023, compared to non-interest income for the year ended December 31, 2022. For the year ended December 31, 2022, non-interest income represented 5.3% of our net revenue. We define net revenue as net interest income plus non-interest income.

Non-interest income totaled $(715,000) in 2023 compared to $5.1 million non-interest income in 2022. The loss in non-interest income in 2023 was primarily due to the $4.2 million net loss on sale of loans and $1.7 million net loss on sale of investment securities. These losses were partially offset by $1.1 million income from the service fees on deposit accounts, $409,000 income from loan fees, $1.9 million income from BOLI, $222,000 income from gains on recovery of acquired loans and $1.5 million income from other non-interest income.

The Company received proceeds of $124.9 million in 2023 from the sale of loans and recorded a net loss of $4.2 million on those sales. $83.5 million of the proceeds were received from the sale of residential loans acquired from Malvern at a net loss of $1.4 million, $32.1 million from the sale of commercial loans at a net loss of $3.2 million, $7.6 million from the sale of the guaranteed portion of SBA loans for a net gain of $415,000 and $1.6 million from the sale of residential loans originated by the Bank for a net gain of $9,000. During the year ended 2022, the Company received net proceeds of $3.9 million from the sale of the guaranteed portion of SBA loans for a net gain of $279,000 and $3.0 million from the sale of residential loans originated by the Bank for a net gain of $17,000. During 2023 we sold lower yielding non-strategic loans and used the proceeds primarily to pay off higher yielding FHLB advances or reinvest the proceeds into higher yielding liquid assets. We also continued to originate SBA loans and our loan sale activity increased slightly, primarily due to the market conditions which positively impacted pricing somewhat and we chose to sell more SBA loans during 2023 compared to 2022. As a Preferred SBA lender we remain focused on building this profitable area of our business in 2023.

The Company sold $108.7 million in investment securities during 2023 from its AFS portfolio and realized $1.7 million in net losses from these sales. The majority of the investments sold were acquired through the Malvern acquisition. We also sold investment securities to increase our higher yielding liquid assets and restructure our balance sheet during 2023.

Loan fees for 2023 were $409,000, a decrease of $274,000, or 40.1%, from $683,000 in 2022. The largest source of fees in this revenue category is loan swap fees. Loan swap fees totaled $78,000 in 2023 compared to $253,000 in 2022. The decrease was due to lower loan swap activity in 2023 which was impacted by the interest rate environment and other market conditions The level of loan swap fee income is driven by a number of factors, including the interest rate environment and certain borrowers' preferences for these types of loan transactions that generate loan swap fees.

Income from BOLI was $1.9 million in 2023, an increase of $408,000, or 27.7%, from $1.5 million in 2022. The increase was due primarily to the higher interest rate environment in 2023 as well as additional BOLI income earned on BOLI assets acquired in the Malvern acquisition. BOLI income is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals and the income is retained within the policy. BOLI assets are single premium policies purchased from multiple carriers to, among other things, offset the costs of employee benefits. The level of these assets is generally limited to 25% of Tier 1 capital at the time of purchase.

Service fees on deposit accounts totaled $1.1 million in 2023, an increase of $137,000, or 14.6%, compared to $941,000 in 2022. The growth in service fees on deposit accounts was due primarily to the addition of new depositor accounts, organically and through the Malvern acquisition.

Other non-interest income totaled $1.5 million in 2023, an increase of $482,000, or 45.7%, compared to 2022. Other non-interest income for 2023 included a $107,000 rental income from the facilities acquired in the Malvern acquisition and other increases resulting from the acquisition of Malvern During 2023.

While non-interest income remains a relatively modest portion of our net revenue, we expect to continue building profitable areas of our business, which includes the generation of fee income from the sale of SBA loans. Interest rates and market conditions may again impact the level of SBA loan and loan swap fees in the coming year. With a growing organic depositor base, and the full year impact of the Malvern acquisition, we expect an expansion of service fees on deposit accounts during 2024.

Non-Interest Expense

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

For 2023, non-interest expense totaled $68.7 million, a $22.0 million or 47.0% increase from $46.7 million in 2022. Excluding merger-related expenses of $8.0 million in 2023 related to the Malvern acquisition and merger-related expenses of $452,000 in 2022 also related to the Malvern acquisition, non-interest expense would have increased $14.4 million, or 31.1%, during 2023. During 2023, we continued our focus on limiting the growth rate on our non-interest expense base, but we also made some strategic investments in new people and technology. Our 2023 non-interest expense increase, excluding merger related expenses, was due primarily to higher salaries and employee benefits, occupancy and equipment, regulatory fees, and other expenses, primarily due to the Malvern acquisition. Partially offsetting these higher expenses was a decrease in other real estate owned expenses.

Salaries and employee benefits is the largest component of non-interest expense. Benefits expense includes the cost of health insurance, other benefit plans and payroll taxes. Salaries and employee benefits increased $7.0 million, or 25.4%, to $34.3 million in 2023 compared to $27.4 million for 2022. The increase was due primarily to an increase in full-time equivalent staff and merit-based salary adjustments during 2023. The number of full-time equivalent employees increased to 286 at December 31, 2023 from 238 at December 31, 2022 The increase in the number of full-time equivalent employees was primarily impacted by the employees retained from the Malvern acquisition as well as certain strategic new hires made throughout the year.

Other expense increased $2.8 million, or 76.8%, to $6.4 million for 2023 compared to $3.6 million 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 primary increase in other expense in 2023 compared to 2022 were in loan expenses, dues and memberships, and publications and subscriptions, courier and armored expenses, correspondent banking expenses, and debit card expenses. The increases in the other expense category were primarily due to the Malvern acquisition as well as due to the normal growth of the Company.

Other professional fees increased $223,000, or 8.4%, to $2.9 million in 2023 compared to $2.6 million for 2022. The increase for the comparative periods was primarily due to an increase in certain professional services received during the year mainly due to the growth of the Company.

Regulatory fees increased $1.3 million, or 157.1%, to $2.2 million for 2023 compared to $851,000 in 2022. The increase was due to an increase in assessment rates by the FDIC and from the acquisition of Malvern deposits and the overall growth in the balance sheet.

Travel and entertainment costs increased $264,000, or 55.1%, to $743,000 for 2023 compared to $479,000 in 2022. Travel and entertainment expense for 2023 included the impact of additional number of employees hired during 2023 compared to 2022, primarily due to the Malvern acquisition.

Other non-interest expense categories of note are data processing costs and marketing and advertising expenses. Reflective of our growth in loans and deposits primarily resulting from Malvern acquisition, data processing costs increased $617,000 or 24.9% in 2023 compared to 2022. With our focus on deposit generation in 2023, marketing and advertising costs increased by $479,000 or 70.2% over 2022.

Merger-related expenses increased $7.6 million to $8.0 million for 2023 compared to $452,000 in 2022.The merger-related expenses in 2022 were primarily related to certain legal and investment banker fees associated with the finalization of the merger agreement with Malvern in December 2022. The merger-related expenses in 2023 were also related to the Malvern acquisition but included all other expenses associated with the merger including additional legal expenses, additional investment banking expenses, system conversion expenses, professional expenses, and severance and stay bonuses paid to the former Malvern employees.

Occupancy and equipment expense increased $1.4 million, or 24.9%, to $7.1 million for 2023 compared to $5.7 million in 2022. Occupancy and equipment expense is the second largest component of non-interest expense and consists primarily of rent expense, building maintenance and repair costs, maintenance and expenses associated with equipment as well as depreciation expense associated with both. The increase in occupancy and equipment expense in 2023 compared to 2022 was primarily due to due to the Malvern acquisition in which the Company acquired nine facilities including eight branches and a corporate office location.

Our focus remains on the strong and consistent generation of net interest income. Our strength as a commercial lender combined with strong asset quality metrics and the effective management of non-interest expense growth is the foundation for achieving earnings goals in 2024. Our objective is to maintain or improve our operating efficiency moving forward.

The efficiency ratio, a non-GAAP financial measure that we believe is widely followed in the banking industry, measures adjusted non-interest expense as a percentage of total revenue. 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. Due to the higher growth in adjusted non-interest expenses compared to the growth in total revenue, our efficiency ratio increased to 55.32% in 2023 from 47.47% in 2022.

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 (adjusted non-interest expense and total revenue) to derive the efficiency ratio measure:

	Year Ended December 31,	
	2023	2022
	(dollars in thousands)	
Non-interest expense (numerator)	$ 68,700	$ 46,733
Less: Merger-related expenses (1)	8,048	452
Adjusted non-interest expense (numerator)	$ 60,652	$ 46,281
Net interest income	$ 104,516	$ 92,373
Non-interest income	(715)	5,120
Total revenue	103,801	97,493
Add: Losses on sale of investment securities, net	1,650	-
Add (subtract): Losses (gains) on sale of loans, net	4,192	(296)
Adjusted total revenue (denominator)	$ 109,643	$ 97,197
Efficiency ratio	55.32%	47.62%

(1) Merger-related expenses in 2023 and 2022 are related to the acquisition of Malvern Bancorp.

Income Taxes

In 2023, we recorded income tax expense of $6.3 million compared to $11.6 million for the year ended December 31, 2022. The decrease was principally due to lower pre-tax income coupled with a moderate decrease in the effective tax rate for 2023.

The 2023 and 2022 federal corporate income tax rate 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 expense since that new legislation was passed, which included the imposition of a temporary 2.5% surtax to the state'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 for 2023 was 23.1% compared to 24.2% for 2022. Income tax expense in 2023 was impacted by a number of factors including certain non-deductible merger-related costs and changes in the apportionment of our income to the various states in which we do business. The state tax apportionment adjustments impacted our current taxes as well as our deferred tax assets. The change in state tax apportionment resulted in an increase to our deferred tax rate in the fourth quarter of 2023. Consequently, our deferred tax assets increased during the quarter and tax expense decreased, driving the lower effective tax rate. We expect our effective tax rate to be in-line with historic levels between 23-25% in 2024 as we continue to explore tax planning opportunities. Our effective tax rate for 2023 and 2022 also reflects the ownership of tax-exempt bank-owned life insurance ("BOLI") and tax-free municipal securities, the effect of our real estate investment trust and our participation in a historic tax credit. At the end of January 2021, we completed our participation in a historic tax credit with a local non-profit organization. The historic tax credit provides for a dollar-for-dollar reduction of federal income tax liability. Our goal remains to maintain or reduce our overall effective tax rate.

FINANCIAL CONDITION

As of December 31, 2023 and 2022

Assets

Total assets increased from $2.73 billion at December 31, 2022 to $3.61 billion at December 31, 2023, an increase of $876.4 million or 32.1%. Total loans increased $683.7 million, or 29.2%, to $3.02 billion at December 31, 2023 compared to $2.34 billion at December 31, 2022. Increases primarily reflect growth from the Malvern acquisition, partially offset by sales of loans and investment securities totaling approximately $238.2 million during 2023. The Bank also increased its cash and cash equivalents by $102.0 million, or 81.0%, compared to December 31, 2022, to ensure adequate on-balance sheet liquidity. The growth in assets was partially funded by deposits, borrowings, and further augmented by an increase in retained earnings.

During 2023 there was a marked increase in interest bearing deposits as interest bearing deposit rates moved higher. After a prolonged period of lower interest rates and lower deposit costs, the Federal Reserve raised interest rates decisively higher during 2022 and during the first half of 2023.

We expect reasonable asset growth in 2024 as we intend to grow our organic loan portfolio throughout New Jersey and Eastern Pennsylvania. We will also continue to assess new acquisition opportunities when they fit into our strategic objectives and enhance shareholder value.

Investment Securities

At December 31, 2023, the investment securities portfolio was comprised of U.S. Treasury securities, residential mortgage-backed securities, U.S. government-sponsored agency securities, obligations of state and political subdivisions, SBA pools, asset-backed securities and corporate obligations. Our residential mortgage-backed securities ("MBS") are all issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

Management believes that all of our securities are investment grade as defined by regulation and our investment policy. Upon review of the issuer's financial information, management must assess whether a security is investment grade by determining that the bond has a low risk of default by the obligor and the full and timely repayment of principal and interest is expected over the life of the investment. Management's analysis of our investment portfolio, as supported by ratings from the rating agencies utilized by the Bank, supports our conclusion that our securities are all investment grade.

The investment securities portfolio is used principally to manage liquidity, interest rate risk and regulatory capital, and to take advantage of market opportunities that provide favorable returns with limited credit risk. The portfolio is generally structured to provide consistent cash flows to enhance liquidity and provide funding for loan growth.

Investment securities are classified as "held to maturity" ("HTM"), "available for sale" ("AFS"), or "trading" at time of purchase. We held no trading securities at December 31, 2023 or 2022. Securities are classified as HTM based upon our intent and ability to hold them to maturity. Such securities are stated at amortized cost or book value and adjusted for unamortized purchase premiums and discounts. Securities which are bought and held principally for resale in the near term are classified as trading securities, which are carried at market value. Realized gains and losses as well as gains and losses from marking the portfolio to fair value are included in trading revenue. Securities not classified as HTM or trading are classified as AFS. AFS securities are those securities that we intend to hold for an indefinite period of time but not necessarily to maturity and are carried at fair value. Unrealized gains and losses on AFS securities are reported as a component of accumulated other comprehensive income, net of tax, which is included in stockholders' equity unless a decline in value is due to credit losses, in which case the decline is reported in current period results. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other factors.

At December 31, 2023, the investment securities portfolio totaled $140.1 million or 3.9% of assets, compared to $146.1 million or 5.3% of assets at December 31, 2022. The decrease in the portfolio of $6.0 million was due primarily to sales of securities during the year coupled with normal maturities, calls and monthly amortization of the MBS securities.

Factors impacting the size of our investment portfolio will continue to be the current and projected interest rate environment, liquidity considerations, as well as investment opportunities at appropriate spreads, available in the marketplace. We will continue to monitor the impact of changes in interest rates, cash flows and duration to investment portfolio performance and adjust our strategy accordingly, consistent with our asset and liability objectives.

The following table presents the maturity distribution and weighted average yields of our investment securities portfolio on a contractual maturity basis at December 31, 2023:

	December 31, 2023					
	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield (1) (2)	Amortized Cost	Fair Value	Weighted Average Yield (1)
	(dollars in thousands)					
Due within one year	$ 718	$ 698	5.93%	$ 1,168	$ 1,167	3.96%
Due after one year through five years	25,623	24,918	3.10%	3,359	3,279	5.15%
Due after five years through ten years	3,000	3,007	5.88%	27,940	23,888	4.34%
Due after ten years	3,175	3,167	6.20%	527	538	5.06%
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	45,822	40,599	2.70%	10,792	9,181	2.54%
Issued by GNMA	23,345	21,753	4.06%	473	433	3.50%
Total	$ 101,683	$ 94,142	3.34%	$ 44,259	$ 38,486	3.94%

(1) Tax equivalent using a federal income tax rate of 21 percent.
(2) Weighted average yield is based on amortized cost.

Investment securities with unrealized losses are evaluated quarterly to determine whether there were any credit losses. At December 31, 2023 and 2022, the Company did not record any ACL against AFS securities. There is an ACL of $200,000 against HTM securities at December 31, 2023 related principally to corporate obligations. This conclusion was based on several factors, including the strong credit quality of the securities. We believe that the unrealized losses in the investment portfolio were caused by changes in interest rates, market credit spreads, and perceived and actual changes in prepayment speeds on MBS. 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. Unrealized gains and losses in the AFS and HTM portfolios are presented below.

Investment Securities Available for Sale

The following tables present the amortized cost and estimated fair values of our available for sale securities portfolio at December 31, 2023 and 2022.

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	$ 19,500	$ 7	$ (403)	$ 19,104
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	45,822	64	(5,287)	40,599
Issued by GNMA	23,345	-	(1,592)	21,753
U.S. Treasury securities	1,998	-	(13)	1,985
SBA pools	3,175	-	(8)	3,167
Asset-backed securities	718	-	(20)	698
Corporate obligations	7,125	-	(289)	6,836
Total	$ 101,683	$ 71	$ (7,612)	$ 94,142

	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

As of December 31, 2023, our AFS investment securities at fair value totaled $94.1 million, a decrease of $4.8 million or 4.9% from $99.0 million at December 31, 2022. The AFS portfolio represented 67.2% of the total investment portfolio at December 31, 2023 compared to 67.7% at December 31, 2022. The decrease in the AFS portfolio in 2023 compared to 2022 was primarily due to the sale of AFS designated securities during the year coupled with principal paydowns on residential MBS which was partially offset by new securities purchased during the year. There was a net unrealized loss on AFS securities of $7.5 million compared to a net unrealized loss of $9.8 million at December 31, 2023 and December 31, 2022, respectively.

Investment Securities Held to Maturity

The following tables present the amortized cost and estimated fair values of our held to maturity ("HTM") securities at December 31, 2023 and 2022:

	December 31, 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	$ 10,792	$ -	$ (1,611)	$ 9,181	$ -
Issued by GNMA	473	-	(40)	433	
Obligations of state and political subdivisions	7,244	65	(276)	7,033	(4)
Corporate obligations	25,750	-	(3,911)	21,839	(196)
Total	$ 44,259	$ 65	$ (5,838)	$ 38,486	$ (200)

	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

HTM investment securities, carried at amortized cost, net of allowance for credit losses, totaled $44.1 million at December 31, 2023 compared to $47.2 million at December 31, 2022. The decrease in the HTM portfolio of $3.1 million or 6.6% in 2023 was primarily due to principal paydown of residential MBS securities. The HTM portfolio is composed of corporate obligations, specifically subordinated debt of other banks, residential MBS and obligations of state and political subdivisions (municipal bonds). At December 31, 2023 subordinated debt of other banks totaled $25.8 million or 58.9% of the HTM portfolio compared to $26.8 million at December 31, 2022 or 56.7% of the HTM portfolio. Our municipal bond portfolio totaled $7.2 million or 16.4% of the HTM portfolio at December 31, 2023 compared to $8.3 million or 17.6% at December 31, 2022. The majority of the municipal bond portfolio is made up of New Jersey school-based bonds secured through the New Jersey Fund for Support of Free Public Schools. Increasing our holding of tax-free municipal bonds reduces our effective tax rate and enhances the tax equivalent yield of our investment portfolio. At December 31, 2023, the HTM residential MBS portfolio totaled $11.3 million or 25.6% of total HTM securities compared to $12.1 million or 25.7% at December 31, 2022.

Mortgage-Backed Securities

We held $80.4 million and $68.2 million in residential MBS (at amortized cost) at December 31, 2023 and 2022, respectively, in our AFS and HTM securities portfolios. All of these MBS were issued by FNMA, FHLMC or 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 scenario. MBS are expected to provide stable cash flows in rising or falling interest rate environments. These securities provide liquidity through the monthly cash flow of principal and interest. Principal paydowns from the MBS portfolio totaled $8.5 million and $12.4 million in 2023 and 2022, respectively. Included in our MBS portfolio at December 31, 2023 and 2022 were $30.3 million and $28.4 million, respectively, of U.S. agency collateralized mortgage obligations.

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 duration extends. On the other hand, when interest rates fall, prepayments generally increase, which may reduce the yield on mortgage-backed securities, with reinvestment of the proceeds generally at lower yields.

See Note 3 of the Notes to Consolidated Financial Statements included elsewhere in this document for more information regarding our investment securities portfolio.

Other Investments

Other investments totaled $9.8 million and $8.4 million at December 31, 2023 and 2022, respectively. Other investments consist primarily of an investment in a SBA Loan Fund with a balance of $6.7 million and $6.6 million at December 31, 2023 and 2022, respectively, and smaller investments in a Community Impact Bond Fund, a business tech fund, and a Small Business and Investment Company (SBIC) Fund. The SBA Loan Fund and the Community Impact Bond Fund were purchased for the purpose of assisting the Company in satisfying its Community Reinvestment Act of 1977 (as amended) requirements. The tech fund with a balance of $381,000 specializes in the research, development, proper selection of, and investment in technology companies, as well as the incubation and acceleration of emerging technologies, whose mission is to make banks more competitive in today's market. The SBIC fund will invest into portfolio companies that qualify as economic development activities. These funds are not actively traded and do not have readily determinable fair values. There have been no observable transactions in these Funds or in investments that are identical to these Funds, there is no indication of impairment during 2023 and hence the other investments are carried at cost.

Loans

Our loan portfolio consists primarily of commercial real estate loans and commercial and industrial loans. Over the last several years we have continued to experience strong loan growth.

Total loans at December 31, 2023 were $3.02 billion, an increase of $683.7 million, or 29.2%, compared to $2.34 billion at year-end 2022. The increase primarily reflects the Malvern acquisition, partially offset by the proceeds from sales of loans totaling approximately $124.9 million during 2023. Excluding the $617.2 million in loans acquired from Malvern at December 31, 2023, which is net of loan sales and pay-downs since the acquisition, net organic loan growth for 2023 was $66.5 million during the year ended on December 31, 2023.The overall loan growth for 2023 was primarily due to the increase in commercial real estate loans by $448.5 million, increase in commercial and industrial loans by $152.6 million, and $82.3 million increase in residential real estate and consumer and other loans.

As reflected in our loan origination results, primarily commercial, in 2023, we have continued to source quality loan relationships in what was a challenging economic environment. We have maintained a strong pipeline and we remained focused on building new relationships with creditworthy borrowers in our markets. Our value proposition is to provide quality service to our new and established borrowers who embrace our relationship banking philosophy.

The following table reflects the composition of the loan portfolio at each year-end presented:

	December 31,	
	2023	2022
	(in thousands)	
Commercial and industrial	$ 506,849	$ 354,203
Commercial real estate:		
Owner-occupied	612,352	533,426
Investor	1,221,702	951,115
Construction and development	186,829	142,876
Multi-family	271,058	215,990
Residential real estate:		
Residential mortgage and first lien home equity loans	156,024	93,847
Home equity–second lien loans and revolving lines of credit	44,698	33,551
Consumer and other	25,343	16,318
	3,024,855	2,341,326
Net deferred loan fees and costs	(3,354)	(3,512)
Total loans	$ 3,021,501	$ 2,337,814

At December 31, 2023, commercial loans represented 92.6% of total loans. We manage risk associated with our commercial loan portfolio through underwriting policies and procedures, diversification and loan monitoring efforts which includes stress testing. Our underwriting standards include requiring independent third-party appraisals, periodic property inspections, analyses of the quality and experience of the organization or developer managing each property, and evaluations of the cash flow capability of borrowers to repay loans. In addition to real estate collateral, the majority of our commercial loans are secured by business assets and many are supported by personal guarantees and other assets of the principals or the borrower. Our stress testing includes loan level and balance sheet level stress testing which analyzes the effect on individual loans as well as the overall effect on capital and loan concentrations. There are no significant concentrations of loans to any particular sector of the services industry. We monitor loan concentrations by industry classification and diversify risk as we deem appropriate.

Commercial and industrial ("C&I") loans consist of lines of credit, term loans and demand loans. C&I loans typically consist of loans to finance equipment, inventory, receivables, and other working capital needs for small to mid-sized businesses. C&I loans increased $152.6 million, or 43.1%, to $506.8 million in 2023 from $354.2 million in 2022. Our goal is to further diversify our commercial loan portfolio by continuing to grow commercial real estate owner occupied and C&I loans. Organic C&I growth is expected to be steady in 2024. Our C&I loan portfolio encompasses a wide variety of industry classifications. There are no significant concentrations of loans to any particular sector. 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, land development and other land loans and multi-family loans. Commercial real estate loans grew $448.5 million, or 24.3%, to $2.29 billion in 2023 from $1.84 billion in 2022. The principal areas of growth were in commercial real estate investor ("CREI") and commercial real estate owner-occupied ("CREO") loans. CREI and CREO loans grew $270.6 million and $78.9 million, respectively, or 28.4% and 14.8%, respectively during 2023. CREI and CREO loans are generally offered on a fixed and variable rate basis with a five-year repricing and a term of five to fifteen years. Commercial real estate multi-family loans grew $55.1 million, or 25.5% to $271.1 million while construction and development loans increased $44.0 million, or 30.8% to $186.8 million during 2023.

CREI loans grew to $1.2 billion in 2023. CREI loans include investor-owned and tenanted investment properties. CREI loans are secured by different types of properties including retail, office, industrial and mixed use. Retail properties make up our largest segment, comprising $398.9 million of CREI loans. Our retail segment is further broken down into three categories: single tenant/credit rated, single tenant/non- credit rated and multiple tenant strip malls. Loans secured by industrial properties make up our next largest segment totaling $243.5 million. Loans secured by hotels was $145.7 million. Loans secured by office buildings totaled $121.5 million. Mixed use properties totaled $132.3 million. Other types of investor loans include medical buildings and restaurants.

CREO loans grew to $612.4 million in 2023. CREO loans are made for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in the business or real property of the principals.

Construction and development loans primarily fund residential and commercial projects, and to a lesser extent, acquisition of land for future development. Residential construction loans include single family and multi-family projects. Commercial construction loans include office and professional development, retail development and other commercial-related projects. Construction and development loan generally have terms of one to three years, are interest only and have floating rates indexed to the prime rate. Construction and development loans increased $44.0 million or 30.8% to $186.8 million and represented 6.2% of the loan portfolio at December 31, 2023.

Multi-family loans consist primarily of loans secured by apartment buildings and are generally originated on a fixed rate basis for five to ten year terms. Multi-family loans grew 25.5%, to $271.1 million in 2023 from $216.0 million in 2022.

Residential real estate loans are composed of loans secured by one to four family properties, in two main categories: (i) residential mortgage and first lien home equity loans, and (ii) second lien home equity loans and revolving lines of credit. Generally, one to four family residential loans are made in connection with a broader loan relationship. We underwrite home equity loans to the same credit standards as single family homes. We generally underwrite residential real estate loans to conform to standards required by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Residential real estate loans totaled $200.7 million at December 31, 2023, an increase of $73.3 million or 57.6% in 2023 compared to 2022. Residential mortgage and first lien home equity loans increased $62.2 million to $156.0 million at December 31, 2023. Second lien home equity loans and revolving lines of credit increased $11.1 million during 2023. At December 31, 2023, residential real estate loans represented 6.6% of total loans.

Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans. At December 31, 2023 and 2022 consumer and other loans totaled $25.3 million and $16.3 million, respectively. Consumer and other loans represented 0.8% of total loans at December 31, 2023.

Our strength as a commercial and business lender in a challenging economic environment is reflected in a strong and consistent commercial loan pipeline. The combination of expanded markets and a higher legal lending limit, which was $59.5 million at December 31, 2023, will help us achieve our lending goals in 2024. Commercial loan growth remains an important contributor to our future strong profitability and enhancing shareholder value.

The following tables present information concerning the maturities and interest rate sensitivity of loans at December 31, 2023.

	Within One Year	After One but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
			(in thousands)		
Commercial and industrial	$ 136,315	$ 252,662	$ 111,925	$ 5,947	$ 506,849
Commercial real estate:					
Owner-occupied	46,848	230,033	303,394	32,077	612,352
Investor	204,005	549,483	453,777	14,436	1,221,701
Construction and development	140,958	33,858	4,933	7,080	186,829
Multi-family	11,959	116,376	137,599	5,125	271,059
Residential real estate:					
Residential mortgage and first lien home equity loans	5,330	27,943	51,484	71,267	156,024
Home equity–second lien loans and revolving lines of credit	3,459	4,986	19,567	16,686	44,698
Consumer and other	6,975	15,908	2,231	229	25,343
Total	$ 555,849	$ 1,231,249	$ 1,084,910	$ 152,847	$ 3,024,855

	Amounts due after One Year at Predetermined Rates	Amounts due after One Year at Floating or Adjustable Rates	Total
		(in thousands)	
Commercial and industrial	$ 295,995	$ 74,539	$ 370,534
Commercial real estate:			
Owner-occupied	266,206	299,298	565,504
Investor	672,463	345,233	1,017,696
Construction and development	33,858	12,013	45,871
Multi-family	204,796	54,304	259,100
Residential real estate:			
Residential mortgage and first lien home equity loans	103,226	47,468	150,694
Home equity–second lien loans and revolving lines of credit	19,922	21,317	41,239
Consumer and other	18,132	236	18,368
Total	$ 1,614,598	$ 854,408	$ 2,469,006

Asset Quality

While the most profitable part of our business is commercial lending, the risk and complexity of that business is also the greatest. Extending credit to our borrowers exposes us to credit risk, which is the risk that the principal balance of a loan and related interest will not be collected due to the inability of the borrower to repay the loan. We seek to manage credit risk by carefully analyzing both the debt service capacity of a borrower and the underlying collateral securing their loan. Through our lending and credit risk management functions we continuously review our loan portfolio for credit risk. We manage credit risk in our loan portfolio through written loan policies, which establish underwriting standards or limits deemed necessary or prudent. These guidelines are approved by our Board of Directors.

Nonperforming assets as a percentage of total assets were 0.69% at the end of 2023 compared to 0.34% at the end of 2022. Our allowance for credit losses as a percentage of nonperforming loans decreased to 169.66% at the end of 2023 compared to 275.60% at the end of 2022, due to a higher increase in the nonperforming loans during 2023 compared to the increase in the allowance for credit losses. The increase in nonperforming loans was primarily due to PCD loans acquired in the Malvern acquisition. Net charge offs as a percentage of average loans were 0.06% and 0.05% for 2023 and 2022, respectively.

Asset Classification

Federal banking regulations and our policies require that we utilize an internal asset classification system as a means of reporting and tracking problem and potential problem assets. Federal banking regulations set forth a grid for classifying problem and potential problem assets as “substandard,” “doubtful” or “loss” assets. Loans classified as “substandard” have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly improbable. Assets classified as “loss” are those considered uncollectible and are charged to the allowance for credit losses. Assets which do not currently expose us to sufficient risk to warrant adverse classification in one of the aforementioned categories but possess weaknesses are designated “special mention.” Loans not classified are rated “pass.”

On a quarterly basis our Asset Quality Review Committee formally reviews the ratings on all criticized and classified loans. While we make every effort to accurately assess the loan portfolio, we can give no assurance that we have identified all of our potential problem loans. We also engage an independent third-party loan review consultant to review the loan portfolio biannually. As part of their scope, they review a significant portion of criticized and classified loans.

The following tables provide information on our “substandard” loans and those designated “special mention” as of the dates indicated. There were no loans classified as “doubtful” or “loss” at December 31, 2023 and 2022.

	Loans by Year of Origination at December 31, 2023							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
				(in thousands)				
Commercial and industrial								
Pass	$ 86,023	$ 63,991	$ 50,128	$ 11,901	$ 15,172	$ 26,429	$ 241,671	$ 495,315
Special Mention	-	36	-	-	326	619	2,411	3,392
Substandard	-	65	-	-	5,546	811	1,720	8,142
Total Commercial and industrial	$ 86,023	$ 64,092	$ 50,128	$ 11,901	$ 21,044	$ 27,859	$ 245,802	$ 506,849
YTD gross charge-offs	$ 245	$ 473	$ -	$ -	$ 204	$ 719	$ -	$ 1,641
Owner-occupied								
Pass	$ 71,346	$ 131,020	$ 112,728	$ 68,037	$ 33,001	$ 176,311	$ 874	$ 593,317
Special Mention	-	-	-	3,282	1,356	3,006	4,800	12,444
Substandard	-	-	-	-	2,692	3,899	-	6,591
Total Owner-occupied	$ 71,346	$ 131,020	$ 112,728	$ 71,319	$ 37,049	$ 183,216	$ 5,674	$ 612,352
YTD gross charge-offs	$ -	$ -	$ -	$ -	$ 72	$ -	$ -	$ 72
Investor								
Pass	$ 56,764	$ 197,278	$ 178,580	$ 134,279	$ 132,050	$ 473,569	$ 16,656	$ 1,189,176
Special Mention	-	-	-	-	-	20,738	-	20,738
Substandard	-	-	-	-	-	11,788	-	11,788
Total Investor	$ 56,764	$ 197,278	$ 178,580	$ 134,279	$ 132,050	$ 506,095	$ 16,656	$ 1,221,702
Construction and development								
Pass	$ 33,034	$ 85,459	$ 22,970	$ -	$ 697	$ 17,201	$ 25,748	$ 185,109
Special Mention	-	-	-	-	-	-	-	-
Substandard						1,720	-	1,720
Total Construction and development	$ 33,034	$ 85,459	$ 22,970	$ -	$ 697	$ 18,921	$ 25,748	$ 186,829
Multi-family								
Pass	$ 24,230	$ 63,422	$ 52,709	$ 53,786	$ 29,611	$ 45,691	$ 1,387	$ 270,836
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	222	-	222
Total Multi-family	$ 24,230	$ 63,422	$ 52,709	$ 53,786	$ 29,611	$ 45,913	$ 1,387	$ 271,058
YTD gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 123	$ -	$ 123
Residential mortgage and first lien home equity loans								
Pass	$ 8,214	$ 18,975	$ 17,592	$ 24,626	$ 10,709	$ 69,805	$ 185	$ 150,106
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	362	517	1,329	3,710	-	5,918
Total Residential mortgage and first lien home equity loans	$ 8,214	$ 18,975	$ 17,954	$ 25,143	$ 12,038	$ 73,515	$ 185	$ 156,024
Home equity—second lien loans and revolving lines of credit								
Pass	$ 2,382	$ 1,468	$ 205	$ 177	$ 733	$ 5,225	$ 34,185	$ 44,375
Special Mention	-	-	-	-	-	45	-	45
Substandard	-	-	-	-	-	278	-	278
Total Home equity—second lien loans and revolving lines of credit	$ 2,382	$ 1,468	$ 205	$ 177	$ 733	$ 5,548	$ 34,185	$ 44,698
Consumer and other								
Pass	$ 3,659	$ 2,245	$ 218	$ 2,587	$ 156	$ 1,109	$ 15,363	$ 25,337
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	6	-	6
Total Consumer and other	$ 3,659	$ 2,245	$ 218	$ 2,587	$ 156	$ 1,115	$ 15,363	$ 25,343
YTD gross charge-offs	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ 5
Total Loans								
Pass	$ 285,652	$ 563,858	$ 435,130	$ 295,393	$ 222,129	$ 815,340	$ 336,069	$ 2,953,571
Special Mention	-	36	-	3,282	1,682	24,408	7,211	36,619
Substandard	-	65	362	517	9,567	22,434	1,720	34,665
Total Loans	$ 285,652	$ 563,959	$ 435,492	$ 299,192	$ 233,378	$ 862,182	$ 345,000	$ 3,024,855
YTD gross charge-offs	$ 250	$ 473	$ -	$ -	$ 276	$ 842	$ -	$ 1,841

	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

Past Due Loans

The following tables show the delinquencies in our loan portfolio as of the dates indicated.

	December 31, 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	$ 531	$ -	$ -	$ 2,567	$ 479	$ 3,577	$ 503,272	$ 506,849
Commercial real estate:								
Owner-occupied	4,293	173	-	2,541	2,498	$ 9,505	602,847	612,352
Investor	3,215	-	125	-	11,493	$ 14,833	1,206,869	1,221,702
Construction and development	1,545	-	-	-	176	$ 1,721	185,108	186,829
Multi-family	-	-	-	222	-	$ 222	270,836	271,058
Residential real estate:								
Residential mortgage and first lien home equity loans	2,405	-	-	2,286	2,383	$ 7,074	148,950	156,024
Home equity—second lien loans and revolving lines of credit	680	84	-	213	-	$ 977	43,721	44,698
Consumer and other	29	1	-	6	-	$ 36	25,307	25,343
Total	$ 12,698	$ 258	$ 125	$ 7,835	$ 17,029	$ 37,945	$ 2,986,910	$ 3,024,855

	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	-	-	-	0	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

Nonperforming Assets

Nonperforming assets consist of nonperforming loans, other real estate owned ("OREO") and other repossessed assets. Nonperforming assets totaled $25.0 million or 0.69% as a percentage of total assets at December 31, 2023, compared to $9.2 million or 0.34% as a percentage of total assets at December 31, 2022. The increase in nonperforming assets was primarily due to a $15.8 million increase in nonperforming loans acquired from Malvern.

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

	December 31, 2023	December 31, 2022
	(dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	$ 2,567	$ 1,044
Commercial real estate:		
Owner-occupied	2,541	3,349
Investor	-	988
Construction and development	-	-
Multi-family	222	402
Residential real estate:		
Residential mortgage and first lien home equity loans	2,286	311
Home equity–second lien loans and revolving lines of credit	213	146
Consumer and other	6	10
Total nonaccrual loans	7,835	6,250
Loans past due 90 days or more and still accruing	125	-
Total PCD/PCI Non-accruing loans	17,029	2,993
Total nonperforming loans	24,989	9,243
Other real estate owned, net	-	-
Other repossessed assets	-	-
Total nonperforming assets	$ 24,989	$ 9,243
Nonaccrual loans to total loans	0.26%	0.27%
Nonperforming loans to total loans	0.83%	0.40%
Nonperforming assets to total assets	0.69%	0.34%

Nonperforming loans totaled $25.0 million, or 0.83% of total loans, at December 31, 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 the PCD loans which were acquired in the Malvern acquisition.

The accrual of interest is discontinued on a loan, meaning the loan is placed on nonaccrual status, when the contractual payment of principal or interest has become 90 days past due or management has serious doubt about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest income is not accrued on these loans until the loan is brought current, is performing in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of principal and interest is no longer in doubt.

Real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans is classified as OREO. The properties are recorded at fair value less estimated costs to sell at the date acquired. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for credit losses. Any subsequent write downs that may be required to the carrying value of the property are recorded in non-interest expense. At December 31, 2023 and 2022, there was no OREO.

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 measurement of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. For the current year ended on December 31, 2023, one commercial and industrial loan 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. The remaining balance was paid off during the year ended December 31, 2023 and the book balance of the loan was $0 at December 31, 2023.

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.

Throughout 2023 we maintained a strong asset quality profile. In 2023 we realized a modest level of net loan charge-offs reflective of our stable asset quality metrics. As a result of strong credit risk management and disciplined underwriting standards we remain confident that the credit risk in our loan portfolio is well managed. We continue to actively work to reduce nonaccrual loans to maximize our collection of principal and interest. We believe the level of delinquencies and level of problem loans remain at manageable levels, although we can provide no assurances that these trends will continue.

Allowance for Credit Losses

As of December 31, 2023, our Allowance for Credit Losses ("ACL") included an ACL on loans of $42.4 million, an ACL on HTM securities of $200,000 and an ACL on off-balance sheet commitments of $490,000. 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. We provide for estimated lifetime losses in the loan portfolio by a charge to current income to maintain the allowance for credit losses at an adequate level according to our documented ACL methodology. See additional discussion on the ACL methodology elsewhere in this document.

The following tables provide information regarding the allowance for credit losses for each of the years presented.

	December 31, 2023	December 31, 2022
	(dollars in thousands)	
Allowance for credit losses on loans	$ 42,397	$ 25,474
Total loans, net of deferred fees and costs	$ 3,021,501	$ 2,337,814
Nonperforming loans	$ 24,989	$ 9,243
Allowance for credit losses to total loans	1.40%	1.09%
Allowance for credit losses to nonperforming loans	169.66%	275.60%
Nonperforming loans to total loans	0.83%	0.40%

		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
	(dollars in thousands)								
As of December 31, 2023									
ACL	$ 14,195	$ 4,965	$ 14,887	$ 2,482	$ 3,079	$ 1,310	$ 926	$ 553	$ 42,397
% of total ACL	33.48%	11.71%	35.11%	5.86%	7.26%	3.09%	2.19%	1.30%	100.00%
% of total loans	2.80%	0.81%	1.22%	1.33%	1.14%	0.84%	2.07%	2.18%	1.40%
Loan portfolio balance	$ 506,849	$ 612,352	$ 1,221,702	$ 186,829	$ 271,058	$ 156,024	$ 44,698	$ 25,343	$ 3,024,855
% of total loans	16.75%	20.24%	40.39%	6.18%	8.96%	5.16%	1.48%	0.84%	100.00%
Year Ended December 31, 2023									
Loan charge offs	$ 1,641	$ 72	$ -	$ -	$ 123	$ -	$ -	$ 5	$ 1,841
Loan recoveries	172	120	-	-	8	3	-	-	303
Net charge offs (recoveries)	$ 1,469	$ (48)	$ -	$ -	$ 115	$ (3)	$ -	$ 5	$ 1,538
Average loan amounts outstanding	$ 435,093	$ 566,553	$ 1,089,362	$ 155,387	$ 250,175	$ 141,288	$ 37,612	$ 22,564	$ 2,698,034
Annualized net charge offs (recoveries) during the period to average loans outstanding	0.34%	(0.01%)	0.00%	0.00%	0.05%	0.00%	0.00%	0.02%	0.06%

		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
	(dollars 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
Average 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%

The general allocation of the ACL is important to maintain the overall allowance at a level that is adequate to absorb lifetime credit losses inherent in the total loan portfolio. The allocation is not necessarily indicative of the loan classes in which future loan losses may occur. The total ACL is available to absorb losses from any class of loans.

The ACL is increased by provisions charged to expense. Loans or portions of loans deemed uncollectible are charged off and deducted from the ACL, while recoveries of amounts previously charged off, if any, are added to the ACL. For the year ended December 31, 2023 we realized $1.5 million in net loan charge offs as compared to $1.1 in net charge offs for the year ended December 31, 2022. The ratio of net charge offs to average loans was 0.06% for 2023 compared to 0.05% for 2022. We recorded a credit loss of $7.9 million for year ended December 31, 2023 compared to $2.9 million in 2022. Our allowance for credit losses as a percentage of nonperforming loans was 169.66% at December 31, 2023 and 275.60% at December 31, 2022. The decrease in this coverage ratio in 2023 compared to 2022 was due primarily to increased nonperforming loans during 2023.

At December 31, 2023, the ACL totaled $42.4 million, reflecting an increase of $16.9 million, or 66.4%, from $25.5 million at December 31, 2022. The ratio of the allowance for credit losses to total loans was 1.40% and 1.09% at December 31, 2023 and December 31, 2022, respectively. The primary factors contributing to the increase in the ACL as a percentage of loans for the comparative period was the initial adoption of CECL and the Malvern acquisition adjustment in 2023. It is our assessment, based on our ACL methodologies, judgment and analysis, that the allowance for credit losses was adequate in relation to expected lifetime losses in the portfolio at December 31, 2023 and 2022.

The Company's 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 including a reclassification adjustment of $509,000 as PCI loans transitioned to PCD loans on CECL adoption, an increase of $54,000 related to allowance for credit losses on off-balance sheet commitments and the established of a $224,000 allowance for credit losses on held to maturity (“HTM”) investments. 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.

The ACL on loans also included $6.0 million in specific reserves on PCD loans and other distressed credits at December 31, 2023 compared to $413,000 at December 31, 2022.

Deposits

Deposits are our primary source of funds to support growth in earning assets. Total deposits amounted to $3.0 billion at December 31, 2023, an increase of $673.6 million, or 29.4%, from $2.3 billion at December 31, 2022. Excluding $671.9 million in deposits acquired from Malvern, deposit balances increased $1.7 million for the year ended December 31, 2023.

Interest bearing deposits grew $675.7 million, or 37.7%, in 2023 compared to 2022. Interest bearing deposit growth during 2023 was due to increases in time deposits, money market and savings deposits, and interest bearing demand deposits of $133.4 million, $236.1 million, and $306.2 million, respectively. Noninterest bearing deposits declined by $2.1 million or 0.42% in 2023 compared to 2022. Over the last several years, we have strengthened relationships with existing customers while successfully attracting new customers, which resulted in the addition of new core operating account relationships and increased deposit balances.

During the second half of 2022 and throughout the year of 2023, we increased the interest rates on our deposits due to the current rate environment to fund our loan demand and to ensure satisfactory liquidity levels. The increase in the deposit rates resulted in a shift from non-interest bearing to interest bearing deposits. Our non-interest bearing deposits to total deposits ratio decreased to 16.9% at December 31, 2023 compared with 22.0% at the end of 2022. Interest bearing demand deposits at the end of 2023 represented 21.2% of total deposits, which compares to 14.1% at the end of 2022. Money market deposits and saving deposits decreased to 39.5% at December 31, 2023 from 40.8% of total deposits at the end of 2022. Time deposits decreased to 22.4% at December 31, 2023 from 23.2% of total deposits at the end of 2022.

The cost of interest bearing deposits was 2.29% for 2023 and 0.74% for 2022. Our higher cost of interest bearing deposits was primarily due to an on-going higher interest rate environment during 2023.

The following table sets forth the average balances and average interest rates of deposits by deposit category for the years indicated.

	Year Ended December 31,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)			
Non-interest bearing demand deposits	$ 492,683	-	$ 579,691	-
Interest bearing demand deposits	498,075	2.16%	323,824	0.43%
Money market deposits	886,991	3.31%	719,743	0.82%
Savings deposits	160,570	1.09%	184,510	0.54%
Time deposits	593,798	3.10%	378,292	0.95%
Total deposits	$ 2,632,117	2.29%	$ 2,186,060	0.54%

Average total deposits increased $446.1 million, or 20.4%, to $2.63 billion for 2023 from $2.19 billion in 2022. The average interest rate paid on total deposits for 2023 was 2.29% compared to 0.54% for 2022. We experienced growth in average balances of all deposit types during the year with the exception of noninterest bearing deposits and savings deposits. During 2023 average noninterest bearing deposits declined $87.0 million or 15.0% and average savings deposits declined by $23.9 million or 13.0%. Average interest bearing demand deposits, money market, and time deposits increased 53.8%, 23.2%, and 57.0%, respectively. The increase in the average total deposits was primarily due to the positive impact from the deposits acquired in the Malvern acquisition which also supported our overall liquidity profile.

Estimated uninsured deposits (in excess of the Federal Deposit Insurance Corporation limit) were $970.8 million and $988.6 million at December 31, 2023 and 2022, respectively. At those dates, the Bank had no deposits that were otherwise uninsured.

At December 31, 2023, the Bank had $141.2 million in time deposits in excess of $250,000 maturing as follows:

	December 31, 2023
	(in thousands)
3 months or less	$ 27,054
3 to 6 months	68,755
6 to 12 months	38,866
Over 12 months	6,572
Total	$ 141,247

Our goal for 2024 is to maintain a lower cost deposit base. We will continue our focus on growing our non- interest bearing and lower cost commercial deposit pipelines. A lower cost deposit base will be an important contributor to sustaining a healthy net interest margin and expanding core profitability in the coming year.

Borrowings

Borrowings consist 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 as well to manage liquidity and interest rate risk. Outstanding advances are secured by eligible investment securities and qualifying commercial mortgage loans.

FHLB borrowings totaled $167.4 million and $85.8 million at December 31, 2023 and 2022, respectively, which represented 5.0% and 3.3% of total assets at those respective year-ends. For the years ended December 31, 2023 and 2022, borrowings averaged $142.5 million and $69.9 million, respectively. The average cost of FHLB borrowings was 4.48% and 1.78%, in 2023 and 2022, respectively.

At December 31, 2023 and December 31, 2022 borrowings also included certain loan participations sold. Due to the rights retained on certain loan participations sold, we determined that we have retained effective control over these loans under FASB ASC 860 Transfers and Servicing, and therefore these participations sold are accounted for as secured borrowings. These secured borrowings totaled $11.7 million and $5.1 million at December 31, 2023 and December 31, 2022, respectively. The increase in the secured borrowing is primarily due to the acquired Malvern loans that the Company identified as secured borrowings.

We generally utilize FHLB advances to assist in the funding of organic loan growth, when deemed appropriate, as well as to help manage and achieve interest rate and liquidity risk objectives. During the first half of 2023 we added FHLB advances primarily to address liquidity concerns brought on by the market turmoil created by the bank failures in the first quarter of 2023. We also acquired $130.0 million in FHLB advances from the Malvern acquisition. After the completion of the Malvern acquisition, the proceeds from the aforementioned asset sales were utilized to help reduce our reliance on FHLB advances during the second half of 2023. We expect to continue to use FHLB advances moving forward to meet asset and liability goals.

Subordinated Debentures

At December 31, 2023 and December 31, 2022, we had $55.3 million and $29.7 million in subordinated debentures outstanding, respectively. For the years ended December 31, 2023 and 2022, subordinated debentures averaged $41.6 million and $29.7 million with an average cost of 6.84% and 5.93%, respectively.

Due to favorable market conditions in May 2020, we issued new subordinated debentures at a lower cost. Proceeds from the new upsized issuance were used to prepay, without penalty, our initial more-expensive debt while strengthening total risk-based capital and helping to fund future growth. We completed the $30.0 million private placement of fixed-to-floating rate subordinated debentures on May 29, 2020. 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 SOFR (Secured Overnight Financing Rate) plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025. Our subordinated debentures, net, includes $380,000 of remaining unamortized debt issuance costs that are being amortized into interest expense over the expected life of the issue.

We also assumed $25.0 million in subordinated debentures in the Malvern acquisition. The Bank received the regulatory approvals required to retire the full $25 million of subordinated notes inherited from Malvern as part of its balance sheet repositioning initiative. The notes, which carried a 9.79% interest rate at December 31, 2023, were redeemed on February 15, 2024.

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 at December 31, 2023. Our cash and cash equivalents increased by $102.0 million to $227.9 million at December 31, 2023 from $125.9 million at December 31, 2022. During the year ended December 31, 2023, the Bank utilized asset sales, primarily sales of loans and investments acquired in the Malvern acquisition, to allow some non-core deposits to leave the Bank, pay off certain borrowings acquired in the Malvern acquisition and increase our cash position. The reduction in 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 2023, our available liquidity to adjusted estimated uninsured deposits ratio was approximately 100.0% at December 31, 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 $592.7 million and were calculated by taking estimated uninsured deposits of $970.8 million at December 31, 2023 minus estimated uninsured deposits of states and political subdivisions which are secured or collateralized as required under state law which totaled $378.1 million at December 31, 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.

At December 31, 2023, the Bank's liquid assets remained at a level management deemed adequate to ensure that, on a short- and long-term basis, contractual liabilities, depositors' withdrawal requirements and other operational and customer credit needs could be satisfied. As of December 31, 2023, our liquid assets (cash and cash equivalents and eligible unpledged securities) totaled $294.3 million, or 8.2% of total assets, compared to $209.0 million, or 8.6% of total assets, at December 31, 2022. The increase was due to $20.3 million provided by investing activities, $143.8 million provided by operating activities which was offset by $62.1 million used by financing activities. The cash provided by investing activities was primarily due to the sale of investment securities. The cash provided from operating activities was primarily due to the sale of loans. The cash used by financing activities was primarily due to paying off federal home loan bank borrowings during 2023.

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 stock and collateral requirements. FHLB advances are collateralized by certain securities and commercial mortgage loans. Based on available qualified collateral as of December 31, 2023, we had the ability to borrow $162.8 million. In addition, we have $80.0 million in unsecured borrowing capacity through three correspondent banks. We also had the ability to borrow $72.2 million from Federal Reserve's new Bank Term Funding Program at the end of 2023. The Bank Term Funding Program ended on March 11, 2024, but we can reallocate collateral to access the Federal Reserve's discount window.

We believe by competitively positioning and pricing our deposits, we can continue to attract core deposits and further strengthen liquidity. Our liquidity profile is further enhanced by branches in attractive markets. Additionally, we have reliable secondary sources of liquidity that we can use as needed. Based on projected loan and deposit growth, we anticipate having satisfactory liquidity using available sources to meet our funding goals for 2024.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Our exposure to credit loss in the event of non-performance by the counterparty to these instruments is represented by the contractual amount of those instruments. We use the same credit analyses in making commitments and conditional obligations as we do for on-balance-sheet instruments.

The contractual amount of off-balance sheet financial instruments as of December 31, 2023 was $474.5 million for commitments to extend credit and $19.8 million for letters of credit. Commitments under letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Further discussion of these commitments is included in Note 16 of the Notes to Consolidated Financial Statements located elsewhere in this document.

Asset and Liability Management

Asset and liability management involves the evaluation, monitoring, and managing of market risk, interest rate risk, liquidity risk and the appropriate use of capital, while maximizing profitability. The asset and liability management committee ("ALCO") provides oversight to the asset and liability management process and recommends policy guidelines regarding interest rate risk, liquidity and capital limits for approval by our Board of Directors. One of the primary goals of asset and liability management is to prudently maximize net interest income while maintaining acceptable levels of interest rate risk. The risk to net interest income is derived from the difference in the maturity and repricing characteristics between assets and liabilities.

Market Risk and Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Market risk arises from interest rate risk inherent in loans, securities, deposits and borrowings. We seek to manage our asset and liability portfolios to help reduce any adverse impact on net interest income and earnings caused by fluctuating interest rates.

The primary goals of our interest rate risk management process are to control exposure to interest rate risk inherent in our balance sheet, determine the appropriate risk level given our strategic objectives, and manage the risk consistent with limits and guidelines approved by ALCO and our Board of Directors. On a quarterly basis, we provide a detailed analysis of our interest rate risk position to ALCO and the Board of Directors.

We manage and control interest rate risk by identifying and quantifying interest rate risk exposures through the use of net interest income simulation and economic value at risk models. Various assumptions are used to produce these analyses, including, but not limited to, the rate 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.

We also use a traditional gap analysis that complements the simulation and economic value at risk modeling. The gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and also does not fully account for embedded options, caps and floors. The gap analysis is prepared based on the maturity characteristics of interest earning assets and interest bearing liabilities for selected time periods.

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 Bank's interest rate sensitivity should be reviewed in conjunction with the consolidated financial statements and notes thereto in this Annual Report on Form 10-K.

Interest Rate Sensitivity Analysis

At December 31, 2023 and 2022, the results of our simulation and economic value at risk models were within guidelines prescribed by our Board of Directors. If model results were to fall outside prescribed ranges, action plans would be required, including additional monitoring and reporting to our Board of Directors, until results were back within prescribed limits.

We believe that the simulation of net interest income in different interest rate environments provides a more meaningful measure of our interest rate risk position than a traditional gap analysis. Our simulation model measures the volatility of net interest income to changes in market interest rates. We model our interest income and interest expense dynamically over specified time periods under different interest rate scenarios and balance sheet structures. We measure the sensitivity of net interest income over twelve and twenty-four month time horizons, based on assumptions established by ALCO and approved by our Board of Directors. Policy guidelines have been established for interest rate shocks, positive and negative, ranging from 100 to 400 basis points. Rates are shocked immediately in Year 1 with rates remaining stable in Year 2. Yield curve shifts are parallel and instantaneous. We generally focus on interest rates +/- 200 basis points. ALCO has established a policy guideline that net interest income sensitivity is acceptable if net interest income in the +/-200 basis points scenarios are within a -12% change in net interest income in the first 12 months and within a -22% change over the two year time frame. The net interest income simulation model for December 31, 2023 shows that over the next twelve month period, a +200 basis points rate shock is estimated to decrease net interest income by 0.9%. For a -200 basis points rate shock, net interest income over that next year is estimated to decrease 0.3%. As of December 31, 2023, net interest income in Year 2 is projected in a +200 basis points rate shock to increase approximately 1.0% and decrease 3.7% in a -200 basis point rate shock. Our objective for our interest rate risk position is to be relatively balanced in either an increasing or decreasing interest rate environment.

We also measure through simulation analysis the impact to net interest income based on our 2023 financial plan or growth scenario in both a higher and lower interest rate environment. Assuming rising interest rates with a +300 basis points rate increase over twelve months, with core deposit rates lagging changes in market rates based on correlations to the federal funds rate, net interest income is projected to decrease 1.4% in Year 1. Assuming declining interest rates with a -300 basis points rate decrease over 12 months net interest income is estimated to decrease 0.8% in Year 1. Assuming no further rate changes in Year 2 net interest income is estimated to decrease 2.3% in the higher rate scenario and decrease 4.5% in the lower rate scenario.

The Federal Reserve raised the fed funds rate seven times during 2022 and continued with four rate increases in 2023 due to inflation concerns and other economic factors. In the fourth quarter we performed our annual assumption review to validate assumptions in the ALM model. An important modeling assumption relates to the regression beta testing of non-maturity deposits. Results of the analysis did not warrant us to make material changes to the assumptions to capture potential risk in a higher interest rate cycle. A review of decay schedule and prepayment assumptions yielded no changes to our modeling input.

Due to the assumptions used in preparing our simulation analysis, actual outcomes could differ significantly from the simulation outcomes.

The table below sets forth the Bank'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 for the dates indicated:

	Net Interest Income			
	December 31, 2023		December 31, 2022	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock (1)				
+ 400	$ 118,120	(1.8%)	$ 97,491	3.6%
+ 300	118,659	(1.4%)	96,628	2.7%
+ 200	119,229	(0.9%)	95,784	1.8%
+ 100	119,873	(0.4%)	94,937	0.9%
+ 0 (Static)	120,339	-	94,130	-
- 100	120,263	(0.1%)	93,076	(1.1%)
- 200	119,980	(0.3%)	91,415	(2.9%)
- 300	119,383	(0.8%)	89,241	(5.2%)
- 400	119,375	(0.8%)	86,109	(8.5%)

(1) Change in interest rates in basis points.

Economic Value At Risk

We measure long-term interest rate risk through an Economic Value of Equity ("EVE") model. This model involves projecting our 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 100 to 400 basis points using an immediate and parallel shift in the yield curve to calculate the various levels of EVE with 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. We use the sensitivity of EVE principally to measure the exposure of equity to changes in interest rates over a relatively long time horizon. Based on the underlying assumptions, we were within our policy guidelines at December 31, 2023 and 2022. Our EVE as of December 31, 2023 is estimated to decline by 8.6% with a rate shock of +200 basis points and increase by 3.8% with a rate shock of -200 basis points. Our policy guideline is -25%. We believe that our risk profile related to long-term interest rate risk is minimal.

Modeling changes in the simulation and EVE analyses require the making of certain assumptions, which may or may not reflect the manner in which actual yields or costs respond to changes in market interest rates. In addition, on an annual basis we perform assumption sensitivity testing, which includes faster deposit betas, the modification of prepayment speeds and the flattening/inversion of the U.S. Treasury yield curve to analyze the impacts to net interest income over a one and two-year period. Although the models discussed above provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income or economic value of equity and may differ from actual results.

We believe that any changes to interest rate levels are likely to occur gradually. We continue to monitor our gap position and rate ramp and shock analyses to detect changes to our exposure to fluctuating interest rates. We have the ability to shorten or lengthen maturities on assets, sell securities, or seek funding sources with different repricing characteristics in order to change our asset and liability structure for the purpose of mitigating the effect of interest rate risk changes.

The table below sets forth the Bank's exposure to interest rate risk as measured by the change in EVE under various interest rate shocks for the dates indicated:

	Economic Value of Equity			
	December 31, 2023		December 31, 2022	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock (1)				
+ 400	$ 339,856	(16.0%)	$ 277,605	(18.4%)
+ 300	353,989	(12.6%)	292,589	(14.0%)
+ 200	369,887	(8.6%)	307,663	(9.5%)
+ 100	386,128	(4.6%)	323,160	(5.0%)
+ 0 (Static)	404,789	-	340,074	-
- 100	413,888	2.3%	355,163	(4.4%)
- 200	420,150	3.8%	366,419	(7.8%)
- 300	423,035	4.5%	373,674	9.90%
- 400	415,362	2.6%	379,628	11.60%

(1) Change in interest rates in basis points.

Capital Management

We manage capital in a highly regulated environment which requires a balance between earning the highest return for our shareholders while maintaining sufficient capital levels for proper risk management and satisfying regulatory requirements. Our capital management is designed to ensure that we are always well capitalized, while having the necessary capital to support future growth.

In 2023 and 2022 we had active share repurchase programs. The most recent share repurchase program allowed for the repurchase of up to 1.2 million shares of our common stock in the open market. This program expired on September 30, 2023. For more information on our share repurchase program, see *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Share Repurchases*." There were 550,000 and 251,922 shares repurchased during 2023 and 2022, respectively.

Stockholders' equity at December 31, 2023 totaled $370.9 million compared to $289.6 million at December 31, 2022, an increase of $81.3 million or 28.1%. The increase was primarily due to the issuance of $70.3 new capital to Malvern shareholders in the Malvern acquisition and net income of $20.9 million for 2023, partially offset by repurchases of 550,000 shares of our common stock totaling $5.5 million and $5.3 million in dividends. Stockholders' equity to assets was 10.28% and 10.60% at December 31, 2023 and 2022, respectively.

Our tangible stockholders' equity ratio was 8.89% as of December 31, 2023 and 9.96% as of December 31, 2022. Tangible stockholders' equity and the tangible stockholders' equity ratio are non-GAAP financial measures which we believe are widely followed in the banking industry. Both measures reflect stockholders' equity after deduction of goodwill and other intangible assets.

The following table provides a reconciliation of certain GAAP financial measures (stockholders' equity and total assets) and the related non-GAAP financial measures (tangible stockholders' equity and adjusted total assets) to derive the tangible stockholders' equity ratio measure.

	December 31,	
	2023	2022
	(dollars in thousands)	
Stockholders' equity	$ 370,900	$ 289,562
Less: Goodwill and other intangible assets, net	54,978	19,405
Tangible stockholders' equity (numerator)	$ 315,922	$ 270,157
Total assets	$ 3,609,327	$ 2,732,940
Less: Goodwill and other intangible assets, net	54,978	19,405
Adjusted total assets (denominator)	$ 3,554,349	$ 2,713,535
Tangible stockholders' equity ratio	8.89%	9.96%

Our accumulated other comprehensive income or loss position is impacted by net unrealized gains or losses on investment securities available for sale. Based on changes in the U.S. Treasury yield curve, AFS securities' values moved higher at December 31, 2023 compared to December 31, 2022. At December 31, 2023, the AFS portfolio had a net unrealized loss, net of tax, of $5.7 million compared to $7.3 million in unrealized gains, 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 December 31, 2023 and 2022, the fully phased in capital conservation buffer is 2.5%.

Under the regulatory prompt corrective action standards, 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 table presents 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 December 31, 2023:						
Tier 1 leverage capital	$ 319,713	9.12%	$ 140,254	4.00%	$ 175,318	5.00%
Common equity tier 1 capital	319,713	9.22%	156,034	4.50%	225,383	6.50%
Tier 1 risk-based capital	319,713	9.22%	208,046	6.00%	277,394	8.00%
Total risk-based capital	401,692	11.58%	277,394	8.00%	346,743	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%

As of December 31, 2023 and 2022 the Bank met all capital adequacy requirements to which it is subject. First Bank is considered “well capitalized” under the FDIC’s prompt corrective action capital provisions.

Impact of Inflation and Changing Prices

Our consolidated financial statements and notes thereto, located elsewhere in this document, have been prepared in accordance with GAAP which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Since nearly all of our assets and liabilities are monetary, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

See the section entitled “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity Analysis” herein for a discussion of our management of interest rate risk.

Item 8. Financial Statements and Supplementary Data.

The audited consolidated financial statements are set forth in this Annual Report on Form 10-K on the pages listed in the Index to First Bank and Subsidiaries Consolidated Financial Statements which follows.

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FIRST BANK
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
First Bank
Hamilton, New Jersey

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of First Bank (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 15, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

As described in Notes 1 and 4 to the Company's consolidated financial statements, the Company had loans, net of deferred fees and costs of approximately $3.0 billion and related allowance for credit losses of approximately $42.4 million at December 31, 2023. The Company estimates the allowance for credit losses 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 allowance for credit losses 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 outlined in Note 1. The quantitative component is adjusted for qualitative risk factors that involve significant estimates and subjective assumptions that require a high degree of management's judgment.

We identified management's significant judgments and assumptions used in the selection of the appropriate forecast based on general economic conditions over a two-year reasonable and supportable forecast period to be used in the qualitative portion of the allowance for credit losses as a critical audit matter. Evaluations of the general economic conditions are inherently subjective, as they require estimates, assumptions and judgments as there is uncertainty in forecasting. Auditing these complex judgments and assumptions involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skills and knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the relevant benchmark indicators used in the determination of the economic forecasts over a two-year reasonable and supportable forecast period by agreeing them to source information.

- Utilizing personnel with specialized skill and knowledge to assist in evaluating alternative assumptions or outcomes by utilizing different sources of economic data for assessment of the national, regional, and local economic and business conditions and comparing them to the economic forecasts over a two-year reasonable and supportable forecast period used by management.

- Evaluating the Company's forecast to determine if the period used is considered reasonable and supportable by comparing the forecast period to external historical published economic cycle data.

Acquisition of Malvern Bancorp, Inc. and Malvern Bank, National Association

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").

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.

As required under the acquisition method of accounting, the acquired loan portfolio was valued utilizing various inputs including the use of a discounted cash flow methodology applied on a pooled basis for Non-PCD and PCD Accruing loans and on an individual basis for PCD Non-Accruing loans and incorporated assumptions that marketplace participants would use in estimating fair values. In the fair value process, Non-PCD and PCD 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.

We identified the determination of the discount rates assumption in the valuation of Non-PCD and PCD accruing acquired loans as a critical audit matter. The discount rates used to discount projected cash flows that third-party market participants would use are based upon unobservable inputs and are considered highly subjective as there is no active market for these loans. Auditing this significant assumption involved especially challenging and subjective auditor judgment due to the nature and extent of audit efforts required to address this matter, including specialized skill and knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Utilizing personnel with specialized skill and knowledge in valuation to assist with evaluating and testing the reasonableness of the discount rates used in the valuation of the acquired loans to determine the fair value by comparing the rates utilized by the Company to discount rates that were independently developed utilizing observable information obtained from a market participant perspective (e.g. index market rates, corporate and treasury spreads and internal and external funding costs) and identifying potential sources of contrary information.

/s/ BDO USA, P.C.

We have served as the Company's auditor since 2020.

Philadelphia, PA

March 15, 2024

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
First Bank
Hamilton, NJ

Opinion on Internal Control over Financial Reporting
We have audited First Bank (the "Company's") internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial condition as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes and our report dated March 15, 2024 expressed an unqualified opinion thereon.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting
A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, P.C.
Philadelphia, PA
March 15, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 25,652	$ 17,577
Restricted cash	13,770	13,580
Interest bearing deposits with banks	188,529	94,759
Cash and cash equivalents	227,951	125,916
Interest bearing time deposits with banks	996	1,293
Investment securities available for sale, at fair value	94,142	98,956
Investment securities held to maturity, net of allowance for credit losses of $200 at December 31, 2023 (fair value of $38,486 and $42,465 at December 31, 2023 and 2022, respectively	44,059	47,193
Equity securities, at fair value	1,888	-
Restricted investment in bank stocks	10,469	6,214
Other investments	9,841	8,372
Loans, net of deferred fees and costs	3,021,501	2,337,814
Less: Allowance for credit losses	(42,397)	(25,474)
Net loans	2,979,104	2,312,340
Premises and equipment, net	21,627	10,550
Accrued interest receivable	14,763	8,164
Bank-owned life insurance	86,435	58,107
Goodwill	44,166	17,826
Other intangible assets, net	10,812	1,579
Deferred income taxes, net	30,875	13,155
Other assets	32,199	23,275
Total assets	$ 3,609,327	$ 2,732,940
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 501,763	$ 503,856
Interest bearing deposits	2,465,806	1,790,096
Total deposits	2,967,569	2,293,952
Borrowings	179,140	90,932
Subordinated debentures	55,261	29,731
Accrued interest payable	2,813	1,218
Other liabilities	33,644	27,545
Total liabilities	3,238,427	2,443,378
Commitments and Contingencies (See note 16)	-	-
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; 27,149,186 shares issued and 24,968,122 shares outstanding at December 31, 2023 and 21,082,819 shares issued and 19,451,755 shares outstanding at December 31, 2022	134,552	104,512
Additional paid-in capital	122,881	80,695
Retained earnings	140,563	127,532
Accumulated other comprehensive loss	(5,718)	(7,334)
Treasury stock, 2,181,064 and 1,631,064 shares at December 31, 2023 and 2022, respectively	(21,378)	(15,843)
Total stockholders' equity	370,900	289,562
Total liabilities and stockholders' equity	$ 3,609,327	$ 2,732,940

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

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

	Year Ended December 31,	
	2023	**2022**
Interest and Dividend Income		
Investment securities—taxable	$ 4,117	$ 2,998
Investment securities—tax-exempt	194	149
Interest bearing deposits with banks,		
Federal funds sold and other	8,860	2,093
Loans, including fees	160,846	102,021
Total interest and dividend income	174,017	107,261
Interest Expense		
Deposits	60,281	11,883
Borrowings	6,378	1,244
Subordinated debentures	2,842	1,761
Total interest expense	69,501	14,888
Net interest income	104,516	92,373
Credit loss expense	7,943	2,872
Net interest income after credit loss expense	96,573	89,501
Non-Interest Income		
Service fees on deposit accounts	1,078	941
Loan fees	409	683
Income from bank-owned life insurance	1,882	1,474
Losses on sale of investment securities, net	(1,650)	-
(Losses) gains on sale of loans, net	(4,192)	296
Gains on recovery of acquired loans	222	672
Other non-interest income	1,536	1,054
Total non-interest income	(715)	5,120
Non-Interest Expense		
Salaries and employee benefits	34,339	27,383
Occupancy and equipment	7,104	5,689
Legal fees	942	695
Other professional fees	2,872	2,649
Regulatory fees	2,188	851
Directors' fees	877	743
Data processing	3,093	2,476
Marketing and advertising	1,161	682
Travel and entertainment	743	479
Insurance	883	727
Other real estate owned expense, net	65	295
Merger-related expenses	8,048	452
Other expense	6,385	3,612
Total non-interest expense	68,700	46,733
Income Before Income Taxes	27,158	47,888
Income tax expense	6,261	11,601
Net Income	$ 20,897	$ 36,287
Basic earnings per common share	$ 0.95	$ 1.86
Diluted earnings per common share	$ 0.95	$ 1.84
Basic weighted average common shares outstanding	21,942,174	19,503,837
Diluted weighted average common shares outstanding	22,072,616	19,716,684

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

FIRST BANK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,	
	2023	**2022**
Net income	$ 20,897	$ 36,287
Other comprehensive income (loss):		
Unrealized holding gains (losses) on investments arising during the period	637	(9,560)
Reclassification adjustment for loss on securities included in net income	1,650	-
	2,287	(9,560)
Income tax effect	(671)	2,432
Total other comprehensive income (loss), net of tax	1,616	(7,128)
Total comprehensive income	$ 22,513	$ 29,159

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)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance—December 31, 2021	$ 103,704	$ 79,563	$ 95,924	$ (206)	$ (12,319)	$ 266,666
Net income	-	-	36,287	-	-	36,287
Other comprehensive loss, net of tax	-	-	-	(7,128)	-	(7,128)
Vesting of restricted stock, 64,306 shares	321	(321)	-	-	-	-
Exercise of stock options, 97,454 shares	487	232	-	-	-	719
Stock-based compensation expense	-	1,221	-	-	-	1,221
Cash dividends declared on common stock, $0.24 per share	-	-	(4,679)	-	-	(4,679)
Purchase of 251,922 shares of common stock	-	-	-	-	(3,524)	(3,524)
Balance—December 31, 2022	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	-	-	20,897	-	-	20,897
Other comprehensive income, net of tax	-	-	-	1,616	-	1,616
Vesting of restricted stock, 84,631 shares	423	(423)	-	-	-	-
Exercise of stock options, 41,500 shares	208	48	-	-	-	256
Stock-based compensation expense	-	1,624	-	-	-	1,624
Cash dividends declared on common stock, $0.24 per share	-	-	(5,320)	-	-	(5,320)
Purchase of 550,000 shares of common stock	-	-	-	-	(5,535)	(5,535)
Acquisition of Malvern Bancorp, Inc., 5,881,815 shares, $11.96 per share	29,409	40,937	-	-	-	70,346
Balance—December 31, 2023	$ 134,552	$ 122,881	$ 140,563	$ (5,718)	$ (21,378)	$ 370,900

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

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FIRST BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2023	Year Ended December 31, 2022
Cash flows from operating activities:		
Net income	$ 20,897	$ 36,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	7,943	2,872
Depreciation and amortization of premises and equipment	1,823	1,265
Amortization and accretion of premiums/discounts on investment securities, net	98	246
Amortization and accretion of fair value adjustments, net	(6,831)	(275)
Amortization and accretion of deferred loan fees and costs, net	(2,219)	(3,551)
Amortization of core deposit intangible assets	1,026	291
Amortization of subordinated debentures issuance cost	111	111
Noncash operating lease expense	2,054	(1,858)
Stock-based compensation	1,624	1,221
Losses on sale of investment securities available for sale	1,650	-
Loss on termination of derivative contract	57	-
Originations of loans held for sale	(4,551)	(6,066)
Proceeds from sale of loans held for sale	124,877	6,845
Losses (gains) on sale of loans	4,192	(296)
Gain on sale of other real estate owned, net	-	35
Income from bank-owned life insurance	(1,882)	(1,474)
Deferred income tax benefit	318	358
Changes in assets and liabilities:		
Increase in accrued interest receivable	(2,714)	(2,483)
Decrease in intangible assets	49	275
(Increase) decrease in other assets	(7,508)	729
(Decrease) increase in accrued interest payable	(834)	819
Increase in other liabilities	3,657	1,529
Net cash provided by operating activities	143,837	36,880
Cash flows from investing activities:		
Net decrease in interest bearing time deposits with banks	297	877
Net increase in loans	(64,915)	(210,290)
Purchases of investment securities available for sale	(30,231)	(27,296)
Purchases of investment securities held to maturity	(157)	(14,944)
Proceeds from sales of investment securities available for sale	108,707	-
Proceeds from maturities, calls and paydowns of investment securities available for sale	17,557	13,220
Proceeds from maturities, calls and paydowns of investment securities held to maturity	3,020	7,196
Purchase of restricted stocks	(31,101)	(11,231)
Redemption of restricted stocks	35,515	10,873
Purchases of other investments	(1,984)	(310)
Proceeds from termination of Derivative contract	2,982	-
Proceeds from sales of other real estate owned	-	737
Purchases of premises and equipment	(3,117)	(1,907)
Cash paid for acquisition, net of cash acquired	(16,247)	-
Net cash provided by (used in) investing activities	20,326	(233,075)
Cash flows from financing activities:		
Net increase in deposits	1,047	179,437
Proceeds from borrowings	520,000	132,435
Repayments of borrowings	(572,576)	(136,784)
Proceeds from stock option exercises	256	719
Cash dividends paid on common stock	(5,320)	(4,679)
Purchase of treasury stock	(5,535)	(3,524)
Net cash (used in) provided by financing activities	(62,128)	167,604
Net increase (decrease) in cash and cash equivalents	102,035	(28,591)
Cash and cash equivalents at beginning of year	125,916	154,507
Cash and cash equivalents at end of period	$ 227,951	$ 125,916
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	$ 69,505	$ 11,040
Cash paid for income taxes	$ 7,835	$ 10,723
Supplemental schedule of non-cash activities:		
Vesting of restricted stock	$ 423	$ 321
Transfer of loans held-for-sale to loans receivable	$ 18,476	$ -
Transfer of loans receivable to loans held-for-sale	$ 38,685	$ -
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	-
Consideration of shares issued	$ 70,346	$ -

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

FIRST BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2023 and 2022

Note 1 — Summary of Significant Accounting Policies

Business

First Bank (the "Bank" or the "Company") is a New Jersey chartered commercial bank, incorporated in 2007. The Company provides a traditional range of 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 primary existing and targeted markets are located in the corridor between New York City and Philadelphia.

The Company is subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation ("FDIC").

The Company is subject to competition from other financial institutions and non-bank providers of financial services.

Basis of Financial Statement Presentation

The consolidated financial statements of First Bank and Subsidiaries 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.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change are: the determination of the fair value of acquired loans; the allowance for credit losses; 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.

Segment Reporting

Accounting Standards Codification ("ASC") Topic 280, Segment Reporting, establishes standards for the way business enterprises report information about operating segments in annual consolidated financial statements. The Company has one reportable segment, "Community Banking." Community Banking encompasses the Company's primary business which includes providing a wide range of commercial and retail and related banking services. The Company's primary focus within Community Banking is to grow the loan portfolio, primarily in commercial loans, and fund these loans using deposits generated by the Company's branches. Our business is generated principally in central and northern New Jersey, eastern Pennsylvania and Florida. Note 4 discusses the types of lending that the Company engages in.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits with banks and Federal funds sold. Cash and due from banks included $250,000 at December 31, 2023 and 2022 representing compensating balances against a line of credit for a short-term borrowing facility with one of the Company's correspondent banks. Cash and due from banks also included $13.5 million and $13.3 million, respectively, at December 31, 2023 and 2022 of restricted cash in cash collateral balances for the Company's interest rate derivatives.

Investment Securities

The Company 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 related 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 Allowance For Credit Losses ("ACL") is on loans.

Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Investment securities classified as available for sale ("AFS") are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Investment securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the terms of the securities. Investment securities that the Company has the positive intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions are classified as held to maturity ("HTM"). These securities are carried at amortized cost adjusted for the amortization of premiums and accretion of discounts, computed by a method which approximates the interest method over the terms of the securities.

Note 1 — Summary of Significant Accounting Policies — (Continued)

If transfers between the available for sale and held to maturity portfolios occur, they are accounted for at fair value and unrealized holdings gains and losses are accounted for at the date of transfer. For securities transferred into the held to maturity portfolio from the available for sale portfolio, unrealized gains or losses as of the date of transfer continue to be reported in other comprehensive income and are amortized over the remaining life of the security as an adjustment to its yield, consistent with amortization of the premium or accretion of the discount.

Securities also include equity investments. Equity investments with readily determinable fair value are reported at fair value, with changes in fair value reported in net income. Equity investments without readily determinable fair values are carried at cost less impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

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 was based upon factors such as the creditworthiness of the underlying issuer, historic payment history of each individual investment security and if applicable, the level of credit support in the security structure. 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. There were no credit loss expenses recorded during the years ended December 31, 2023.

Prior to implementation of ASC Topic 326, declines in the fair value of investment securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses if the decline was related to credit losses. In estimating other than temporary impairment losses, management considered (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the ability of the Company to hold its investment, and (iv) whether the Company would be required to sell the security before a recovery in fair value. The Company recorded no impairment losses on investment securities for the years ended December 31, 2022.

The Company did not record an ACL on the AFS securities during the twelve months ended December 31, 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 December 31, 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 December 31, 2023, accrued interest receivable totaled $320,000 for AFS securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

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 December 31, 2023, accrued interest receivable totaled $262,000 for HTM securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

At December 31, 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 December 31, 2023.

Equity Securities

The Company has one equity security carried at fair value as of December 31, 2023, with a fair value of $1.9 million and an amortized cost of $2.0 million. The equity security is a CRA eligible fund that is actively traded and has a readily determinable fair value. Based on the guidance in FASB Codification – ASC Topic 321 *Investments – Equity Securities* (ASC 321), equity investments with readily determinable fair values should be measured at fair value with changes in the value recorded through net income. The change in fair value is recorded in other income in the Consolidated Statement of Income.

Note 1 — Summary of Significant Accounting Policies — (Continued)

Other Investments

Other investments totaled $11.7 million and $8.4 million at December 31, 2023 and 2022, respectively. Other investments consist primarily of an investment in a SBA Loan Fund with a balance of $6.7 million and $6.6 million at December 31, 2023 and 2022, respectively, and smaller investments in a Community Impact Bond Fund, a business tech fund, and a Small Business and Investment Company (SBIC) Fund. The SBA Loan Fund and the Community Impact Bond Fund were purchased for the purpose of assisting the Company in satisfying its Community Reinvestment Act of 1977 (as amended) requirements. The tech fund specializes in the research, development, proper selection of, and investment in technology companies, as well as the incubation and acceleration of emerging technologies, whose mission is to make banks more competitive in today's market. The SBIC fund will invest into portfolio companies that qualify as economic development activities. As the Funds operate as private funds, shares in the Funds are not publicly traded and therefore have no readily determinable market value. An investor can have its interest in the SBA Loan Fund redeemed for the balance of its capital account at any quarter end, assuming it gives the SBA Loan Fund sixty days' notice. The Community Impact Bond Fund is an open-end mutual fund offering daily liquidity with no redemption fees. The Funds are equity securities without a readily determinable fair value that the Company has elected to record at cost minus impairment, if any, plus or minus changes resulting from observable price changes in accordance with ASC 321-10, *Investments — Equity Securities*. Any dividends received are recorded in interest income. The qualitative assessment to determine whether impairment exists requires the use of the Company's judgement. If, after completing the qualitative assessment the Company concludes an equity investment without a readily determinable fair value is impaired, a loss for the difference between the equity investment's carrying value and its fair value may be recognized as a reduction to non-interest income in the Consolidated Statements of Income. The Company recorded no impairment charge or any upward or downward adjustments on its other investments for the years ended December 31, 2023 and 2022.

Restricted Investment in Bank Stocks

Restricted stock is carried at cost and is composed of required investments in the common stock of the Federal Home Loan Bank of New York ("FHLB") and Atlantic Community Bancshares, Inc. ("ACBI"), the holding company for Atlantic Community Bankers Bank ("ACBB"). The Company is a member of FHLB and ACBI, and as a member, the Company is required to hold a certain amount of FHLB and ACBI stock. These equities are non-marketable. Management evaluates the restricted stock for impairment in accordance with ASC Topic 320, *Investments in Debt and Equity Securities*. Management's determination of whether these investments are impaired is based on an assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as: (i) the significance of the decline in net assets of the FHLB and ACBI as compared to the capital stock amount for the FHLB and ACBI, respectively, and the length of time this situation has persisted; (ii) commitments by the FHLB and ACBI to make payments required by law or regulation and the level of such payments in relation to the operations of the FHLB and ACBI, respectively; (iii) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and ACBB; and (iv) the liquidity position of the FHLB or ACBI. The Company recorded no impairment charge related to the FHLB or ACBI stocks for the years ended December 31, 2023 and 2022.

Loans

The loan portfolio includes commercial and industrial, commercial real estate, residential real estate and consumer and other loan segments. Commercial and industrial loans typically consist of loans to finance equipment, inventory, receivables and other working capital needs of small to mid-sized businesses. The commercial real estate portfolio includes mortgage loans on owner-occupied and tenanted investment properties, construction and land development loans and multi-family loans. Residential real estate loans are composed of loans secured by one to four family residential properties. Consumer and other loans include auto loans, personal loans, traditional installment loans and other loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses, unearned discount and deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company amortizes these amounts over the contractual life of the loan.

Mortgage 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. Gains and losses on sales of mortgage loans are included in non-interest income in the Consolidated Statements of Income.

Note 1 — Summary of Significant Accounting Policies — (Continued)

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the collectability of principal or interest even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest accrued to income is reversed. Interest received on nonaccrual loans is subsequently recognized only to the extent cash payments are received in excess of principal due. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Acquired Loans

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

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 purchase credit deterioration ("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

Principal and interest payments received on PCD loans, which were written down to $0 at the acquisition date are reported in the consolidated statements of income as gains on recovery of acquired loans. These loans were written down to $0 because there was no expectation of collecting the principal at the acquisition date. Payoffs on loans that had partial charge offs at the time of acquisition are reported in the consolidated statements of income in interest on loans, including fees, after retirement of principal.

Allowance for Credit Losses on Loans

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 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 lifetime 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 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.

Note 1 — Summary of Significant Accounting Policies — (Continued)

The Company primarily utilizes a vintage method to estimate the quantitative portion of the allowance for credit losses with the exception of the recently acquired 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 acquired 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 purchase credit deteriorated ("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 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).

Note 1 — Summary of Significant Accounting Policies — (Continued)

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.

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.

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

Credit quality risk ratings include the regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as loss are considered uncollectible and are charged to the allowance for credit losses.

On a quarterly basis, the Company's Asset Quality Review Committee formally reviews the risk ratings on all criticized and classified loans. The Company also engages an independent third-party loan review consultant to review the loan portfolio. As part of their scope, they review a significant portion of criticized and classified loans.

Prior to adoption of CECL, during the year-end December 31, 2022, the Company had utilized an incurred loss methodology to determine the ACL that represented management's estimate of losses inherent in the loan portfolio as of the balance sheet date. The ACL under the incurred loss methodology included similar loan segmentation to the Company's current CECL methodology and consisted of a specific and general component. The specific component related to loans that were classified as impaired. A loan was considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment was measured on a loan-by-loan basis 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 was collateral dependent. For loans that were classified as impaired, an allowance was established when the discounted cash flows, collateral value or observable market price of the impaired loan was lower than the carrying value. The general component covered pools of loans by loan class including loans not considered impaired and other loans which have not been otherwise reviewed or measured on an individual basis. These pools of loans were evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors.

Based on its analysis of the loan portfolio, management believes that the level of the allowance for credit losses at December 31, 2023 and 2022 was adequate.

Reserve for Unfunded Loan Commitments

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.

Premises and Equipment, net

Land is carried at cost and premises and equipment are stated at cost less accumulated depreciation and amortization, or, in the case of premises acquired in a business combination, the value on the acquisition date. Depreciation is calculated using the straight-line method over the estimated useful lives of ten to forty years for buildings and three to twenty years for furniture, fixtures and equipment. Depreciation expenses are included in occupancy and equipment expense in the Consolidated Statement of Income. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or the useful lives of the respective assets, whichever is less.

Other Real Estate Owned, net

Other real estate owned is real estate that is acquired through foreclosure or deed in lieu of foreclosure in partial or total satisfaction of loans and is held for sale. Properties are recorded at fair value less estimated disposal costs at the date acquired establishing a new cost basis. When a property is acquired, the excess of the loan balance over the fair value is charged to the allowance for credit losses. Any subsequent write down that is required to the carrying value of the property is recorded to non-interest expense and a corresponding valuation allowance.

Note 1 — Summary of Significant Accounting Policies — (Continued)

Bank-Owned Life Insurance

The Company owns bank-owned life insurance (“BOLI”) to help offset the cost of employee benefits.

BOLI is recorded at its cash surrender value. The change in the cash surrender value is included as a component of non-interest income and is exempt from federal and state income taxes as long as the policies are held until the death of the insured individuals and all earnings are retained in the policy.

Goodwill and Other Intangible Assets

The Company's 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. The Company may elect to perform a qualitative assessment for the annual impairment test. If the qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company elects not to perform a qualitative assessment, then the Company would be required to perform a quantitative test for goodwill impairment. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

The Company performed a qualitative assessment of goodwill as of August 31, 2023 which is our established annual assessment date and determined that none of the Company's goodwill was impaired as of August 31, 2023. As of December 31, 2023 and December 31, 2022, no triggering events were identified and therefore, the Company 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 the Company originates 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 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.

The Company believes that the fair values of intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at December 31, 2023 or December 31, 2022.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation in a loan. In order to be available for sale treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“Topic 606”). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. No revenue has been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company’s primary sources of revenue are derived from interest and dividends earned on loans, securities and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary.

Note 1 — Summary of Significant Accounting Policies — (Continued)

The Company generally satisfies our performance obligations on contracts with customers as services are rendered, and the transaction prices are typically fixed and charged either on a periodic basis (generally monthly) or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The Company's non-interest income revenue streams are primarily accounted for outside of Topic 606. The non-interest income revenue streams primarily accounted for outside of Topic 606 include: income from bank-owned life insurance, gains on sale of loans, gains on recovery of acquired loans, and loan fees. Loan fees are primarily related to loan swap fee income and are accounted for under Accounting Standards Codification Topic 820, "Fair Value Measurement" which outlines the upfront transaction profit recognition as a result of the transaction price not representing the fair value of an asset or liability at initial recognition.

The Company's primary non-interest income revenue streams within the scope of Topic 606 are: income from service charges on deposits and certain components of other income, primarily debit card interchange income and checkbook fees, and are discussed in greater detail below.

Service Fees on Deposits

Service charges on deposits consist of cash management, overdraft, non-sufficient fund fees and other service charges on deposit accounts. Revenue is primarily transactional and recognized when earned, which is at the time the respective initiating transaction occurs and the related service charge is subsequently processed. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to the customers' accounts.

Debit Card Interchange Income

Debit card interchange income consists of interchange fees earned when the Company's debit cards are processed through card payments networks. The interchange fee is calculated as a percentage of the total electronic funds transfer (EFT) transaction plus a per-transaction fee, which varies based on the type of card used, the method used to process the EFT transaction, and the type of business at which the transaction was processed. Revenue is recognized daily as transactions occur and interchange fees are subsequently processed. Payment for interchange activity is received primarily daily, while some fees are aggregated, and payment is received in the following month.

Other Fees

Certain aspects of other income, such as check orders, are within the scope of Topic 606. These fees are primarily transactional, and revenue is recognized when transactions occur and the related services are subsequently processed. Payment is primarily received immediately or in the following month.

The Company does not exercise significant judgements in the recognition of income, as typically income is not recognized until the performance obligation has been satisfied. The Company has not recognized any assets from the costs to obtain or fulfill a contract with customers for revenue streams that fall within the guidance of Topic 606.

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transaction activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company has not entered into long-term contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023, and 2022, the Company did not have any contract balances.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of- scope of Topic 606, for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Non-interest Income		
In-scope of Topic 606:		
Service fees on deposit accounts	$ 1,078	$ 941
Debit card interchange income	888	693
Other fees	621	361
Non-interest Income (in-scope of Topic 606)	2,587	1,995
Non-interest Income (out-of-scope of Topic 606)	(3,301)	3,125
Total non-interest income	$ (715)	$ 5,120

Note 1 — Summary of Significant Accounting Policies — (Continued)

Other non-interest income includes debit card interchange income, certain customer fees, and other miscellaneous income items. There were no out-of-scope items of Topic 606 included in other non-interest income for the year ended December 31, 2023 and year ended December 31, 2022.

Subordinated Debt Issuance Costs

Subordinated debt issuance costs are presented in the Consolidated Statements of Financial Condition as a deduction from the carrying amount of the related debt and are amortized over the expected life of the issue as interest expense.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740, *Income Taxes*. Income tax accounting results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense or benefit results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. In the event that there is new tax legislation affecting the statutory federal corporate income tax rate, the deferred tax position would be revalued to reflect the future impact of the higher or lower tax rate.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50%; the terms “examined” and “upon examination” also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than- not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether a tax position has met the more-likely- than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of loan commitments and letters of credit. Such financial instruments are recorded in the Consolidated Statements of Financial Condition when they are funded.

Stock-Based Compensation

The Company applies ASC Topic 718, *Compensation — Stock-Based Compensation*, which contains a fair value-based method for valuing stock-based compensation, and measures compensation cost at the grant date based on the fair value of the award. Compensation is recognized over the service period, which is usually the vesting period. If the service conditions are not met, the Company reverses previously recorded compensation expense upon forfeiture. The Company’s accounting policy election is to recognize forfeitures as they occur.

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 calculations. In the event of a net loss, our unvested stock awards are excluded from the calculations of both basic and diluted earnings per share.

Note 1 — Summary of Significant Accounting Policies — (Continued)

Other Comprehensive Income

Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income.

The components of accumulated other comprehensive income included in stockholders' equity were as follows:

	December 31, 2023	December 31, 2022
	(in thousands)	
Net unrealized losses on investment securities available for sale	$ (7,541)	$ (9,828)
Income tax effect	1,823	2,494
Accumulated other comprehensive loss	$ (5,718)	$ (7,334)

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.

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 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.

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.

Note 1 — Summary of Significant Accounting Policies — (Continued)

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.

I**n November 2023, FASB issued ASU 2023-07, "Segment Reporting (Topic 280)**: Improvements to Reportable Segment Disclosures". The amendments in this ASU require improved reportable segment information on an annual and interim basis, primarily through enhanced disclosures about significant segment expenses. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2023, and interim periods for fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, "**Income Taxes (Topic 740):** Improvements to Income Tax Disclosures". The amendments in this ASU require improved annual income tax disclosures surrounding rate reconciliation, income taxes paid, and other disclosures. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this standard on the 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..

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.

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. The assets acquired and liabilities assumed in the acquisition of Malvern were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. At December 31, 2023, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

Note 2 — Business Combination — (Continued)

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

	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 3.

Note 2 — Business Combination — (Continued)

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 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 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 twelve months ended December 31, 2023, was $1.03 million. Additional information is included in Note 9.

Deferred Tax Asset

The Company recorded a net deferred income tax asset of $17.8 million related to tax attributes of Malvern Bank, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

Note 2 — Business Combination — (Continued)

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 $8.5 million with $8.0 million during the year ended December 31, 2023 and $500,000 during the year ended December 31, 2022. 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.

	Year Ended December 31, 2023	Cumulative Merger-Related Expenses December 31, 2023
	(in thousands)	
Severance expenses	$ 3,931	$ 3,931
System termination and integration fees	1,520	1,520
Financial advisory fees	1,135	1,335
Professional fees	502	502
Other	960	1,212
Merger-related expenses	$ 8,048	$ 8,500

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 period ending December 31, 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.

	Actual from July 17, 2023 to December 31, 2023	Pro forma Combined Year ended December 31, 2023	Pro forma Combined Year ended December 31, 2022
	(in thousands, except for share data)		
Interest income	$ 17,421	$ 197,025	$ 143,787
Interest expense	(7,979)	(79,251)	(21,504)
Provision for loan losses	-	(7,943)	(2,872)
Non-interest income	935	301	7,205
Non-interest expense	(5,969)	(84,915)	(70,033)
Income taxes	(1,058)	(5,905)	(13,455)
Net income	$ 3,350	$ 19,312	$ 43,128
Earnings per diluted share		$ 0.76	$ 1.68

Note 3 — Investment Securities

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:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale		(in thousands)		
U.S. Government-sponsored agency securities	$ 19,500	$ 7	$ (403)	$ 19,104
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	45,822	64	(5,287)	40,599
Issued by GNMA	23,345	-	(1,592)	21,753
U.S. Treasury securities	1,998	-	(13)	1,985
SBA pools	3,175	-	(8)	3,167
Asset-backed securities	718	-	(20)	698
Corporate obligations	7,125	-	(289)	6,836
Total	$ 101,683	$ 71	$ (7,612)	$ 94,142

	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

The amortized cost and fair value of investment securities held to maturity were as follows:

	December 31, 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	$ 10,792	$ -	$ (1,611)	$ 9,181	$ -
Issued by GNMA	473	-	(40)	433	-
Obligations of state and political subdivisions	7,244	65	(276)	7,033	(4)
Corporate obligations	25,750	-	(3,911)	21,839	(196)
Total	$ 44,259	$ 65	$ (5,838)	$ 38,486	$ (200)

	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 amortized cost, fair value and contractual maturities of investment securities available for sale and held to maturity are shown in the table below. Certain of these securities have call features which allow the issuer to call 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, mortgage-backed securities are not presented by maturity category.

Note 3 — Investment Securities — (Continued)

	December 31, 2023			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due within one year	$ 718	$ 698	$ 1,168	$ 1,167
Due after one year through five years	25,623	24,918	3,359	3,279
Due after five years through ten years	3,000	3,007	27,940	23,888
Due after ten years	3,175	3,167	527	538
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	45,822	40,599	10,792	9,181
Issued by GNMA	23,345	21,753	473	433
Total investment securities	$ 101,683	$ 94,142	$ 44,259	$ 38,486

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

	December 31, 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				(in thousands)					
U.S. Government-sponsored agency securities	2	$ 4,989	$ (11)	4	$ 11,109	$ (391)	6	$ 16,098	$ (402)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	1	47	(1)	36	31,585	(5,287)	37	31,632	(5,288)
Issued by GNMA	3	5,813	(69)	10	9,922	(1,523)	13	15,735	(1,592)
U.S. Treasury securities	-	-	-	1	1,985	(13)	1	1,985	(13)
SBA pools	1	1,667	(9)	-	-	-	1	1,667	(9)
Asset-backed securities	-	-	-	1	698	(19)	1	698	(19)
Corporate obligations	1	978	(22)	2	5,858	(267)	3	6,836	(289)
Total	8	$ 13,494	$ (112)	54	$ 61,157	$ (7,500)	62	$ 74,651	$ (7,612)

	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				(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)

Note 3 — Investment Securities — (Continued)

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

	December 31, 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				(in thousands)					
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	-	$ -	$ -	16	$ 9,181	$ (1,611)	16	$ 9,181	$ (1,611)
Issued by GNMA	-	-	-	1	432	(40)	1	432	(40)
Obligations of state and political subdivisions	-	-	-	13	4,854	(276)	13	4,854	(276)
Corporate obligations	-	-	-	23	21,839	(3,911)	23	21,839	(3,911)
Total	-	$ -	$ -	53	$ 36,306	$ (5,838)	53	$ 36,306	$ (5,838)

	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				(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)

Investment securities with unrealized losses are evaluated quarterly to determine whether there were any credit losses. During 2023, on a quarterly basis, the company conducted impairment evaluations and determined that there was no impairment in these investment securities. The evaluation was based upon factors such as the creditworthiness of the underlying issuer, historic payment history of each individual investment security and if applicable, the level of credit support in the security structure. The Company noted that each issuer made all the contractually due payments when required. There were no defaults on principal or interest payments, and no interest payments were deferred. Based on management's analysis of each individual security, the issuers appear to have the ability to meet debt service requirements over the life of the security. Furthermore, the net unrealized losses were primarily due to changes in the general credit and interest rate environment and not credit quality of any individual investment. Additionally, the Company's liquidity plans include adequate sources of liquidity outside securities sales. During 2022, on a quarterly basis, the Company performed other than temporary impairment analysis and determined that all unrealized losses were temporary in nature. This conclusion was based on several factors, including the strong credit quality of the securities with unrealized losses, the relatively low level and short time frame of the unrealized losses, which were driven by changes in the yield curve, and because the Company does not intend to sell these investment securities.

For fiscal year 2023, the Bank sold approximately $108.7 million, in available for sale securities for a gross unrealized loss of approximately $1.7 million. There were no securities sold for the year ended December 31, 2022.

Investment securities with a market value of $2.1 million and $887,000, respectively, were pledged as collateral for municipal deposits and Federal Home Loan Bank ("FHLB") borrowings at December 31, 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.

Note 4 — 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 was as follows as of the dates indicated:

	December 31, 2023	December 31, 2022
	(in thousands)	
Commercial and industrial	$ 506,849	$ 354,203
Commercial real estate:		
Owner-occupied	612,352	533,426
Investor	1,221,702	951,115
Construction and development	186,829	142,876
Multi-family	271,058	215,990
Residential real estate:		
Residential mortgage and first lien home equity loans	156,024	93,847
Home equity—second lien loans and revolving lines of credit	44,698	33,551
Consumer and other	25,343	16,318
	3,024,855	2,341,326
Net deferred loan fees and costs	(3,354)	(3,512)
Total loans	$ 3,021,501	$ 2,337,814

Note 4 — Loans and Allowance for Credit Losses on Loans — (Continued)

Total loans also included $2.4 million and $3.4 million in loans held for sale as of December 31, 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.

During 2023, the Company received $124.9 proceeds from the sale of loans, $83.5 million of the proceeds were received from the sale of residential loans acquired from Malvern, $32.1 million from the sale of commercial loans, $7.6 million from the sale of the guaranteed portion of SBA loans, and $1.6 million from the sale of residential loans originated by the Bank.

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 December 31, 2023 and December 31, 2022, accrued interest receivable for loans totaled $13.7 million and $7.3 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 December 31, 2023 and gross charge offs for the nine months ended December 31, 2023. There were no loans classified as “doubtful” or “loss” as of December 31, 2023 and December 31, 2022

	Loans by Year of Origination at December 31, 2023							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
	(in thousands)							
Commercial and industrial								
Pass	$ 86,023	$ 63,991	$ 50,128	$ 11,901	$ 15,172	$ 26,429	$ 241,671	$ 495,315
Special Mention	-	36	-	-	326	619	2,411	3,392
Substandard	-	65	-	-	5,546	811	1,720	8,142
Total Commercial and industrial	$ 86,023	$ 64,092	$ 50,128	$ 11,901	$ 21,044	$ 27,859	$ 245,802	$ 506,849
YTD gross charge-offs	$ 245	$ 473	$ -	$ -	$ 204	$ 719	$ -	$ 1,641
Owner-occupied								
Pass	$ 71,346	$ 131,020	$ 112,728	$ 68,037	$ 33,001	$ 176,311	$ 874	$ 593,317
Special Mention	-	-	-	3,282	1,356	3,006	4,800	12,444
Substandard	-	-	-	-	2,692	3,899	-	6,591
Total Owner-occupied	$ 71,346	$ 131,020	$ 112,728	$ 71,319	$ 37,049	$ 183,216	$ 5,674	$ 612,352
YTD gross charge-offs	$ -	$ -	$ -	$ -	$ 72	$ -	$ -	$ 72
Investor								
Pass	$ 56,764	$ 197,278	$ 178,580	$ 134,279	$ 132,050	$ 473,569	$ 16,656	$ 1,189,176
Special Mention	-	-	-	-	-	20,738	-	20,738
Substandard	-	-	-	-	-	11,788	-	11,788
Total Investor	$ 56,764	$ 197,278	$ 178,580	$ 134,279	$ 132,050	$ 506,095	$ 16,656	$ 1,221,702
Construction and development								
Pass	$ 33,034	$ 85,459	$ 22,970	$ -	$ 697	$ 17,201	$ 25,748	$ 185,109
Special Mention	-	-	-	-	-	-	-	-
Substandard						1,720	-	1,720
Total Construction and development	$ 33,034	$ 85,459	$ 22,970	$ -	$ 697	$ 18,921	$ 25,748	$ 186,829
Multi-family								
Pass	$ 24,230	$ 63,422	$ 52,709	$ 53,786	$ 29,611	$ 45,691	$ 1,387	$ 270,836
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	222	-	222
Total Multi-family	$ 24,230	$ 63,422	$ 52,709	$ 53,786	$ 29,611	$ 45,913	$ 1,387	$ 271,058
YTD gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 123	$ -	$ 123
Residential mortgage and first lien home equity loans								
Pass	$ 8,214	$ 18,975	$ 17,592	$ 24,626	$ 10,709	$ 69,805	$ 185	$ 150,106
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	362	517	1,329	3,710	-	5,918
Total Residential mortgage and first lien home equity loans	$ 8,214	$ 18,975	$ 17,954	$ 25,143	$ 12,038	$ 73,515	$ 185	$ 156,024
Home equity—second lien loans and revolving lines of credit								
Pass	$ 2,382	$ 1,468	$ 205	$ 177	$ 733	$ 5,225	$ 34,185	$ 44,375
Special Mention	-	-	-	-	-	45	-	45
Substandard	-	-	-	-	-	278	-	278
Total Home equity—second lien loans and revolving lines of credit	$ 2,382	$ 1,468	$ 205	$ 177	$ 733	$ 5,548	$ 34,185	$ 44,698
Consumer and other								
Pass	$ 3,659	$ 2,245	$ 218	$ 2,587	$ 156	$ 1,109	$ 15,363	$ 25,337
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	6	-	6
Total Consumer and other	$ 3,659	$ 2,245	$ 218	$ 2,587	$ 156	$ 1,115	$ 15,363	$ 25,343
YTD gross charge-offs	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ 5
Total Loans								
Pass	$ 285,652	$ 563,858	$ 435,130	$ 295,393	$ 222,129	$ 815,340	$ 336,069	$ 2,953,571
Special Mention	-	36	-	3,282	1,682	24,408	7,211	36,619
Substandard	-	65	362	517	9,567	22,434	1,720	34,665
Total Loans	$ 285,652	$ 563,959	$ 435,492	$ 299,192	$ 233,378	$ 862,182	$ 345,000	$ 3,024,855
YTD gross charge-offs	$ 250	$ 473	$ -	$ -	$ 276	$ 842	$ -	$ 1,841

Note 4 — Loans and Allowance for Credit Losses on Loans — (Continued)

Summary of Loan Ratings

The following tables present the classes of the loan portfolio summarized by the aggregate "pass" rating and the classified ratings of "special mention" and "substandard" within the Company's internal risk rating system as of December 31, 2022.

	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

Summary of Past Due Loans

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

	December 31, 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	$ 531	$ -	$ -	$ 2,567	$ 479	$ 3,577	$ 503,272	$ 506,849
Commercial real estate:								
Owner-occupied	4,293	173	-	2,541	2,498	9,505	602,847	612,352
Investor	3,215	-	125	-	11,493	14,833	1,206,869	1,221,702
Construction and development	1,545	-	-	-	176	1,721	185,108	186,829
Multi-family	-	-	-	222	-	222	270,836	271,058
Residential real estate:								
Residential mortgage and first lien home equity loans	2,405	-	-	2,286	2,383	7,074	148,950	156,024
Home equity—second lien loans and revolving lines of credit	680	84	-	213	-	977	43,721	44,698
Consumer and other	29	1	-	6	-	36	25,307	25,343
Total	$ 12,698	$ 258	$ 125	$ 7,835	$ 17,029	$ 37,945	$ 2,986,910	$ 3,024,855

	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 4 — 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 December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 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	$ 379	$ 2,667	$ 3,046	$ 1,044
Commercial real estate:				
Owner-occupied	730	4,309	5,039	4,179
Investor	11,493	-	11,493	988
Construction and development	-	176	176	300
Multi-family	-	222	222	402
Residential real estate:				
Residential mortgage and first lien home equity loans	562	4,107	4,669	2,174
Home equity—second lien loans and revolving lines of credit	-	213	213	146
Consumer and other	-	6	6	10
Total	$ 13,164	$ 11,700	$ 24,864	$ 9,243

The total recorded investment in loans secured by residential real estate property that were in the process of foreclosure was $330,000 and $494,000 at December 31, 2023 and 2022, respectively. The Company had no foreclosed residential real estate property held at December 31, 2023 or December 31, 2022.

Loans totaling $560.1 million and $193.6 million at December 31, 2023 and 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:

	December 31, 2023	December 31, 2022
	(dollars in thousands)	
Outstanding principal balance	$ 24,864	$ 5,501
Carrying amount	17,029	2,993

As for fully described in Note 1, the Company records an allowance for credit losses 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 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 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)								
Year Ended December 31, 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	(1,641)	(72)	-	-	(123)	-	-	(5)	(1,841)
Recoveries	172	120	-	-	8	3	-	-	303
Credit loss expense (1)	5,421	708	828	530	(80)	251	124	132	7,914
Balance — end of period	$ 14,195	$ 4,965	$ 14,887	$ 2,482	$ 3,079	$ 1,310	$ 926	$ 553	$ 42,397

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

Note 4 — Loans and Allowance for Credit Losses on Loans — (Continued)

The loan credit loss expense in the year ended December 31, 2023 was primarily due to loans acquired with the acquisition of Malvern. The loan credit loss expense for the year ended December 31, 2023 was also impacted by $1.5 million in net charge offs.

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.

		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)								
Year Ended December 31, 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)	-	-	-	(6)	(1,854)
Recoveries	613	31	-	-	59	7	-	-	710
Provision (reversal) for loan losses	1,342	897	571	173	83	(105)	34	(123)	2,872
Balance — end of period	$ 6,256	$ 5,466	$ 9,623	$ 1,447	$ 1,930	$ 444	$ 182	$ 126	$ 25,474

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

	December 31, 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	$ 2,567	$ 503,803	$ 479	$ 506,849	$ -	$ 14,195	$ -	$ 14,195
Commercial real estate:								
Owner-occupied	2,541	607,313	2,498	612,352	-	4,587	378	4,965
Investor	-	1,210,209	11,493	1,221,702	-	9,393	5,494	14,887
Construction and development	-	186,653	176	186,829	-	2,482	-	2,482
Multi-family	222	270,836		271,058	-	3,079	-	3,079
Residential real estate:								
Residential mortgage and first lien home equity loans	2,286	151,355	2,383	156,024	-	1,232	78	1,310
Home equity—second lien loans and revolving lines of credit	213	44,485	-	44,698	-	926	-	926
Consumer and other	6	25,337	-	25,343	-	553	-	553
Total	$ 7,835	$ 2,999,991	$ 17,029	$ 3,024,855	$ -	$ 36,447	$ 5,950	$ 42,397

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

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 GAAP, at acquisition there was no carryover of the allowance for loan losses.

Note 4 — Loans and Allowance for Credit Losses on Loans — (Continued)

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 $490,000 at December 31, 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 measurement of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. For the current year ended on December 31, 2023, one commercial and industrial loan 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. The remaining balance was paid off during the year ended December 31, 2023 and the book balance of the loan was $0 at December 31, 2023.

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 5 — Premises and Equipment

The components of premises and equipment, net, were as follows as of the dates indicated:

	December 31, 2023	December 31, 2022
	(in thousands)	
Land	$ 5,466	$ 3,610
Buildings	13,988	6,143
Leasehold improvements	7,140	5,408
Furniture, fixtures, equipment and software	7,046	5,596
	33,640	20,757
Accumulated depreciation and amortization	(12,013)	(10,207)
Total premises and equipment, net	$ 21,627	$ 10,550

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2023 and 2022 was $1.8 million and $1.3 million, respectively. Included in 2023 was $16,000 in net amortization of fair value adjustments related to acquisitions. Included in 2022 was $25,000 in accretion of fair value adjustments related to acquisitions.

Note 6 — Goodwill and 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 6 — Goodwill and Intangible Assets — (Continued)

The Company has recorded goodwill and core deposit intangible assets associated with business combinations. Intangible assets also include loan servicing rights. During 2023, the company recognized $26.3 million of goodwill associated with its acquisition increasing its goodwill balance to $44.2 million as of December 31, 2023. There was no change in goodwill during 2022.

The core deposit intangible assets are being amortized on an accelerated basis over ten years. The following table summarizes the activity within the core deposit intangible assets for the years indicated:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Balance – beginning of year	$ 1,093	$ 1,385
Addition from acquisition	10,308	-
Amortization	(1,025)	(292)
Balance – end of year	$ 10,376	$ 1,093

At December 31, 2023, the schedule of remaining amortization of the core deposit intangible assets was as follows:

	Remaining Amortization (in thousands)
2024	2,000
2025	1,777
2026	1,556
2027	1,335
2028	1,118
Thereafter	2,590
Total	$ 10,376

Goodwill and core deposit intangible assets are evaluated annually for impairment. The Company believes that the fair value of goodwill and the core deposit intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at December 31, 2023 and 2022. There were no accumulated impairment losses as of December 31, 2023 and 2022. See additional discussion of the Company's goodwill impairment analysis in Note 1 — Summary of Significant Accounting Policies.

Loan Servicing Intangible Asset

A portion of certain SBA loans originated by the Bank are sold to third parties; however, the Bank may retain the servicing rights related to these loans. A fee, usually based on a percentage of the outstanding principal of the loan, is received in return for these services. Gains on the sale of these loans are based on the specific identification method.

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 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. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Subsequent to the initial valuation, LSRs amortize in proportion to, and over the period of, the estimated future net servicing life of the underlying loans. 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 $198,000 and $340,000 for the years ended December 31, 2023 and 2022, respectively. The servicing income received was $123,000 and $29,000 for the years ended December 31, 2023 and 2022, respectively.

LSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their carrying amounts. Impairment is determined by stratifying the LSRs by predominant characteristics, such as interest rate and terms. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If management later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within other expense on the Consolidated Statements of Income. As all of the Company's LSRs relate to the sold portion of SBA loans and are similar in nature, they are evaluated in one grouping. There were no valuation allowances at December 31, 2023 or 2022. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Note 6 — Goodwill and Intangible Assets — (Continued)

The following summarizes the Bank's activity related to LSRs for the years ended December 31:

Bank's activity related to LSRs

	2023	2022
	(in thousands)	
Balance – beginning of year	$ 486	$ 760
Additions	148	66
Amortization	(198)	(340)
Balance – end of year	$ 436	$ 486
Fair Value	$ 459	$ 494

As of December 31, 2023 and 2022, key economic assumptions and the sensitivity of the current fair values of LSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

	2023	2022
	(dollars in thousands)	
Fair value amount of LSRs	$ 459	$ 494
Weighted average life (in years)	3.1	3.2
Prepayment speeds (constant prepayment rate) (1)	19.79%	18.12%
Impact on fair value:		
10% adverse change	(21)	(20)
20% adverse change	(41)	(39)
Average Discount Rate	16.80%	20.75%
Impact on fair value:		
Plus 1% adverse change	(11)	(11)
Plus 2% adverse change	(21)	(21)

(1) Represents the weighted average prepayment rate for the life of the LSR asset.

At December 31, 2023 and 2022, the fair value of the LSRs was $459,000 and $494,000, respectively. The fair value of the LSRs for these dates was determined using a valuation model which calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Loan prepayment speed is the annual rate at which borrowers are forecasted to repay their loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change.

These assumptions and sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the LSRs is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

Note 7 — Deposits

Deposit composition was as follows as of the dates indicated:

	December 31, 2023	December 31, 2022
	(in thousands)	
Non-interest bearing demand deposits	$ 501,763	$ 503,856
Interest bearing demand deposits	629,110	322,944
Money market and savings deposits	1,171,440	935,311
Time deposits, $250,000 and over	141,247	107,989
Time deposits, other	524,009	423,852
Total deposits	$ 2,967,569	$ 2,293,952

The aggregate amount of demand and savings deposit overdrafts that has been reclassified as loans was $308,000 and $111,000 at December 31, 2023 and 2022, respectively. The aggregate amount of time deposits in denominations that met or exceeded the FDIC insurance limit of $250,000 at December 31, 2023 and 2022 was $141.2 million and $108.0 million, respectively. The Company had $211.6 million in brokered deposits at December 31, 2022, or 7.13% of total deposits, compared with $181.6 million, or 7.92% of total deposits, at December 31, 2022.

Note 7 — Deposits — (Continued)

At December 31, 2023, the contractual maturities of time deposits were as follows:

	December 31, 2023 (in thousands)
2024	$ 547,542
2025	85,108
2026	22,669
2027	6,379
2028	2,328
Over	1,230
Total	$ 665,256

Note 8 — Borrowings and Subordinated Debentures

The balance in borrowings at December 31, 2023 and 2022 consisted of FHLB advances and other secured borrowings.

FHLB advances are secured by pledges of certain eligible collateral, including U.S. government and agency mortgage-backed securities and commercial loans. 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 are summarized below:

	December 31,	
	2023	2022
	(dollars in thousands, except rate information)	
FHLB advances	$ 167,434	$ 85,806
Maximum FHLB advances outstanding at any month end during year	218,371	90,806
Average balance for the year	142,456	69,916
Weighted average rate	4.89%	3.40%
Average interest rate for the year	4.48%	1.78%

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 December 31, 2023, the Company had the ability to borrow an additional $162.8 million from the FHLB. The Company's borrowing facility included $887,000 in pledged securities and $560.1 million in commercial real estate loans collateral. At December 31, 2022, the Company had the ability to borrow an additional $192.1 million from the FHLB. The Company's borrowing facility at December 31, 2022 included $1.3 million in pledged securities and $83.0 million in eligible to be pledged securities and $193.6 million in commercial real estate loan collateral.

At December 31, 2023 and December 31, 2022 borrowings also included certain loan participations sold. Due to the rights retained on certain loan participations sold, the Company determined that the Company 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 $11.7 million and $5.1 million at December 31, 2023 and December 31, 2022, respectively.

The following table presents the contractual maturities of the Company's borrowings at December 31, 2023:

	December 31, 2023 (in thousands)
2024	$ 142,075
2025	-
2026	30,000
2027	-
2028	-
Thereafter	7,065
Total	$ 179,140

The Company also had lines of credit for short-term borrowings with three correspondent banks at December 31, 2023 and December 31, 2022 totaling $80.0 million. There were no borrowings on these facilities at either date.

Note 8 — Borrowings and Subordinated Debentures — (Continued)

On May 29, 2020, the Company 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 SOFR plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025. The subordinated debentures qualify as Tier II capital for regulatory capital purposes. The subordinated debentures, net, totaled $29.7 million at December 31, 2023, which includes $261,000 of debt issuance costs at December 31, 2023 which are being amortized over the expected life. Principal payment of these subordinate debentures is not due until maturity. As a part of Malvern acquisition, the Company assumed $25.5 million of subordinated notes, which includes $419,000 of fair value adjustment premium at December 31, 2023, which is being amortized over the expected life. The subordinate debenture, net, totaled $25.4 million at December 31, 2023, Average subordinated debentures and the average cost of subordinated debentures were $41.6 million and 6.84%, respectively, in 2023 and $29.7 million and 5.93%, respectively, in 2022.

Note 9 — Leases

As of December 31, 2023, the Company leased seventeen locations under non-cancellable operating leases, which expire at various dates through the year ending December 31, 2029. All of the Company's operating leases have renewal options. The renewal options are primarily for five years and are included in the calculation of the Company's right-of-use assets and lease liabilities when they are expected to be exercised. Certain leases also have escalation clauses which are primarily fixed dollar amount increases. No operating leases include variable lease payments. Two of the Company's operating leases are with related parties. The Company currently does not have any finance leases.

All of the operating leases in which the Company is the lessee are comprised of real property primarily for branches and office space. Right-of-use ("ROU") assets and operating lease liabilities are reflected in the Consolidated Statements of Financial Condition in other assets and other liabilities, respectively.

The Company has elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) in the Consolidated Statements of Financial Condition as provided for in the guidance. The Company did not enter into any short-term leases during the year ended December 31, 2023 or the year ended December 31, 2022.

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

	December 31,	
At December 31, 2023:	**2023**	**2022**
ROU assets (in thousands)	10,226	6,957
Lease liabilities (in thousands)	10,600	7,328
Weighted average remaining lease term (in years)	4.86	5.43
Weighted average discount rate	3.50%	3.28%

Future minimum payments for the Years Ended:
(dollars in thousands)

December 31, 2024	$	2,562
December 31, 2025		2,387
December 31, 2026		2,163
December 31, 2027		2,051
December 31, 2028		1,519
Thereafter		884
Total Lease Payments	$	11,566
Less: Imputed interest	$	(966)
Total lease liabilities	$	10,600

	Year Ended December 31,			
	2023		**2022**	
	(in thousands)			
Operating lease cost (cost resulting from lease payments)	$	2,347	$	1,890
Operating cash flows from operating leases		2,392		1,920

Total lease rental expense was $2.9 million and $2.4 million for the years ended December 31, 2023 and 2022, respectively. Total rental expense includes certain common area maintenance charges and equipment leasing expenses and is included in occupancy and equipment expense on the Consolidated Statements of Income.

Note 9 — Leases — (Continued)

The Company performs impairment assessments for right-of-use assets when events or changes in circumstances indicate that their carrying values may not be recoverable. There was no impairment of right-of-use assets during the years ended December 31, 2023 and 2022.

The Company has a lease agreement for its corporate office and main office branch in Hamilton, New Jersey with North Buffalo Advisors II, LLC, an entity in which certain members of the Board of Directors have a significant ownership interest. On February 24, 2022 an amendment to the lease was signed which, effective June 1, 2022, increased the Company's rentable space in the building and extended the lease term to May 2028. A second amendment was made on April 19, 2023 to expand the space and the lease was effective September 7, 2023. The amendment also included additional options to extend. Under the new terms of the agreement, minimum lease payments are $589,000 for 2023, $601,000 in 2025, $613,000 in 2026, $626,000 in 2027, $263,000 in 2028.

The Company has a lease agreement for administrative office space with Danch Farm II, LLC, an entity in which the Chairman of the Board of Directors has a significant ownership interest. The lease had a term of five years and four months, which expired in November 2023 with options to extend. The lease was renewed in November 2023 for five years expiring in November 2028. Minimum lease payments are $270,000 for 2023, $275,000 for 2025, $280,000 for 2026, $286,000 for 2027 and $267,000 for 2028.

As of December 31, 2023, the Company had not entered into any material leases that have not yet commenced.

Note 10 — Stockholders' Equity

On October 26, 2021, the Bank received regulatory approval for the repurchase of up to 1.3 million shares of First Bank common stock in the open market for an aggregate repurchase amount of up to $18,200,000. This share repurchase program was also approved by the Bank's board and ran through September 30, 2022.

On October 7, 2022, the Bank received regulatory approval for the repurchase of up to 1.2 million shares of First Bank common stock in the open market for an aggregate repurchase amount of up to $19,200,000. This share repurchase program was also approved by the Bank's board and ran through September 30, 2023.

During the years ended December 31, 2023 and 2022, the Company purchased 550,000 and 251,922 shares of outstanding common stock through the Company's share repurchase programs for an aggregate purchase price of $5.5 million and $3.5 million respectively. As of December 31, 2023 the Company does not have an approved share repurchase program.

On July 17, 2023, the Company issued 5.9 million shares of its common stock in connection with its acquisition of Malvern.

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.

The components of income tax expense consisted of the following for the presented years ended:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Federal income tax:		
Current	$ 4,659	$ 8,077
Deferred	1,149	295
Total	5,808	8,372
State income tax:		
Current	1,216	3,166
Deferred	(763)	63
Total	453	3,229
Total income tax expense	$ 6,261	$ 11,601

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. There was no interest or penalty recorded in income tax expense for the years ended December 31, 2023 and 2022.

Note 11 — Income Taxes — (Continued)

Reconciliations of the statutory corporate federal income tax at a rate of 21% for the years ended December 31, 2023 and 2022 to the income tax expense reported in the Consolidated Statements of Income are as follows:

	Year Ended December 31,	
	2023	2022
Federal income tax at statutory rate	21.0%	21.0%
State income tax, net of federal benefit	1.3%	5.3%
Changes in taxes resulting from:		
Net tax-exempt income	(0.1%)	(0.1%)
Bank-owned life insurance income	(1.5%)	(0.6%)
Incentive stock options	0.1%	(0.1%)
Non-deductible expenses	2.1%	0.3%
Historic tax credit	(2.0%)	(1.1%)
Excessive tax deductions	(0.1%)	(0.2%)
Deferred Directors Fees	1.0%	(0.3%)
Merger and acquisition expense	0.3%	0.3%
Other	1.0%	(0.3%)
Total	23.1%	24.2%

The components of the net deferred tax asset were as follows as of the dates indicated:

	December 31,	
	2023	2022
	(in thousands)	
Deferred tax asset:		
Allowance for credit losses	$ 10,704	$ 6,479
Net deferred loan fees	836	864
Nonaccrual interest	334	82
Net operating losses	7,932	502
Purchase accounting	8,341	1,618
Supplemental Executive Retirement Plan	212	66
Depreciation	-	45
Restricted stock	304	229
Unrealized losses on investment securities available for sale	1,823	2,494
PPP deferred loan fees	10	30
Leases	94	94
Deferred Directors Fees	429	355
Merger and acquisition expense	140	152
Other	447	407
Total deferred tax asset	31,606	13,417
Deferred tax liability:		
Prepaid expenses	(227)	(115)
Depreciation	(349)	-
Other	(155)	(147)
Total deferred tax liability	(731)	(262)
Net deferred tax asset	$ 30,875	$ 13,155

The Company has federal net operating loss carryforwards from its acquisition of Heritage Community Bank of approximately $820,000 and $1.0 million for both the years ended December 31, 2023 and 2022, respectively. These net operating losses are subject to an annual limitation of $196,000 under IRC Section 382 that will begin to expire in 2031. The Company has federal net operating loss carryforwards from its acquisition of Delanco of approximately $1.0 million and $1.4 million for both the years ended December 31, 2023 and 2022, respectively. These net operating losses are subject to an annual limitation of approximately $330,000 under IRC Section 382 and will begin to expire in 2030. There were no federal net operating loss carry-forwards from the acquisition of Grand Bank. The Company has federal and state realized built-in-loss carryforward from its acquisition of Malvern Bank of approximately $7.4 million for the year ended December 31, 2023. These losses are subject to an annual limitation of approximately $975,000 under IRC Section 382 and have no expiration. The Company is allowed to carry forward any such limited realized built-in-loss under terms similar to those related to net operating losses.

The Company filed consolidated Federal, New Jersey and New York state returns in 2023 and 2022. The Company will file a consolidated return in New York City and a separate company return in Florida and the City of Philadelphia in 2023. The Company's Federal and New York state income tax returns are open for examination from 2020, and for New Jersey are open for examination from 2019.

Note 12 — 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 Company's calculation of earnings per share, is as follows:

	Year Ended December 31,	
	2023	2022
	(dollars in thousands, except per share data)	
Net income available to common stockholders	$ 20,897	$ 36,287
Basic weighted average common shares outstanding	21,942	19,504
Effect of dilutive common stock equivalents	131	213
Diluted weighted average common shares outstanding	22,073	19,717
Basic earnings per share	$ 0.95	$ 1.86
Diluted earnings per share	$ 0.95	$ 1.84
Number of common stock equivalents excluded from the calculation of earnings per share as the exercise prices were greater than the average price of the common stock	592	501

Note 13 — Stock Compensation

On April 28, 2021, at the First Bank 2021 annual meeting of shareholders, the Company's shareholders approved the First Bank 2021 Equity Incentive Plan (the "Plan"). Consistent with prior equity plans, the Plan allows for the grant of incentive options, non-qualified options and restricted stock to officers, employees and members of the Board of Directors. The Plan increased the number of awards available for grant to 715,000. With the approval of the Plan no grants will be made under the previously approved First Bank 2017 Equity Compensation Plan.

The following table presents the amount of awards authorized, cumulative granted awards, net of cancellations, and awards available for grant at December 31, 2023:

Awards authorized	2,248,833
Cumulative granted awards, net of cancellations	2,026,187
Awards available for grant	222,646

All options granted in 2023 and previous years 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 under the Plan and previous plans must be at least 100% of the fair market value of the Company's common stock on the date of grant. Fair market value is to be determined by the Board of Directors. Terms and conditions of restricted stock awards are determined by the Board of Directors at the time of grant.

The table below reflects the Company's stock option activity for the periods indicated:

	Year Ended December 31,			
	2023		2022	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding–beginning of year	714,140	$ 10.12	760,229	$ 9.41
Granted	80,179	12.55	75,665	14.43
Exercised	(41,500)	6.13	(97,454)	7.40
Expired	(30,802)	10.35	(24,300)	12.39
Forfeited	-	-	-	-
Outstanding–end of year	722,017	$ 10.61	714,140	$ 10.12
Exercisable–end of year	585,101	$ 10.06	590,593	$ 9.49
Weighted average fair value of options granted during the period	$ 4.29		$ 4.33	
Weighted average remaining contractual life (in years)	5.1		5.1	
Aggregate intrinsic value	$ 2,955,674		$ 2,675,077	

Note 13 — Stock Compensation — (Continued)

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

The fair values of stock options granted in 2023 and 2022 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,	
	2023	2022
Expected volatility (1)	39.19% - 42.62%	36.90% - 40.30%
Dividend yield (2)	1.75% - 2.47%	1.66% - 1.69%
Expected life (3) (in years)	5.0 - 6.0	5.0 - 6.5
Risk-free rate (4)	3.51% - 4.09%	1.88% - 2.81%
Fair value	$3.22 - $4.72	$4.30 - $4.42

(1) The expected volatility was based on the historical volatility of the Company's common stock price.

(2) The dividend yield is based on the annual cash dividend of $0.24 per share in 2023 and $ 0.12 per share in 2022 divided by the stock grant price.

(3) The expected life reflects a 1 to 3 year vesting period and a ten year term.

(4) The risk-free interest rate is based on the five to seven year Treasury bond.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2023:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$5.25 - $6.49	54,000	1.1	$ 6.00	54,000	$ 6.00
$6.49 - $10.85	266,044	4.0	7.70	243,723	7.52
$10.85 - $14.40	401,973	6.3	13.15	287,378	12.98
Total	722,017	5.1	$ 10.61	585,101	$ 10.06

Stock-based compensation expense related to outstanding stock options was $286,000 and $237,000 for the years ended December 31, 2023 and 2022, respectively. These expenses are included in salaries and employee benefits of the Consolidated Income Statement. As of December 31, 2023, there was $317,000 of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.6 years. As of December 31, 2022, there was $258,000 of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.8 years.

Restricted stock activity for 2023 and 2022 for the Company is presented in the following table:

	Year Ended December 31,			
	2023		2022	
	Restricted Shares	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding–beginning of year	180,330	$ 12.21	110,777	$ 11.19
Granted	147,182	12.15	137,668	12.62
Vested	(84,631)	12.21	(64,306)	11.35
Forfeited	(4,130)	12.52	(3,809)	12.08
Outstanding–end of year	238,751	$ 12.17	180,330	$ 12.21
Weighted average remaining contractual life (in years)	1.5		1.7	

Restricted stock awarded in 2023 and previous years have a vesting period of one to three years. Restricted stock awards granted in 2023 are also subject to a one-year post-vesting holding period, during which time shares may not be sold of otherwise transferred. Stock- based compensation expense related to restricted stock awards was $1.3 million and $984,000 for the years ended December 31, 2023 and 2022, respectively. Unrecognized compensation expense related to restricted stock was $1.8 million as of December 31, 2023 and is expected to be recognized over a weighted average period of 1.7 years. Unrecognized compensation expense related to restricted stock was $1.4 million as of December 31, 2022 and was expected to be recognized over a weighted average period of 1.9 years. The Company issues shares from its authorized but unissued common stock to satisfy stock option exercises and restricted stock awards.

Note 14 — Benefit Plans Employee 401(k) Plan

The Company has a 401(k) savings plan covering substantially all employees. Under the 401(k) savings plan, in 2023 and 2022 the Company matched 50% of employee contributions for all participants, not to exceed 6% of their salary. The Company's 401(k) plan expense was $611,000 and $402,000 for the years ended December 31, 2023 and 2022, respectively. These expenses are included in salaries and employee benefits of the Consolidated Income Statement.

Director Deferred Fee Plan

The Company's Director Deferred Fee Plan ("DDFP") is a non-qualified deferred compensation benefit plan designed to provide participating non-employee directors with the ability to defer a certain portion of their fees to be earned in the future in the form of a deferred compensation benefit.

A participating director can defer up to 100% of his or her monthly fees. Interest is credited on each director's deferral account at the Prime Rate, adjusted annually. The minimum interest rate is 4% per annum with a maximum of 10% per annum. At benefit eligibility date, the DDFP will pay the accrued benefits over a 10-year period, with interest, or as a lump sum at the discretion of each Director. For the years ended December 31, 2023 and 2022, $114,000 and $55,000, respectively, in interest was credited to the DDFP by the Company and charged to operations. The accrued DDFP liability amount was $1.7 million and $1.4 million at December 31, 2023 and 2022, respectively and is included in other liabilities on the Consolidated Statements of Financial Condition.

Supplemental Executive Retirement Plan

In October 2018, the Company entered into a Supplemental Executive Retirement Plan ("SERP") with its Chief Executive Officer. Effective January 1, 2018, the SERP provides that upon attaining age 65, the Company's Chief Executive Officer will be entitled to an annual benefit in the amount of his final average compensation, payable in monthly installments over a period of ten years, commencing the month following the attainment of age 65. The Company funded its obligation with the increase in cash surrender value of bank-owned life insurance policies during 2018. In 2023 and 2022, the Bank recorded compensation expense of $51,000 and $46,000, respectively. The SERP accrued liability amounts as of December 31, 2023 and 2022 were $841,000 and $258,000, respectively and are included in other liabilities on the Consolidated Statements of Financial Condition. At December 31, 2023, included in the $841,000 accrued liability was $532,000 related to a fully funded and frozen SERP assumed from the Malvern acquisition.

Note 15 — Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions, including the extension of credit, in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as "related parties"). These transactions are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers of the Company.

The following table summarizes activity with respect to related party loans for the periods indicated:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Balance–beginning of year	$ 41,849	$ 45,646
New loans and advances	2,266	4,802
Repayments	(2,997)	(1,701)
Other changes (1)	5,661	(6,898)
Balance–end of year	$ 46,779	$ 41,849

(1) For the year ended December 31, 2023 the other changes consisted of a loans related to the three new directors from the Malvern acquisition. For the year ended December 31, 2022 the other changes consisted of loans removed for three former directors who are no longer related parties.

There were no related party loans past due or on nonaccrual status as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, deposit balances with related parties totaled $19.2 million.

Note 15 — Transactions with Executive Officers, Directors and Principal Stockholders — (Continued)

The Company has a lease agreement for its corporate office and main office branch in Hamilton, New Jersey with North Buffalo Advisors II, LLC, an entity in which certain members of the Board of Directors have a significant ownership interest. On February 24, 2022 an amendment to the lease was signed which, effective June 1, 2022, increased the Company's rentable space in the building and extended the lease term to May 2028. A second amendment was made on April 19, 2023 to expand the space and the lease was effective September 7, 2023. The amendment also included additional options to extend. Under the new terms of the agreement, minimum lease payments are $589,000 for 2023, $601,000 in 2025, $613,000 in 2026, $626,000 in 2027, $263,000 in 2028.

The Company has a lease agreement for administrative office space with Danch Farm II, LLC, an entity in which the Chairman of the Board of Directors has a significant ownership interest. The lease had a term of five years and four months, which expired in November 2023 with options to extend. The lease was renewed with an amendment in term to five years expiring in November 2028. Minimum lease payments are $270,000 for 2023, $275,000 for 2025, $280,000 for 2026, $286,000 for 2027 and $267,000 for 2028.

These lease agreements were approved by the Company's Board of Directors before the leases were signed in accordance with the Company's policies.

Note 16 — Other 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.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The credit risk associated with these financial instruments is essentially the same as that involved in extending loans to customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

At December 31, 2023 and 2022, total unfunded commitments to extend credit amounted to $474.5 million and $396.4 million, respectively. At December 31, 2023 and 2022, the Company had performance standby letters of credit of $19.8 million and $5.8 million, respectively. These letters of credit are primarily related to performance guarantees on real estate development.

The Company is party to litigation in the ordinary course of business 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 17 — Capital and Regulatory Matters

The Company is 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 the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

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

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

Note 17 — Capital and Regulatory Matters — (Continued)

The required capital conservation buffer consists of additional CET1 capital greater than 2.5% of risk- weighted assets above the required minimum levels. The Company must maintain such buffer in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement was phased in over four years. As of December 31, 2023 and 2022 the fully phased in capital conservation buffer was 2.5%.

The regulatory prompt corrective action standards also changed effective January 1, 2015. Under the new standards, in order to be considered well capitalized, the Company must have: (i) a Tier 1 leverage ratio of 5.0%; (ii) CET1 capital of 6.5% of risk-weighted assets, (iii) Tier 1 capital of 8.0% of risk-weighted assets, and (iv) total risk-based ratio of 10.0% of risk-weighted assets.

The Company's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company's capital amounts, ratios and regulatory minimums are presented below 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 December 31, 2023:						
Tier 1 leverage capital	$ 319,713	9.12%	$ 140,254	4.00%	$ 175,318	5.00%
Common equity tier 1 capital	319,713	9.22%	156,034	4.50%	225,383	6.50%
Tier 1 risk-based capital	319,713	9.22%	208,046	6.00%	277,394	8.00%
Total risk-based capital	401,692	11.58%	277,394	8.00%	346,743	10.00%

	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 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%

As of December 31, 2023 and 2022, the Company met all capital adequacy requirements to which it is subject. First Bank is considered "well capitalized" under the FDIC's prompt corrective action capital provisions.

The Company is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The New Jersey Banking Act of 1948 provides that cash dividends may be declared and paid out of accumulated net earnings or out of surplus, provided that following the payment of each such dividend (i) the capital stock of the Company will be unimpaired and (ii) if the dividend is paid out of surplus, the Company's surplus will not be less than 50% of the Company's capital stock.

Note 18 — Fair Value Measurements and Fair Values of Financial Instruments

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 sale transaction on the dates indicated. The fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows ASC Topic 820, Fair Value Measurement, which establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The 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).

Note 18 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

Fair Value on a Recurring Basis

Investment Securities

Investment securities available for sale are measured at fair value by using 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 Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan-related transaction. 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.

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:

	December 31, 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	$ 19,104	$ -	$ 19,104	$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	40,599	-	40,599	-
Issued by GNMA	21,753	-	21,753	-
U.S. Treasury securities	1,985	1,985	-	-
SBA pools	3,167		3,167	
Asset-backed securities	698	-	698	-
Corporate obligations	6,836	-	6,836	-
Total securities available for sale	$ 94,142	$ 1,985	$ 92,157	$ -
Derivative assets	14,365	-	14,365	-
Total	$ 108,507	$ 1,985	$ 106,522	$ -
Derivative liabilities	$ 14,365	$ -	$ 14,365	$ -

Note 18 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

	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	$ -

For assets measured at fair value on a nonrecurring basis.

Loans measured for impairment based on fair value of the underlying collateral are recorded at estimated fair value less estimated selling costs. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These loans 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:

	December 31, 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)			
Loans measured for impairment based on the fair value of underlying collateral	$ 968	$ -	$ -	$ 968
Total	$ 968	$ -	$ -	$ 968

	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)			
Loans measured for impairment based on the fair value of underlying collateral	$ 1,202	$ -	$ -	$ 1,202
Total	$ 1,202	$ -	$ -	$ 1,202

Note 18 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

The tables below 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 December 31, 2023				
	Fair Value	Valuation Method	Unobservable Input	Range of Discount (3)	Weighted Average (3)
	(dollars in thousands)				
Loans measured for impairment based on the fair value of underlying collateral	$ 968	Fair value of collateral (1)	Appraised Value (2)	8%	8%

	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)				
Loans measured for impairment based on the fair value of underlying collateral	$ 1,202	Fair value of collateral (1)	Appraised Value (2)	8% - 25%	9%

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

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

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

The significant unobservable inputs for impaired loans and other real estate owned are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commissions, legal fees and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made.

Fair Value of Financial Instruments

ASC Topic 825, *Financial Instruments*, 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. 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 following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The following methods and assumptions were used to estimate the fair value of financial instruments at December 31, 2023 and 2022.

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.

Note 18 — Fair Value Measurements and Fair Values of Financial Instruments — (Continued)

Derivatives

The Company records all derivatives on the Consolidated Statements of Financial Condition at fair value. The Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan related transaction. 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.

Loans measured for impairment based on the fair value of underlying collateral

Individually 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.

Loans Servicing Rights

The model to value LSRs estimates the present value of projected net servicing cash flows of the remaining servicing portfolio based on various assumptions, including changes in anticipated loan prepayment rates, the discount rate, reflective of a market participant's required return on an investment for similar assets, and other market-based economic factors. All of these assumptions are considered to be unobservable inputs. Accordingly, LSRs are classified within Level 3 of the fair value hierarchy. There were no new transfers into or out of the Level 3 hierarchy during the year.

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

	December 31, 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	$ 227,951	$ 227,951	$ 227,951	$ -	$ -
Interest bearing time deposits with banks	996	978	-	978	-
Investment securities available for sale	94,142	94,142	1,985	92,157	-
Investment securities held to maturity	44,059	38,486	-	38,486	-
Equity Securities, at fair value	1,888	1,888	1,888	-	-
Restricted investment in bank stocks	10,469	10,469	-	10,469	-
Other investments	9,841	9,841	-	9,841	-
Net loans	2,979,104	2,923,364	-	-	2,923,364
Accrued interest receivable	14,763	14,763	-	14,763	-
Derivative assets	14,365	14,365	-	14,365	-
Loan servicing rights	436	459	-	-	459
Financial Liabilities:					
Non-maturity deposits	2,302,313	2,302,313	2,302,313	-	-
Time deposits	665,256	658,341	-	658,341	-
Borrowings	179,140	178,935	-	178,935	-
Subordinated debentures	55,261	53,556	-	53,556	-
Accrued interest payable	2,813	2,813	-	2,813	-
Derivative liabilities	14,365	14,365	-	14,365	-

Note 18 — 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 19 — Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Non-designated Hedges

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

Note 19 — 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 December 31, 2023 and 2022.

	Fair Values of Derivative Instruments as of December 31, 2023 (in thousands)					
	Derivative Assets			Derivative Liabilities		
	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	$ 155,268	Other Assets	$ 14,365	$ 155,268	Other Liabilities	$ 14,365
Total derivatives not designated as hedging instruments (1)			$ 14,365			$ 14,365
Cash collateral (2)			13,520			-
Net Derivative Amounts			$ 845			$ 14,365

	Fair Values of Derivative Instruments as of December 31, 2022 (in thousands)					
	Derivative Assets			Derivative Liabilities		
	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.

During 2023, the Company received proceeds of $3.0 million from the termination of derivative contracts that were acquired through the Malvern acquisition. The loss on the termination was $57,000 and was recorded in other non-interest income in the Consolidated Statement of Income.

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 December 31, 2023 and December 31, 2022, the fair value of derivatives in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $14.4 million and $13.5 million, respectively. As of December 31, 2023, the Company received $13.5 million in cash collateral related to these agreements. The Company did not post any cash collateral as of December 31, 2023 related to these agreements. As of December 31, 2022, the Company received $13.3 million in cash collateral related to these agreements. If the Company had breached any of these provisions at December 31, 2023, it could have been required to settle its obligations under the agreements at their termination value of $14.4 million.

Note 20 — Subsequent Events

Redemption of Subordinated Debt

The Bank received the regulatory approvals required to retire $25 million of subordinated notes inherited from Malvern, as part of its balance sheet repositioning initiative. The notes, which carried a 9.79% interest rate at December 31, 2023, were redeemed on February 15, 2024.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. 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 were effective as of December 31, 2023. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's report on internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Because of their inherent limitations, systems of internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Our control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets, and provide reasonable assurances that: (i) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (ii) receipts and expenditures are being made only in accordance with authorizations of management and the Directors of the Company; and (iii) unauthorized use or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

Management conducted a review and assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2023 utilizing the framework established in *Internal Control — Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2023, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. BDO USA P.C., the Company's independent registered public accounting firm that audited the Company's Consolidated Financial Statements included in the Annual Report on Form 10K has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, as stated in its report.

(c) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

During the three months ended December 31, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as that term is used in SEC regulations.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item will be included in the 2024 Proxy Statement under the captions "ELECTION OF DIRECTORS," "INFORMATION ABOUT THE BOARD OF DIRECTORS AND MANAGEMENT," and "DELINQUENT SECTION 16(a) REPORTS," each of which is incorporated herein by reference. It is expected that the 2024 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2023.

Item 11. Executive Compensation.

Information required by this Item will be included in the 2024 Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "2023 DIRECTOR COMPENSATION," which is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the FDIC within 120 days of December 31, 2023.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item will be included in the 2024 Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," which is incorporated herein by reference. It is expected that the 2024 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2023.

Equity Compensation Plan Information

The following presents certain information regarding the Company's equity compensation plans as of December 31, 2023.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	722,017	$ 10.61	222,646
Equity compensation plans not approved by security holders	-	-	-
Total	722,017	$ 10.61	222,646

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be included in the 2024 Proxy Statement under the caption "Interest of Management and Others in Certain Transactions; Review, Approval or Ratification of Transactions with Related Persons," which is incorporated herein by reference. It is expected that the 2024 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2023.

Item 14. Principal Accountant Fees and Services.

Information required by this Item as well as related pre-approval policies under the caption "RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM" in the 2024 Proxy Statement is incorporated by reference herein. It is expected that the 2024 Proxy Statement will be filed with the FDIC within 120 days of December 31, 2023.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following portions of the Company's audited consolidated financial statements are set forth in Part II, Item 8. of this Annual Report on Form 10-K:

i. Consolidated Statements of Financial Condition as of December 31, 2023 and 2022

ii. Consolidated Statements of Income for the Years Ended December 31, 2023 and 2022

iii. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2023 and 2022

iv. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2023 and 2022

v. Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022

vi. Notes to Consolidated Financial Statements

(b) Financial Statement Schedules

All financial statement schedules are omitted as the information, if applicable, is presented in the consolidated financial statements and notes thereto in Part II, Item 8. Financial Statements and Supplementary Data.

(c) Exhibits

Exhibit No.	Description
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 Bank Restated Certificate of Incorporation of First Bank (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 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	Description of Capital Stock (incorporated by reference to Exhibit 4.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed by the registrant on March 31, 2021)
10.1	Employment Agreement by and between First Bank and Patrick L. Ryan dated June 4, 2021 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on June 8, 2021)(1)
10.2	Supplemental Executive Retirement Plan with Patrick L. Ryan dated October 16, 2018 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the registrant with the FDIC on October 22, 2018)(1)

Exhibit No.	Description
10.3	Employment Agreement by and between the Bank and Andrew L. Hibshman dated May 18, 2021 (incorporated by reference from Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on May 20, 2021)(1)
10.4	Employment Agreement by and between First Bank and Peter J. Cahill dated June 4, 2021 (incorporated by reference from Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on June 7, 2021)(1)
10.5	Employment Agreement by and between First Bank and John F. Shepardson dated June 4, 2021 (Exhibit 10.3 to the Current Report on Form 8-K filed by the registrant with the FDIC on June 7, 2021)(1)
10.6	Employment Agreement by and between First Bank and Maria E. Mayshura dated June 4, 2021 (Exhibit 10.3 to the Current Report on Form 8-K filed by the registrant with the FDIC on June 7, 2021)(1)
10.7	First Bank 2009 Stock Option Plan-A filed as part of the registrant's Registration Statement on Form 10 filed on October 1, 2013(1)
10.8	First Bank 2009 Stock Option Plan-B filed as part of the registrant's Registration Statement on Form 10 filed on October 1, 2013(1)
10.9	First Bank 2015 Equity Compensation Plan-C (incorporated by reference to Annex E and Annex F of the registrant's Proxy Statement filed on February 7, 2014)(1)
10.10	First Bank 2015 Equity Compensation Plan-D (incorporated by reference to Annex E and Annex F of the registrant's Proxy Statement filed on February 7, 2014)(1)
10.11	First Bank 2017 Equity Compensation Plan E (incorporated by reference to Annex C of the registrant's Proxy Statement filed on August 11, 2017)(1)
10.12	Subordinated Note Purchase Agreement (incorporated by reference from Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 29, 2020)
10.13	Form of 5.50% Fixed to Floating Rate Subordinated Note (incorporated by reference from Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on May 29, 2020)
10.14	First Bank 2021 Equity Incentive Plan (incorporated by reference to Appendix A of the registrant's Proxy Statement filed on March 31, 2021)
21	Subsidiaries of the Registrant(2)
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(2)
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(2)
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(3)
97	Clawback Policy

(1) Management contract or compensatory plan, contract or arrangement.
(2) Filed herewith.
(3) Furnished herewith.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 15, 2024.

FIRST BANK
(Registrant)

/s/ Patrick L. Ryan
Patrick L. Ryan
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant and in the capacities indicated below on March 15, 2024.

Signature	Title
/s/ Patrick M. Ryan Patrick M. Ryan	Chairman
/s/ Patrick L. Ryan Patrick L. Ryan	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Andrew L. Hibshman Andrew L. Hibshman	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Leslie E. Goodman Leslie E. Goodman	Vice Chairman
/s/ Douglas C. Borden Douglas C. Borden	Director
/s/ Scott R. Gamble Scott R. Gamble	Director
/s/ Deborah Paige Hanson Deborah Paige Hanson	Director
/s/ Glenn M. Josephs Glenn M. Josephs	Director
/s/ Peter Pantages Peter Pantages	Director
/s/ Michael E. Salz Michael E. Salz	Director
/s/ John E. Strydesky John E. Strydesky	Director
/s/ *Cynthia Felzer Leitzell* Cynthia Felzer Leitzell	Director
/s/*Andrew Fish* Andrew Fish	Director
/s/ *Howard Kent* Howard Kent	Director

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Jurisdiction of Incorporation or Formation
BC1, LLC	New Jersey
BC2, LLC	New Jersey
BC3, LLC	New Jersey
FB Delaware Investment Company, Inc.	Delaware
FB Preferred Capital, Inc.	New Jersey

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 Annual Report on Form 10-K 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 15-d- 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.

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: March 15, 2024

/s/ Patrick L. Ryan

Patrick L. Ryan

President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

1. I have reviewed this Annual Report on Form 10-K 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 15-d- 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.

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: March 15, 2024

/s/ Andrew L. Hibshman

Andrew L. Hibshman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting 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, in connection with the Annual Report on Form 10-K of First Bank for the period ended December 31, 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 First Bank.

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: March 15, 2024

/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 and Accounting Officer)

Exhibit 97.

CLAWBACK POLICY

Board approved date: September 19, 2023

The Board of Directors (the "Board") of First Bank (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (this "Policy"), which provides for the recovery of certain incentive compensation in the event of an accounting restatement.

The Company has adopted this Policy as a supplement to any other clawback policies or provisions in effect now or in the future at the Company. To the extent this Policy applies to compensation payable to a person covered by this Policy, it shall supersede any other conflicting provision or policy maintained by the Company and shall be the only clawback policy applicable to such compensation and no other clawback policy shall apply; provided that, if such other policy or provision provides that a greater amount of such compensation shall be subject to clawback, such other policy or provision shall apply to the amount in excess of the amount subject to clawback under this Policy.

This Policy shall be interpreted to comply with the clawback rules found in 17 C.F.R. §240.10D and the related listing rules of the national securities exchange or national securities association (the "Exchange") on which the Company has listed securities, and, to the extent this Policy is any manner deemed inconsistent with such rules, this Policy shall be treated as retroactively amended to be compliant with such rules.

1. Definitions. The terms "Executive Officer," "Incentive-Based Compensation," and "Received" shall have the same meaning as defined in Rule 10D-1(d) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

2. Application of the Policy. This Policy shall only apply in the event that the Company is required to prepare an accounting restatement due to its material noncompliance with any financial reporting requirement under the Federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

3. Recovery Period. The Incentive-Based Compensation subject to clawback is the Incentive-Based Compensation Received during the three completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement as described in Section 2; provided that the individual served as an Executive Officer at any time during the performance period applicable to the Incentive-Based Compensation in question. The date that the Company is required to prepare an accounting restatement shall be determined pursuant to Exchange Act Rule 10D-1(b)(1)(ii).

(a) Notwithstanding the foregoing, the Policy shall only apply if the Incentive-Based Compensation is Received (1) while the Company has a class of securities listed on an Exchange and (2) on or after October 2, 2023.

(b) See Exchange Act Rule 10D-1(b)(1)(i)(D) for certain circumstances under which this Policy will apply to Incentive-Based Compensation received during a transition period arising due to a change in the Company's fiscal year.

4. Erroneously Awarded Compensation. The amount of Incentive-Based Compensation subject to the Policy ("Erroneously Awarded Compensation") is the amount of Incentive-Based Compensation Received that exceeds the amount of Incentive Based-Compensation that otherwise would have been Received had it been determined based on the restated amounts in the Company's financial statements and shall be computed without regard to any taxes paid.

(a) For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an accounting restatement: (1) the amount shall be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received; and (2) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Exchange.

5. Recovery Exceptions. The Company shall recover reasonably promptly any Erroneously Awarded Compensation except to the extent that the conditions of paragraphs (a), (b) or (c) below apply. The Compensation Committee of the Board of Directors (the "Committee") shall determine the repayment schedule for each amount of Erroneously Awarded Compensation in a manner that complies with this "reasonably promptly" requirement. Such determination shall be consistent with any applicable legal guidance by the Securities and Exchange Commission, judicial opinion, or otherwise. The determination of "reasonably promptly" may vary from case to case and the Committee is authorized to adopt additional rules to further describe what repayment schedules satisfy this requirement.

(a) Erroneously Awarded Compensation need not be recovered if the direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered and the Committee has made a determination that recovery would be impracticable. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Exchange, as required.

(b) If applicable, Erroneously Awarded Compensation need not be recovered if recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company shall obtain an opinion of home country counsel, acceptable to the Exchange, that recovery would result in such a violation and shall provide such opinion to the Exchange.

(c) Erroneously Awarded Compensation need not be recovered if recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and regulations thereunder.

6. Committee Decisions. Decisions of the Committee with respect to this Policy shall be final, conclusive and binding on all Executive Officers subject to this Policy, unless determined by a court of competent jurisdiction to be an abuse of discretion.

7. No Indemnification. Notwithstanding anything to the contrary in any other policy of the Company, the governing documents of the Company or any agreement between the Company and an Executive Officer, no Executive Officer shall be indemnified by the Company against the loss of any Erroneously Awarded Compensation.

8. Agreement to Policy by Executive Officers. The Committee shall take reasonable steps to inform Executive Officers of this Policy and the Executive Officers shall acknowledge receipt and adherence to this Policy in writing.

9. Exhibit Filing Requirement. A copy of this Policy and any amendments thereto shall be filed as an exhibit to the Company's Annual Report on Form 10-K.

10. Amendment. The Board may amend, modify or supplement all or any portion of this Policy at any time and from time to time in its discretion.

Clawback Policy Acknowledgment

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of the First Bank Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy") and that I have been provided a copy of the Policy. In the event of any inconsistency between the Policy and the terms of any employment or similar agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. If the Committee determines that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement.

______________________________	______________________________
Name	Date

____
Title

[TO BE SIGNED BY EACH OF THE COMPANY'S EXECUTIVE OFFICERS]