

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from _____ to _____

Commission File Number 001-38595

FIRST WESTERN FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

37-1442266
(I.R.S. Employer
Identification No.)

1900 16th Street, Suite 1200
Denver, CO
(Address of principal executive offices)

80202
(Zip Code)

Registrant's telephone number, including area code: 303.531.8100

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, no par value	MYFW	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares outstanding as of October 30, 2024
Common Stock, no par value	9,664,101

FIRST WESTERN FINANCIAL, INC.
TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements 6
	Condensed Consolidated Balance Sheets as of September 30, 2024 (Unaudited) and December 31, 2023 6
	Condensed Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2024 and September 30, 2023 7
	Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2024 and September 30, 2023 8
	Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) for the Three and Nine Months Ended September 30, 2024 and September 30, 2023 9
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2024 and September 30, 2023 10
	Notes to Condensed Consolidated Financial Statements (Unaudited) 12
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 52
Item 3.	Quantitative and Qualitative Disclosures about Market Risk 85
Item 4.	Controls and Procedures 86
PART II. OTHER INFORMATION 87	
Item 1.	Legal Proceedings 87
Item 1A.	Risk Factors 87
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 87
Item 3.	Defaults upon Senior Securities 87
Item 4.	Mine Safety Disclosures 87
Item 5.	Other Information 87
Item 6.	Exhibits 88
SIGNATURES 89	

Important Notice about Information in this Quarterly Report

Unless we state otherwise or the context otherwise requires, references in this Quarterly Report to "we," "our," "us," "the Company" and "First Western" refer to First Western Financial, Inc. and its consolidated subsidiaries, including First Western Trust Bank, which we sometimes refer to as "the Bank" or "our Bank."

The information contained in this Quarterly Report is accurate only as of the date of this Quarterly Report on Form 10-Q and as of the dates specified herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control, particularly with regard to developments related to soundness of other financial institutions. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- geographic concentration in Colorado, Arizona, Wyoming, Montana, and California;
- the soundness of other financial institutions;
- changes in the economy affecting real estate values and liquidity;
- risks associated with higher inflation;
- changes in interest rates;
- weak economic conditions and global trade;
- our ability to continue to originate residential real estate loans and sell such loans;
- risks specific to commercial loans and borrowers;
- risks related to non-performing assets, borrowers' solvency and ability to repay and the value of loan collateral;
- claims and litigation pertaining to our fiduciary responsibilities;
- competition for investment managers and professionals and our ability to retain our associates;
- fluctuation in the value of our investment securities;
- the terminable nature of our investment management contracts;
- changes to the level or type of investment activity by our clients;
- investment performance, in either relative or absolute terms;
- legislative changes or the adoption of tax reform policies;
- external business disruptors in the financial services industry;
- the adequacy of our allowance for credit losses;
- liquidity risks;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- continued positive interaction with and financial health of our referral sources;
- retaining our largest trust clients;
- our ability to achieve our strategic objectives;
- competition from other banks, financial institutions, and wealth and investment management firms;
- our ability to implement our internal growth strategy and manage the risks associated with our anticipated growth;

[Table of Contents](#)

- the acquisition of other banks and financial services companies and integration risks and other unknown risks associated with acquisitions;
- the accuracy of estimates and assumptions;
- our ability to protect against and manage fraudulent activity, breaches of our information security, and cybersecurity attacks;
- our reliance on communications, information, operating and financial control systems technology and related services from third-party service providers;
- technological change, including the use of artificial intelligence as a commonly used resource and its effects;
- our ability to attract and retain clients;
- unforeseen or catastrophic events, including pandemics, wars, terrorist attacks, extreme weather events or other natural disasters;
- new lines of business or new products and services;
- regulation of the financial services industry;
- legal and regulatory proceedings, investigations and inquiries, fines and sanctions;
- limited trading volume and liquidity in the market for our common stock;
- fluctuations in the market price of our common stock;
- actual or anticipated issuances or sales of our common stock or preferred stock in the future;
- the initiation and continuation of securities analysts coverage of the Company;
- potential impairment of goodwill recorded on our balance sheet and possible requirements to recognize significant charges to earnings due to impairment of intangible assets;
- future issuances of debt securities;
- our ability to manage our existing and future indebtedness;
- available cash flows from the Bank; and
- other factors that are discussed in "Item 1A - Risk Factors" in our Annual Report on Form 10-K.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in the section titled Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission ("SEC") on March 15, 2024. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. 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 we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share amounts)**

	September 30, 2024	December 31, 2023
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 18,979	\$ 7,284
Interest-bearing deposits in other financial institutions	257,243	247,158
Total cash and cash equivalents	276,222	254,442
Held-to-maturity debt securities, net of allowance for credit losses of \$71 and \$71, (fair value of \$70,826 and \$66,617), respectively	76,745	74,102
Correspondent bank stock, at cost	5,746	7,155
Mortgage loans held for sale, at fair value	12,324	7,254
Loans held for sale, at fair value	473	—
Loans (includes \$8,646 and \$13,726 measured at fair value, respectively)	2,383,199	2,530,915
Allowance for credit losses	(18,796)	(23,931)
Loans, net	2,364,403	2,506,984
Premises and equipment, net	24,350	25,256
Accrued interest receivable	10,455	11,428
Accounts receivable	4,864	5,095
Other receivables	10,397	4,467
Other real estate owned, net	37,036	—
Goodwill and other intangible assets, net	31,684	31,854
Deferred tax assets, net	4,075	6,407
Company-owned life insurance	16,849	16,530
Other assets	36,325	24,488
Total assets	<u>\$ 2,911,948</u>	<u>\$ 2,975,462</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 473,576	\$ 482,579
Interest-bearing	2,029,478	2,046,460
Total deposits	2,503,054	2,529,039
Borrowings:		
Federal Home Loan Bank and Federal Reserve borrowings	62,373	125,711
Subordinated notes	52,508	52,340
Accrued interest payable	3,339	3,793
Other liabilities	41,843	21,841
Total liabilities	2,663,117	2,732,724
Shareholders' Equity		
Preferred stock - no par value; 10,000,000 shares authorized; 0 issued and outstanding	—	—
Common stock - no par value; 90,000,000 shares authorized; 9,664,101 and 9,581,183 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	—	—
Additional paid-in capital	193,274	192,894
Retained earnings	56,767	51,042
Accumulated other comprehensive loss	(1,210)	(1,198)
Total shareholders' equity	248,831	242,738
Total liabilities and shareholders' equity	<u>\$ 2,911,948</u>	<u>\$ 2,975,462</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and dividend income:				
Loans, including fees	\$ 35,353	\$ 34,141	\$ 105,767	\$ 99,804
Loans accounted for under the fair value option	141	300	518	1,078
Investment securities	708	607	1,962	1,863
Interest-bearing deposits in other financial institutions	1,754	1,292	5,961	4,361
Dividends, restricted stock	134	141	334	459
Total interest and dividend income	<u>38,090</u>	<u>36,481</u>	<u>114,542</u>	<u>107,565</u>
Interest expense:				
Deposits	21,150	17,467	62,620	46,423
Other borrowed funds	1,372	2,248	4,506	6,368
Total interest expense	<u>22,522</u>	<u>19,715</u>	<u>67,126</u>	<u>52,791</u>
Net interest income	15,568	16,766	47,416	54,774
Less: Provision for credit losses	501	329	2,907	1,862
Net interest income, after provision for credit losses	<u>15,067</u>	<u>16,437</u>	<u>44,509</u>	<u>52,912</u>
Non-interest income:				
Trust and investment management fees	4,728	4,846	14,533	14,083
Net gain on mortgage loans	1,451	654	4,535	2,447
Net gain (loss) on loans held for sale	—	—	117	(178)
Bank fees	392	427	1,610	1,610
Risk management and insurance fees	367	145	525	375
Income on company-owned life insurance	108	96	319	277
Net loss on loans accounted for under the fair value	(233)	(252)	(850)	(1,919)
Unrealized gain (loss) recognized on equity securities	24	(19)	16	(20)
Other	135	202	416	(808)
Total non-interest income	<u>6,972</u>	<u>6,099</u>	<u>21,221</u>	<u>15,867</u>
Total income before non-interest expense	<u>22,039</u>	<u>22,536</u>	<u>65,730</u>	<u>68,779</u>
Non-interest expense:				
Salaries and employee benefits	11,439	10,968	33,803	35,214
Occupancy and equipment	2,126	1,807	6,182	5,660
Professional services	1,893	1,867	6,130	5,648
Technology and information systems	1,045	906	3,097	2,569
Data processing	1,101	1,159	3,150	3,350
Marketing	374	355	811	1,125
Amortization of other intangible assets	57	62	170	188
Other	1,333	1,190	4,722	3,607
Total non-interest expense	<u>19,368</u>	<u>18,314</u>	<u>58,065</u>	<u>57,361</u>
Income before income taxes	2,671	4,222	7,665	11,418
Income tax expense	537	1,104	1,940	2,974
Net income available to common shareholders	<u>\$ 2,134</u>	<u>\$ 3,118</u>	<u>\$ 5,725</u>	<u>\$ 8,444</u>
Earnings per common share:				
Basic	\$ 0.22	\$ 0.33	\$ 0.59	\$ 0.89
Diluted	0.22	0.32	0.59	0.87

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	\$ 2,134	\$ 3,118	\$ 5,725	\$ 8,444
Other comprehensive (loss) income items:				
Amortization of net unrealized loss for the reclassification of available-for-sale securities transferred to held-to-maturity included in interest income	98	86	288	266
Income tax effect	(24)	(21)	(70)	(72)
Unrealized (loss) gain on cash flow hedge	(837)	299	(303)	983
Income tax effect	202	(73)	73	(238)
Total other comprehensive (loss) income items	(561)	291	(12)	939
Comprehensive income	\$ 1,573	\$ 3,409	\$ 5,713	\$ 9,383

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(in thousands, except share amounts)

	Shares Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance as of July 1, 2023	9,545,071	\$ 191,968	\$ 51,143	\$ (869)	\$ 242,242
Net income	—	—	3,118	—	3,118
Other comprehensive income, net of tax and reclassification	—	—	—	291	291
Settlement of share awards	8,638	(78)	—	—	(78)
Options exercised	6,500	130	—	—	130
Stock-based compensation	—	553	—	—	553
Balance as of September 30, 2023	<u>9,560,209</u>	<u>\$ 192,573</u>	<u>\$ 54,261</u>	<u>\$ (578)</u>	<u>\$ 246,256</u>
Balance as of July 1, 2024	9,660,548	\$ 192,891	\$ 54,633	\$ (649)	\$ 246,875
Net income	—	—	2,134	—	2,134
Other comprehensive loss, net of tax and reclassifications	—	—	—	(561)	(561)
Repurchase of common stock	(5,501)	(89)	—	—	(89)
Settlement of share awards	9,054	(46)	—	—	(46)
Stock-based compensation	—	518	—	—	518
Balance as of September 30, 2024	<u>9,664,101</u>	<u>\$ 193,274</u>	<u>\$ 56,767</u>	<u>\$ (1,210)</u>	<u>\$ 248,831</u>
Balance as of January 1, 2023	9,495,440	\$ 190,494	\$ 51,887	\$ (1,517)	\$ 240,864
Cumulative change in accounting principle ⁽¹⁾	—	—	(5,319)	—	(5,319)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	9,495,440	\$ 190,494	\$ 46,568	\$ (1,517)	\$ 235,545
Net income	—	—	8,444	—	8,444
Other comprehensive income, net of tax and reclassifications	—	—	—	939	939
Dissolution of RSI entity ⁽¹⁾	—	751	(751)	—	—
Settlement of share awards	52,509	(361)	—	—	(361)
Options exercised	12,260	245	—	—	245
Stock-based compensation	—	1,444	—	—	1,444
Balance as of September 30, 2023	<u>9,560,209</u>	<u>\$ 192,573</u>	<u>\$ 54,261</u>	<u>\$ (578)</u>	<u>\$ 246,256</u>
Balance as of January 1, 2024	9,581,183	\$ 192,894	\$ 51,042	\$ (1,198)	\$ 242,738
Net income	—	—	5,725	—	5,725
Other comprehensive loss, net of tax and reclassifications	—	—	—	(12)	(12)
Repurchase of common stock	(5,501)	(89)	—	—	(89)
Settlement of share awards	88,419	(680)	—	—	(680)
Stock-based compensation	—	1,149	—	—	1,149
Balance as of September 30, 2024	<u>9,664,101</u>	<u>\$ 193,274</u>	<u>\$ 56,767</u>	<u>\$ (1,210)</u>	<u>\$ 248,831</u>

⁽¹⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information.

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	\$ 5,725	\$ 8,444
Adjustments to reconcile net income to net cash from operating activities:		
Net amortization of investment securities	(60)	(12)
Stock dividends received on correspondent bank stock	(334)	(459)
Provision for credit losses	2,907	1,862
(Gain) or Loss on loans held for sale	(117)	178
Net gain on mortgage loans	(4,535)	(2,447)
Origination of mortgage loans held for sale	(270,136)	(217,774)
Proceeds from mortgage loans	268,733	216,913
Depreciation and amortization	1,909	1,748
Net amortization of purchase accounting adjustments	204	555
Deferred income tax (benefit) expense	(3,187)	155
Increase in cash surrender value of company-owned life insurance	(319)	(277)
Stock-based compensation	1,149	1,444
Change in fair value of equity securities	(16)	20
Change in fair value of loans accounted for under the fair value option	850	1,919
Change in fair value of loans held for sale	—	(269)
Net changes in operating assets and liabilities:		
Change in accounts receivable	310	(227)
Change in accrued interest receivable and other assets	(980)	50
Change in accrued interest payable and other liabilities	1,765	(1,757)
Net cash used in operating activities	<u>3,868</u>	<u>10,066</u>
Cash flows from investing activities		
Activity in held-to-maturity securities:		
Maturities, prepayments, and calls	6,488	5,717
Purchases	(8,783)	—
Purchases of correspondent bank stock	(6,866)	(23,727)
Redemption of correspondent bank stock	8,609	19,991
Contributions to low-income housing tax credit investments	(537)	(1,140)
Loan and note receivable originations and principal collections, net	106,458	(101,180)
Purchases of premises and equipment	(835)	(1,890)
Proceeds from loans held for sale previously classified as loans held for investment	3,470	40,602
Purchases of loans	—	(1,162)
Net cash provided by (used in) investing activities	<u>108,004</u>	<u>(62,789)</u>
Cash flows from financing activities		
Net change in deposits	(25,985)	14,767
Payments to Federal Home Loan Bank borrowings	(483,624)	(1,262,893)
Proceeds from Federal Home Loan Bank borrowings	442,449	1,306,462
Payments to Federal Reserve borrowings	(82,296)	(292,059)
Proceeds from Federal Reserve borrowings	60,133	361,534
Repurchase of common stock	(89)	—
Proceeds from the exercise of stock options	—	245
Cash paid for withholding taxes on share-based awards	(680)	(361)
Net cash (used in) provided by financing activities	<u>(90,092)</u>	<u>127,695</u>
Net change in cash and cash equivalents	21,780	74,972
Cash and cash equivalents, beginning of year	254,442	196,512
Cash and cash equivalents, end of period	<u>\$ 276,222</u>	<u>\$ 271,484</u>

FIRST WESTERN FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(continued)
(in thousands)

	Nine Months Ended September 30,	
	2024	2023
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	\$ 67,580	\$ 50,713
Income tax payment	93	2,935
Cash paid for lease liabilities	2,617	2,370
Supplemental noncash disclosures:		
Transfer of loans held for investment to loans held for sale	3,722	39,221
Adoption of ASU 2016-13, net of tax	—	5,319
Dissolution of RSI entity	—	751
Lease right-of-use-asset obtained in exchange for lease liabilities	11,882	1,704
Transfers from loans, net of participations, to other real estate owned	27,390	—

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation: The condensed consolidated financial statements include the accounts of First Western Financial, Inc. ("FWFI"), incorporated in Colorado on July 18, 2002, and its direct and indirect wholly-owned subsidiaries listed below (collectively referred to as the "Company," "we," "us," or "our").

FWFI is a bank holding company with financial holding company status registered with the Board of Governors of the Federal Reserve System. FWFI wholly owns the following subsidiary: First Western Trust Bank (the "Bank"). The Bank wholly owns First Western Merger Corporation ("Merger Corp"), which is therefore indirectly wholly owned by FWFI. RRI, LLC ("RRI"), which was wholly owned by the Bank, was dissolved on February 3, 2023. Ryder, Stilwell Inc. ("RSI"), which was wholly owned by FWFI, was dissolved on March 21, 2023.

The Company provides a fully-integrated suite of wealth management services including: private banking, personal trust, investment management, mortgage loans, and institutional asset management services to individual and corporate clients principally in Colorado (metro Denver, Aspen, Boulder, Fort Collins, Loveland, and Vail Valley), Arizona (Phoenix and Scottsdale), California (Century City), Montana (Bozeman), and Wyoming (Jackson, Pinedale, Rock Springs and Cheyenne). The Company's revenues are generated from its full range of product offerings as noted above, but principally from net interest income (the interest income earned on the Bank's assets net of funding costs), fee-based wealth advisory, investment management, asset management and personal trust services, and net gains earned on mortgage loans.

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. The December 31, 2023 condensed consolidated balance sheet has been derived from the audited financial statements for the year ended December 31, 2023.

In the opinion of management, all adjustments that were recurring in nature and considered necessary have been included for fair presentation of the Company's financial position and results of operations. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of results that may be expected for the full year ending December 31, 2024. In preparing the condensed consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amount 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 be significantly different from those estimates.

The condensed consolidated financial statements and notes should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC.

Consolidation: The Company's policy is to consolidate all majority-owned subsidiaries in which it has a controlling financial interest and variable-interest entities where the Company is deemed to be the primary beneficiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Business Combinations and Divestitures: Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total consideration transferred in connection with the acquisition is allocated to the tangible and intangible assets acquired, liabilities assumed, and any non-controlling interest in the acquired entity based on fair values. Goodwill acquired in connection with business combinations represents the excess of consideration transferred over the net tangible and identifiable intangible assets acquired. Certain assumptions and estimates are used in evaluating the fair value of assets acquired and liabilities assumed. These estimates may be affected by factors such as changing market conditions or changes in government regulations.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the condensed consolidated financial statements and the disclosures provided, and actual results could differ. Information available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, and changes in the financial condition of borrowers. Material estimates that are particularly susceptible to significant change include: the determination of the allowance for credit losses, the evaluation of goodwill impairment, and the fair value of certain financial instruments.

Concentration of Credit Risk: Most of the Company's lending activity is to clients located in and around metro Denver, Aspen, Fort Collins, Loveland, Boulder, and Vail, Colorado; Phoenix and Scottsdale, Arizona; Bozeman, Montana; and Jackson, Cheyenne, Pinedale, and Rock Springs, Wyoming. The Company does not believe it has significant concentrations in any one industry or customer. As of September 30, 2024 and December 31, 2023, 78.4% and 76.1%, respectively, of the Company's loan portfolio was secured by real estate collateral. Declines in real estate values in the primary markets the Company operates in could negatively impact the Company.

Allowance for Credit Losses ("ACL") loans: The ACL 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. The ACL excludes loans held for sale and loans accounted for under the fair value option. The Company elected to not measure an ACL for accrued interest receivables, as we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued but uncollected interest is reversed from current income. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Actual Company and regional peer historical credit loss experience provides the basis for the estimation of expected credit losses. The Company identified and grouped portfolio segments based on risk characteristics and underlying collateral. The call code for each financial asset type was assessed and, expanded for certain call codes into separate segments based on risk characteristics.

The ACL for pooled loans are estimated using a discounted cash flow ("DCF") methodology using the amortized cost basis (excluding interest) for all loans modeled within a performing pool of loans. The DCF analysis pairs loan-level term information, for example, maturity date, payment amount, interest rate, with top-down pool assumptions such as default rates, prepayment speeds, to produce individual expected cash flows for every instrument in the segment. The results are then aggregated to produce segment level results and reserve requirements for each segment based on similar risk characteristics.

The quantitative DCF model also incorporates forward-looking macroeconomic information over a reasonable and supportable period of four quarters. Subsequent to the four quarter period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a four quarter reversion period. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications. Annually the Company performs a rate study which updates the prepayment and curtailment rates used in the DCF model.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Qualitative adjustments to historical loss data are made based on management's assessment of the risks that may lead to a future credit loss or differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, changes in environmental and economic conditions, or other relevant factors.

ACL - off-balance sheet credit exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is adjusted through the Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance.

ACL - Held-to-maturity (“HTM”) debt securities: HTM debt securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. With respect to these securities, we consider the risk of credit loss to be zero and, therefore, we have elected the practical expedient to not record an ACL for these securities. The Company's non-government backed securities include private label CMO and MBS debt securities and corporate bonds. Private label refers to private institutions such as brokerage firms, banks, and home builders, that also securitize mortgages.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management reviewed the collectability of CMO and MBS debt securities and corporate bonds taking into consideration factors such as the asset quality and delinquencies of the issuers.

Modifications: On January 1, 2023, the Company adopted FASB ASU 2022-02, Financial Instruments - Credit Losses, Troubled Debt Restructurings and Vintage Disclosures, which eliminated the accounting guidance for troubled debt restructurings (“TDRs”) by creditors in Accounting Standard Codification (“ASC”) Subtopic 310-40, and enhanced the disclosure requirements for certain loan refinancing and restructures by creditors when a borrower is experiencing financial difficulty. The company identifies modifications to borrowers experiencing financial difficulty as a loan that has been modified for the borrower that is experiencing financial difficulties. The Company considers some of the indicators that a borrower is experiencing financial difficulty to be: currently in payment default on any of their debt, declaring bankruptcy, going concern, and other indicators of inability to meet obligations. This list does not include all potential indicators of a borrower’s financial difficulties. The allowance for credit losses on loans that are considered modifications to borrowers experiencing financial difficulty are measured using the same method as all other loans held for investment. Prior to the adoption of this guidance, restructured loans were considered to be a TDR if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would have not otherwise considered. The allowance for credit losses on a TDR were measured using the same method as all other loans held for investment.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company’s intentions and belief as to likely effectiveness of a hedge. These three types are as follows:

- Fair Value Hedge: a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change.
- Cash Flow Hedge: a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transactions affect earnings.
- Stand-alone derivative: an instrument with no hedging designation. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement in the same line as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitments is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

Mortgage Loans Held for Sale: Mortgage loans held for sale generally consist of long-term, fixed rate, conforming, single-family residential real estate loans intended to be sold on the secondary market. Mortgage loans held for sale are recorded at fair value and are typically sold with servicing rights released. Changes in the fair values of mortgage loans held for sale are included in the Net gain on mortgage loans line of the Condensed Consolidated Statements of Income. Fair value elections are made at the time of origination based on the Company's fair value election policy.

Mortgage Banking Derivatives: Commitments to fund mortgage loans, interest rate lock commitments ("IRLC"), and forward sale commitments ("FSC"), to be sold in the secondary market for the future delivery of these loans are accounted for as free standing derivatives. The fair value of the IRLC is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. The Company sells mortgage loans to third party investors at the best execution available which includes best efforts, mandatory, and bulk bids. Loans committed under mandatory or bulk bid are considered FSC and qualify as financial derivatives. Fair values of these mortgage derivatives are estimated based on the change in the loan pricing from the date of the commitment to the period end date for any unsettled commitments. Changes in the fair values of these derivatives are included in the Net gain on mortgage loans line of the Condensed Consolidated Statements of Income.

In order to manage the interest rate risk on our uncommitted IRLC and mortgage loans held for sale pipeline, the Company enters into mortgage derivative financial instruments called To Be Announced ("TBA"), which we refer to as forward commitments. TBA agreements are forward contracts to purchase mortgage backed securities ("MBS") that will be issued by a US Government Sponsored Enterprise. The Bank purchases or sells these derivatives to offset the changes in value of our mortgage loans held for sale and IRLC adjusted pipeline where we have exposure to interest rate volatility. Changes in the fair values of these derivatives are included in the Net gain on mortgage loans line of the Condensed Consolidated Statements of Income.

Other Real Estate Owned ("OREO"): Property acquired by foreclosure or deed-in-lieu of foreclosure is initially recorded at fair value less estimated selling cost at acquisition date, establishing a new cost basis. The Company is considered to have received physical possession of real estate property collateralizing a loan upon the occurrence of either the Company obtaining legal title to the property or the borrower conveying all interest in the property through a deed-in-lieu or similar agreement. Fair value is determined as the amount that could be reasonably expected in a current sale between a willing buyer and a willing seller in an orderly transaction between market participants at the measurement date. Subsequent to the initial acquisition, if the fair value of the asset, less estimated selling cost, is less than the cost of the property, a loss is recognized within non-interest expense and the asset carrying value is reduced. Gain or loss on disposition of OREO is recorded in non-interest income. In determining the fair value of the properties on the date of transfer and any subsequent estimated losses of net realizable value, the fair value of other real estate acquired by foreclosure or deed-in-lieu of foreclosure is determined primarily based upon appraisal or evaluation of the underlying property value.

Revenue Recognition: In accordance with the Financial Accounting Standards Board ("FASB"), Revenue Contracts with Customers ("Topic 606"), trust and investment management fees are earned by providing trust and investment services to customers. The Company's performance obligation under these contracts is satisfied over time as the services are provided. Fees are recognized monthly based on the average monthly value of the assets under management and the corresponding fee rate based on the terms of the contract. No performance-based incentive fees were earned with respect to investment management contracts during the three and nine months ended September 30, 2024 and 2023. Receivables are recorded on the Condensed Consolidated Balance Sheets in the Accounts receivable line item. Income related to trust and investment management fees, bank fees, and risk management and insurance fees on the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2024 and 2023 are considered in scope of Topic 606.

Transition of LIBOR to an Alternative Reference Rate: In July 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that after 2022 it will no longer persuade or compel banks to submit rates for the calculation of LIBOR. In response, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee and on February 27, 2023 the Federal Reserve Board adopted a final rule establishing the Secured Overnight Financing Rate ("SOFR") as the replacement rate index for LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities.

On December 21, 2022, the FASB issued Accounting Standards Update (ASU) 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. On June 30, 2023, LIBOR ceased to be a representative index rate. ASU 2022-06 extends the period of time financial statement preparers can utilize the reference rate reform relief guidance through December 31, 2024.

In general, the transition away from LIBOR may result in increased market risk, credit risk, operational risk, and business risk for the Company. The Company completed a LIBOR transition plan, which addressed governance, risk management, legal, operational, systems, fallback language, and other aspects of planning. The Company no longer originates LIBOR indexed loans and as of December 31, 2023, all loans indexed to LIBOR had been converted to the new index. Consumer indexed loans are being managed in accordance with Interagency Guidance.

Bank Term Funding Program: On March 12, 2023, in response to two large bank failures, the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors. The additional funding has been made available through the creation of a new Bank Term Funding Program (“BTFP”), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets valued at par as collateral. The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institutions need to quickly sell those securities in times of stress. See Note 7 - Borrowings for details on the Company’s borrowings.

Reclassifications: Certain items in prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no impact on net income available to common shareholders or total shareholders’ equity.

Recently adopted accounting pronouncements: The Company has not adopted any additional accounting pronouncements since the end of the Company's fiscal year ended December 31, 2023.

Recently issued accounting pronouncements, not yet adopted: The following reflects pending pronouncements with an update to the expected impact since the end of the Company’s fiscal year ended December 31, 2023.

On November 27, 2023, the FASB issued ASU 2023-07 Segment Reporting - Improvements to Reportable Segment Disclosures, which provides additional transparency into a company's reportable segments’ significant expenses on an interim and annual basis. This guidance is effective for companies with fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Companies must adopt the changes to the segment reporting guidance on a retrospective basis. Early adoption is permitted. The Company expects to adopt this standard beginning with fiscal year ended December 31, 2024. The Company is currently evaluating these new disclosure requirements and does not expect the adoption to have a material impact.

On December 14, 2023, the FASB issued ASU 2023-09 Income Taxes - Improvements to Income Tax Disclosures, which enhances a company's income tax disclosures to include additional information related to rate reconciliations and income taxes paid. This guidance is effective for companies with fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company expects to adopt this standard beginning January 1, 2025. The Company is currently evaluating these new disclosure requirements and does not expect the adoption to have a material impact.

NOTE 2 – DEBT SECURITIES

The following presents the amortized cost, fair value, and allowance for credit losses of debt securities held-to-maturity and the corresponding amounts of gross unrecognized gains and losses as of the date noted (dollars in thousands):

September 30, 2024	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Debt securities held-to-maturity:					
U.S. Treasury debt	\$ 246	\$ 2	\$ —	\$ 248	\$ —
Corporate bonds	23,654	—	(2,986)	20,668	(71)
Government National Mortgage Association ("GNMA") mortgage-backed securities ("MBS") – residential	31,605	28	(2,437)	29,196	—
Federal National Mortgage Association ("FNMA") MBS – residential	12,507	112	(345)	12,274	—
Government collateralized mortgage obligations ("GMO") and MBS – commercial	5,205	10	(245)	4,970	—
Corporate collateralized mortgage obligations ("CMO") and MBS	3,599	—	(129)	3,470	—
Total debt securities held-to-maturity	<u>\$ 76,816</u>	<u>\$ 152</u>	<u>\$ (6,142)</u>	<u>\$ 70,826</u>	<u>\$ (71)</u>

December 31, 2023	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Debt securities held-to-maturity:					
U.S. Treasury debt	\$ 253	\$ —	\$ (11)	\$ 242	\$ —
Corporate bonds	23,687	—	(3,020)	20,667	(71)
GNMA mortgage-backed securities – residential	34,579	—	(3,410)	31,169	—
FNMA mortgage-backed securities – residential	6,035	—	(509)	5,526	—
Government GMO and MBS – commercial	5,836	9	(377)	5,468	—
Corporate CMO and MBS	3,783	—	(238)	3,545	—
Total debt securities held-to-maturity	<u>\$ 74,173</u>	<u>\$ 9</u>	<u>\$ (7,565)</u>	<u>\$ 66,617</u>	<u>\$ (71)</u>

As of September 30, 2024, the amortized cost and estimated fair value of held-to-maturity debt securities have contractual maturity dates shown in the table below (dollars in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Debt securities not due at a single maturity date are shown separately.

September 30, 2024	Amortized Cost	Fair Value
Due within one year	\$ —	\$ —
Due between one year and five years	4,312	3,970
Due between five years and ten years	19,407	16,781
Due after ten years	181	165
Securities (CMO and MBS)	52,916	49,910
Total	<u>\$ 76,816</u>	<u>\$ 70,826</u>

In 2022, the Company committed \$6.0 million in total to two bank technology funds. During the nine months ended September 30, 2024, the Company made \$0.3 million of contributions to the partnerships and received \$0.2 million of returns on investment. During the year ended December 31, 2023, the Company made \$0.8 million of contributions to the partnerships and received \$0.1 million of returns on investment. As of September 30, 2024 and December 31, 2023, the Company held a balance of \$2.3 million and \$2.0 million, respectively, which is included in Other assets in the accompanying Condensed Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$3.7 million in future contributions.

In 2014, the Company began investing in a small business investment company ("SBIC") fund administered by the Small Business Administration. The Company made \$0.2 million of contributions to the SBIC fund during the nine months ended September 30, 2024. During the year ended December 31, 2023, the Company made \$0.2 million of contributions to the SBIC fund. As of September 30, 2024 and December 31, 2023, the Company held a balance of \$2.4 million and \$2.2 million, respectively, in the SBIC fund, which is included in Other assets in the accompanying Condensed Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$0.6 million in future SBIC investments.

As of September 30, 2024, securities with market values totaling \$36.9 million were pledged to secure various public deposits and credit facilities of the Company, including \$9.5 million pledged under the BTFP program (refer to Note 1 – Organization and Summary of Significant Accounting Policies for more information on the BTFP program). As of December 31, 2023, securities with market values of \$45.1 million were pledged to secure various public deposits and credit facilities of the Company, including \$39.3 million pledged under the BTFP program.

As of September 30, 2024 and December 31, 2023, there were no holdings of debt securities of any one issuer, other than the U.S. Government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

Allowance for Credit Losses for HTM Debt Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies and we consider the risk of credit loss to be zero and, therefore, we do not record an ACL. The Company's non-government backed debt securities include private label CMO and MBS and corporate bonds. Accrued interest receivable on held-to-maturity debt securities totaled \$0.5 million and \$0.4 million as of September 30, 2024 and December 31, 2023, respectively, and is excluded from the estimate of credit losses. Refer to Note 1 – Organization and Summary of Significant Accounting Policies for additional information on the Company's methodology on estimating credit losses. The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity by major security type for the periods noted:

<i>(dollars in thousands)</i>	Three Months Ended September 30,			
	2024		2023	
	Corporate Bonds	Corporate CMO	Corporate Bonds	Corporate CMO
Allowance for credit losses:				
Beginning balance	\$ 71	\$ —	\$ 71	\$ —
Provision for credit losses	—	—	—	—
Securities charged-off (recoveries)	—	—	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ —</u>
	Nine Months Ended September 30,			
	2024		2023	
	Corporate Bonds	Corporate CMO	Corporate Bonds	Corporate CMO
Allowance for credit losses:				
Beginning balance	\$ 71	\$ —	\$ —	\$ —
Impact of ASU 2016-13 adoption	—	—	71	—
Provision for credit losses	—	—	—	—
Securities charged-off (recoveries)	—	—	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ —</u>

The Company monitors the credit quality of held-to-maturity debt securities on a quarterly basis. As of September 30, 2024, there were no held-to-maturity debt securities past due or on non-accrual.

NOTE 3 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The following presents a summary of the Company’s loans at amortized cost as of the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Cash, Securities, and Other	\$ 119,284	\$ 139,947
Consumer and Other	12,193	27,028
Construction and Development	300,270	345,516
1-4 Family Residential	922,725	927,965
Non-Owner Occupied CRE	605,323	543,692
Owner Occupied CRE	174,928	195,861
Commercial and Industrial	239,830	337,180
Total	2,374,553	2,517,189
Allowance for credit losses	(18,796)	(23,931)
Total, net	\$ 2,355,757	\$ 2,493,258
Loans accounted for under the fair value option ⁽¹⁾	8,646	13,726
Loans, net	\$ 2,364,403	\$ 2,506,984

⁽¹⁾ Includes \$8.9 million and \$14.1 million of unpaid principal balance of loans held for investment measured at fair value as of September 30, 2024 and December 31, 2023, respectively. Includes fair value adjustments on loans held for investment accounted for under the fair value option. See Note 12 – Fair Value.

As of September 30, 2024 and December 31, 2023, total loans held for investment included \$172.6 million and \$208.2 million, respectively, of performing loans purchased through mergers or acquisitions.

As of September 30, 2024, the Cash, Securities, and Other portion of the loan portfolio included \$2.6 million of SBA Paycheck Protection Program (“PPP”) loans, or 2.1% of the total category. As of December 31, 2023, the Cash, Securities, and Other portion of the loan portfolio included \$4.2 million of PPP loans, or 3.0% of the total category.

As of September 30, 2024, the Company’s Commercial and Industrial loans included one Main Street Lending Program (“MSLP”) loan with the net carrying amount of \$2.0 million, or 0.8% of the total category. This MSLP loan is risk rated pass. As of December 31, 2023, the Company’s Commercial and Industrial loans included three MSLP loans with the net carrying amount of \$5.1 million, or 1.5% of the total category.

The following presents, by class, an aging analysis of the amortized cost basis in loans past due as of the date noted (dollars in thousands):

September 30, 2024	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Amortized Cost	Loans Accounted for Under the Fair Value Option ⁽¹⁾	Total Loans
Cash, Securities, and Other	\$ —	\$ —	\$ 1,704	\$ 1,704	\$ 117,580	\$ 119,284	\$ —	\$ 119,284
Consumer and Other	2	2	—	4	12,189	12,193	8,646	20,839
Construction and Development	—	—	—	—	300,270	300,270	—	300,270
1-4 Family Residential	3	—	1,115	1,118	921,607	922,725	—	922,725
Non-Owner Occupied CRE	—	—	—	—	605,323	605,323	—	605,323
Owner Occupied CRE	—	—	—	—	174,928	174,928	—	174,928
Commercial and Industrial	2,020	10,272	790	13,082	226,748	239,830	—	239,830
Total	\$ 2,025	\$ 10,274	\$ 3,609	\$ 15,908	\$ 2,358,645	\$ 2,374,553	\$ 8,646	\$ 2,383,199

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Amortized Cost	Loans Accounted for Under the Fair Value Option ⁽¹⁾	Total Loans
Cash, Securities, and Other	\$ —	\$ 76	\$ 1,704	\$ 1,780	\$ 138,167	\$ 139,947	\$ —	\$ 139,947
Consumer and Other	676	11	7,504	8,191	18,837	27,028	13,726	40,754
Construction and Development	—	1,500	—	1,500	344,016	345,516	—	345,516
1-4 Family Residential	1,093	—	2,722	3,815	924,150	927,965	—	927,965
Non-Owner Occupied CRE	—	—	—	—	543,692	543,692	—	543,692
Owner Occupied CRE	—	—	3,980	3,980	191,881	195,861	—	195,861
Commercial and Industrial	19,305	1,085	29,180	49,570	287,610	337,180	—	337,180
Total	\$ 21,074	\$ 2,672	\$ 45,090	\$ 68,836	\$ 2,448,353	\$ 2,517,189	\$ 13,726	\$ 2,530,915

⁽¹⁾ Refer to Note 12 – Fair Value for additional information on the measurement of loans accounted for under the fair value option.

Loan Modifications

The following table presents the amortized cost basis as of September 30, 2024 of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during the nine months ended September 30, 2024. For the three months ended September 30, 2024, there were no loan modifications made to borrowers experiencing financial difficulty. For the three and nine months ended September 30, 2023, the Company made protective advances of \$0.0 million and \$0.5 million to borrowers experiencing financial difficulty. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

<i>(dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ 978	\$ —	\$ —	0.4 %
Total	\$ —	\$ —	\$ 978	\$ —	\$ —	

The following table presents the amortized cost basis as of September 30, 2023 of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during the three and nine months ended September 30, 2023.

<i>(dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ —	\$ 185	\$ —	0.1 %
Total	\$ —	\$ —	\$ —	\$ 185	\$ —	

The following tables present the financial effect by type of modification made to borrowers experiencing financial difficulty during the periods noted:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2024			Nine Months Ended September 30, 2024		
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension
Commercial and Industrial	—	—	—	—	—	5 months

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension
Commercial and Industrial	\$185	—	2.8 years	\$185	—	2.8 years

There were no loans that experienced a default during the three and nine months ended September 30, 2024, subsequent to being granted a modification in the preceding twelve months. There were no loans that experienced a default during the three and nine months ended September 30, 2023, subsequent to being granted a modification in the preceding twelve months.

Non-Accrual Loans

The accrual of interest on loans is discontinued at the time the loan becomes 90 days or more delinquent unless the loan is well secured and in the process of collection or renewal due to maturity. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off if collection of interest or principal is considered doubtful. The following presents the amortized cost basis of loans on non-accrual status and loans past due over 89 days still accruing by class as of the dates noted:

<i>(dollars in thousands)</i>	As of September 30, 2024		
	Non-accrual loans with no ACL	Total non-accrual loans ⁽¹⁾	Loans past due over 89 days still accruing
Cash, Securities, and Other	\$ 1,704	\$ 1,704	\$ —
Consumer and Other	—	—	—
Construction and Development	—	—	—
1-4 Family Residential	1,468	1,468	—
Non-Owner Occupied CRE	—	—	—
Owner Occupied CRE	—	—	—
Commercial and Industrial	11,063	11,242	—
Total	\$ 14,235	\$ 14,414	\$ —

⁽¹⁾As of September 30, 2024, the Company had an allowance of \$36 thousand on non-accrual loans.

	As of December 31, 2023		
	Non-accrual loans with no ACL	Total non-accrual loans ⁽¹⁾	Loans past due over 89 days still accruing
<i>(dollars in thousands)</i>			
Cash, Securities, and Other	\$ 1,704	\$ 1,704	\$ —
Consumer and Other	4	7,504	—
Construction and Development	2,719	2,719	—
1-4 Family Residential	578	3,016	285
Owner Occupied CRE	—	3,980	—
Commercial and Industrial	2,355	31,893	—
Total	<u>\$ 7,360</u>	<u>\$ 50,816</u>	<u>\$ 285</u>

⁽²⁾ As of December 31, 2023, the Company had an allowance of \$3.8 million on non-performing loans.

The Company recognized no interest income on non-accrual loans during the three and nine months ended September 30, 2024. The Company recognized an immaterial amount and \$0.2 million of interest income on non-accrual loans during the three and nine months ended September 30, 2023, respectively.

Collateral Dependent Loans

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following presents the amortized cost basis of collateral-dependent loans, which are individually evaluated to determine expected credit losses, by class of loans as of the date noted:

	As of September 30, 2024			
	Collateral Dependent Loans			
	Secured by Real Estate	Secured by Cash and Securities	Secured by Other	Total
<i>(dollars in thousands)</i>				
Cash, Securities, and Other	\$ —	\$ 1,704	\$ —	\$ 1,704
Consumer and Other	—	—	—	—
Construction and Development	—	—	—	—
1-4 Family Residential	1,468	—	—	1,468
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	—	—	12,220	12,220
Total	<u>\$ 1,468</u>	<u>\$ 1,704</u>	<u>\$ 12,220</u>	<u>\$ 15,392</u>

	As of December 31, 2023			
	Collateral Dependent Loans			
	Secured by Real Estate	Secured by Cash and Securities	Secured by Other	Total
<i>(dollars in thousands)</i>				
Cash, Securities, and Other	\$ —	\$ 1,704	\$ —	\$ 1,704
Consumer and Other	—	—	7,500	7,500
Construction and Development	2,719	—	—	2,719
1-4 Family Residential	3,016	—	—	3,016
Owner Occupied CRE	3,980	—	—	3,980
Commercial and Industrial	—	—	31,893	31,893
Total	<u>\$ 9,715</u>	<u>\$ 1,704</u>	<u>\$ 39,393</u>	<u>\$ 50,812</u>

Other Real Estate Owned (“OREO”)

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. They are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than on an annual basis. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. In the second quarter of 2024, the Company recorded \$11.4 million of OREO as a result of obtaining physical possession of **two** foreclosed properties as partial consideration for amounts owed on non-performing loans related to an isolated loan relationship. During the third quarter of 2024, the Company recorded an additional \$25.6 million of OREO related to a third foreclosed property within the same loan relationship. As of September 30, 2024, these OREO properties had a carrying amount of \$37.0 million. As of December 31, 2023, the Company did not own any OREO properties.

Allowance for Credit Losses on Loans

The allowance for credit losses for loans is measured on the loan’s amortized cost basis, excluding interest receivable. Interest receivable excluded at September 30, 2024 and December 31, 2023 was \$9.7 million and \$10.8 million, respectively, presented in Accrued interest receivable on the Condensed Consolidated Balance Sheets. Refer to Note 1 – Organization and Summary of Significant Accounting Policies for additional information related to the Company’s methodology on estimated credit losses.

The Allowance for credit losses on loans (“ACL”) represents Management’s best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans’ contractual terms, adjusted for expected prepayments when appropriate. Our quantitative discounted cash flow models use economic forecasts including; housing price index (“HPI”), gross domestic product (“GDP”), and national unemployment. The HPI, GDP, and unemployment twelve-month forecasts used in our model remained consistent during the nine months ended September 30, 2024. As such, the \$1.6 million release of provision on pooled loans for the nine months ended September 30, 2024 was predominately due to net pay downs in the loan portfolio. The allowance for credit losses on individually analyzed loans was \$0.3 million and \$3.8 million as of September 30, 2024 and December 31, 2023, respectively. This \$3.5 million release of provision on individually analyzed loans for the nine months ended September 30, 2024 was primarily due to the migration of one loan relationship out of non-performing loans and into OREO, pay downs, charge-offs, and the sale of a non-performing loan.

Allocation of a portion of the allowance for credit losses to one category of loans does not preclude its availability to absorb losses in other categories. The following table presents the activity in the allowance for credit losses by portfolio segment during the periods presented:

<i>(dollars in thousands)</i>	Cash, Securities and Other	Consumer and Other	Construction and Development	1-4 Family Residential	Non- Owner Occupied CRE	Owner Occupied CRE	Commercial and Industrial	Total
Changes in allowance for credit losses for the three months ended September 30, 2024:								
Beginning balance	\$ 375	\$ 75	\$ 7,596	\$ 4,310	\$ 2,203	\$ 973	\$ 11,787	\$ 27,319
(Release) provision for credit losses	26	62	(2,262)	1,014	2,139	(282)	99	796
Charge-offs	—	(4)	—	—	—	—	(9,336)	(9,340)
Recoveries	—	4	—	1	—	—	16	21
Ending balance	<u>\$ 401</u>	<u>\$ 137</u>	<u>\$ 5,334</u>	<u>\$ 5,325</u>	<u>\$ 4,342</u>	<u>\$ 691</u>	<u>\$ 2,566</u>	<u>\$ 18,796</u>
Changes in allowance for credit losses for the nine months ended September 30, 2024:								
Beginning balance	\$ 961	\$ 124	\$ 7,945	\$ 4,370	\$ 2,325	\$ 1,034	\$ 7,172	\$ 23,931
(Release) provision for credit losses	(560)	16	(2,611)	948	2,017	(343)	4,708	4,175
Charge-offs	—	(30)	—	—	—	—	(9,336)	(9,366)
Recoveries	—	27	—	7	—	—	22	56
Ending balance	<u>\$ 401</u>	<u>\$ 137</u>	<u>\$ 5,334</u>	<u>\$ 5,325</u>	<u>\$ 4,342</u>	<u>\$ 691</u>	<u>\$ 2,566</u>	<u>\$ 18,796</u>

<i>(dollars in thousands)</i>	Cash, Securities and Other	Consumer and Other	Construction and Development	1-4 Family Residential	Non- Owner Occupied CRE	Owner Occupied CRE	Commercial and Industrial	Total
Changes in allowance for credit losses for the three months ended September 30, 2023:								
Beginning balance	\$ 1,311	\$ 137	\$ 7,496	\$ 3,579	\$ 2,495	\$ 1,182	\$ 5,844	\$ 22,044
(Release) provision for credit losses	(185)	(15)	405	38	(240)	(172)	1,490	1,321
Charge-offs	—	(12)	—	—	—	—	(186)	(198)
Recoveries	—	4	—	3	—	—	1	8
Ending balance	<u>\$ 1,126</u>	<u>\$ 114</u>	<u>\$ 7,901</u>	<u>\$ 3,620</u>	<u>\$ 2,255</u>	<u>\$ 1,010</u>	<u>\$ 7,149</u>	<u>\$ 23,175</u>

Changes in allowance for credit losses for the nine months ended September 30, 2023:								
Beginning balance, prior to the adoption of ASU 2016-13	\$ 1,198	\$ 191	\$ 2,025	\$ 6,309	\$ 3,490	\$ 1,510	\$ 2,460	\$ 17,183
Impact of adopting ASU 2016-13	193	106	4,681	(2,808)	(689)	(104)	2,091	3,470
(Release) provision for credit losses	(265)	(160)	1,195	116	(546)	(396)	2,781	2,725
Charge-offs	—	(42)	—	—	—	—	(186)	(228)
Recoveries	—	19	—	3	—	—	3	25
Ending balance	<u>\$ 1,126</u>	<u>\$ 114</u>	<u>\$ 7,901</u>	<u>\$ 3,620</u>	<u>\$ 2,255</u>	<u>\$ 1,010</u>	<u>\$ 7,149</u>	<u>\$ 23,175</u>

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of the 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 Company analyzes loans individually by classifying the loans by credit risk on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness or borrowing relationships that require more than the usual amount of management attention. Adverse industry conditions, deteriorating financial conditions, declining trends, management problems, documentation deficiencies, or other similar weaknesses may be evident. Ability to meet current payment schedules may be questionable, even though interest and principal are still being paid as agreed. The asset has potential weaknesses that may result in deteriorating repayment prospects if left uncorrected. Loans in this risk grade are not considered adversely classified.

Substandard: Substandard loans are considered "classified" and are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in this category may be placed on non-accrual status and may individually be evaluated.

Doubtful: Loans graded Doubtful are considered "classified" and have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. However, the amount of certainty of eventual loss is not known because of specific pending factors.

Loans accounted for under the fair value option are not rated.

The following tables present the amortized cost basis of loans by credit quality indicator, by class of financing receivable, and year of origination for term loans as of September 30, 2024 and December 31, 2023. For revolving lines of credit that converted to term loans, if the conversion involved a credit decision, such loans are included in the origination year in which the credit decision was made. If revolving lines of credit converted to term loans without a credit decision, such lines of credit are included in the “Revolving lines of credit converted to term” column in the following table (dollars in thousands):

September 30, 2024	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior		
Cash, Securities, and Other								
Pass	\$ 12,252	\$ 6,158	\$ 3,426	\$ 13,708	\$ 4,914	\$ 13,859	\$ 63,263	\$ 117,580
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	1,704	1,704
Doubtful	—	—	—	—	—	—	—	—
Total Cash, Securities, and Other	\$ 12,252	\$ 6,158	\$ 3,426	\$ 13,708	\$ 4,914	\$ 13,859	\$ 64,967	\$ 119,284
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer and Other								
Pass	—	19	1,584	369	425	572	9,175	12,144
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	49	49
Doubtful	—	—	—	—	—	—	—	—
Not rated ⁽¹⁾	—	—	7,302	1,206	82	56	—	8,646
Total Consumer and Other	\$ —	\$ 19	\$ 8,886	\$ 1,575	\$ 507	\$ 628	\$ 9,224	\$ 20,839
Current year-to-date gross charge-offs	\$ —	\$ 1	\$ —	\$ —	\$ 10	\$ 19	\$ —	\$ 30
Construction and Development								
Pass	\$ 36,075	\$ 53,010	\$ 195,294	\$ 1,028	\$ 9,396	\$ —	\$ 1,182	\$ 295,985
Special mention	—	—	—	—	—	—	—	—
Substandard	469	3,816	—	—	—	—	—	4,285
Doubtful	—	—	—	—	—	—	—	—
Total Construction and Development	\$ 36,544	\$ 56,826	\$ 195,294	\$ 1,028	\$ 9,396	\$ —	\$ 1,182	\$ 300,270
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
1-4 Family Residential								
Pass	\$ 51,354	\$ 92,037	\$ 352,962	\$ 128,314	\$ 105,056	\$ 64,567	\$ 126,414	\$ 920,704
Special mention	—	—	—	—	—	—	—	—
Substandard	353	553	—	1,115	—	—	—	2,021
Doubtful	—	—	—	—	—	—	—	—
Total 1-4 Family Residential	\$ 51,707	\$ 92,590	\$ 352,962	\$ 129,429	\$ 105,056	\$ 64,567	\$ 126,414	\$ 922,725
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Non-Owner Occupied CRE								
Pass	\$ 27,294	\$ 42,585	\$ 253,600	\$ 118,008	\$ 68,869	\$ 58,261	\$ 31,312	\$ 599,929
Special mention	—	—	—	—	4,898	—	—	4,898
Substandard	—	—	—	—	—	—	496	496
Doubtful	—	—	—	—	—	—	—	—
Total Non-Owner Occupied CRE	\$ 27,294	\$ 42,585	\$ 253,600	\$ 118,008	\$ 73,767	\$ 58,261	\$ 31,808	\$ 605,323
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Owner Occupied CRE								
Pass	\$ 2,212	\$ 3,158	\$ 43,983	\$ 42,252	\$ 31,333	\$ 48,252	\$ 2,337	\$ 173,527
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	1,401	—	—	—	—	1,401
Doubtful	—	—	—	—	—	—	—	—
Total Owner Occupied CRE	\$ 2,212	\$ 3,158	\$ 45,384	\$ 42,252	\$ 31,333	\$ 48,252	\$ 2,337	\$ 174,928
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

September 30, 2024	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior		
Commercial and Industrial								
Pass	\$ 19,145	\$ 13,882	\$ 46,981	\$ 11,703	\$ 10,516	\$ 23,408	\$ 97,992	\$ 223,627
Special mention	—	—	—	—	—	—	484	484
Substandard	978	179	2,821	—	—	11,062	679	15,719
Doubtful	—	—	—	—	—	—	—	—
Total Commercial and Industrial	\$ 20,123	\$ 14,061	\$ 49,802	\$ 11,703	\$ 10,516	\$ 34,470	\$ 99,155	\$ 239,830
Current year-to-date gross charge-offs	\$ —	\$ 298	\$ —	\$ 6,935	\$ 2,103	\$ —	\$ —	\$ 9,336
Total pass	\$ 148,332	\$ 210,849	\$ 897,830	\$ 315,382	\$ 230,509	\$ 208,919	\$ 331,675	\$ 2,343,496
Total special mention	—	—	—	—	4,898	—	484	5,382
Total substandard	1,800	4,548	4,222	1,115	—	11,062	2,928	25,675
Total doubtful	—	—	—	—	—	—	—	—
Total not rated	—	—	7,302	1,206	82	56	—	8,646
Total	\$ 150,132	\$ 215,397	\$ 909,354	\$ 317,703	\$ 235,489	\$ 220,037	\$ 335,087	\$ 2,383,199

⁽¹⁾ Includes loans held for investment measured at fair value as of September 30, 2024. Includes fair value adjustments on loans held for investment accounted for under the fair value option.

December 31, 2023	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
Cash, Securities, and Other								
Pass	\$ 8,091	\$ 17,878	\$ 17,181	\$ 5,966	\$ 6,337	\$ 13,188	\$ 69,602	\$ 138,243
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	1,704	1,704
Doubtful	—	—	—	—	—	—	—	—
Total Cash, Securities, and Other	\$ 8,091	\$ 17,878	\$ 17,181	\$ 5,966	\$ 6,337	\$ 13,188	\$ 71,306	\$ 139,947
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer and Other								
Pass	\$ 614	\$ 2,013	\$ 647	\$ 633	\$ 797	\$ 24	\$ 14,800	\$ 19,528
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	7,500	7,500
Doubtful	—	—	—	—	—	—	—	—
Not rated ⁽¹⁾	—	10,469	2,544	614	99	—	—	13,726
Total Consumer and Other	\$ 614	\$ 12,482	\$ 3,191	\$ 1,247	\$ 896	\$ 24	\$ 22,300	\$ 40,754
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ 8	\$ 91	\$ 2	\$ —	\$ 101
Construction and Development								
Pass	\$ 32,509	\$ 231,103	\$ 42,796	\$ 21,615	\$ —	\$ —	\$ 431	\$ 328,454
Special mention	—	14,343	—	—	—	—	—	14,343
Substandard	2,719	—	—	—	—	—	—	2,719
Doubtful	—	—	—	—	—	—	—	—
Total Construction and Development	\$ 35,228	\$ 245,446	\$ 42,796	\$ 21,615	\$ —	\$ —	\$ 431	\$ 345,516
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
1-4 Family Residential								
Pass	\$ 97,901	\$ 373,525	\$ 143,694	\$ 108,815	\$ 37,756	\$ 31,452	\$ 131,806	\$ 924,949
Special mention	—	—	—	—	—	—	—	—
Substandard	578	2,438	—	—	—	—	—	3,016
Doubtful	—	—	—	—	—	—	—	—
Total 1-4 Family Residential	\$ 98,479	\$ 375,963	\$ 143,694	\$ 108,815	\$ 37,756	\$ 31,452	\$ 131,806	\$ 927,965
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

December 31, 2023	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
Non-Owner Occupied CRE								
Pass	\$ 42,799	\$ 197,122	\$ 125,726	\$ 75,026	\$ 24,411	\$ 53,056	\$ 20,553	\$ 538,693
Special mention	—	—	—	4,999	—	—	—	4,999
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total Non-Owner Occupied CRE	\$ 42,799	\$ 197,122	\$ 125,726	\$ 80,025	\$ 24,411	\$ 53,056	\$ 20,553	\$ 543,692
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Owner Occupied CRE								
Pass	\$ 3,229	\$ 46,751	\$ 44,805	\$ 37,957	\$ 5,555	\$ 51,259	\$ 2,325	\$ 191,881
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	3,980	—	—	—	—	3,980
Doubtful	—	—	—	—	—	—	—	—
Total Owner Occupied CRE	\$ 3,229	\$ 46,751	\$ 48,785	\$ 37,957	\$ 5,555	\$ 51,259	\$ 2,325	\$ 195,861
Current year-to-date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and Industrial								
Pass	\$ 38,497	\$ 59,612	\$ 15,430	\$ 13,457	\$ 6,430	\$ 16,068	\$ 152,782	\$ 302,276
Special mention	—	—	—	—	—	—	649	649
Substandard	1,618	—	29,355	1,674	—	920	688	34,255
Doubtful	—	—	—	—	—	—	—	—
Total Commercial and Industrial	\$ 40,115	\$ 59,612	\$ 44,785	\$ 15,131	\$ 6,430	\$ 16,988	\$ 154,119	\$ 337,180
Current year-to-date gross charge-offs	\$ —	\$ 8,737	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,737
Total pass	\$ 223,640	\$ 928,004	\$ 390,279	\$ 263,469	\$ 81,286	\$ 165,047	\$ 392,299	\$2,444,024
Total special mention	—	14,343	—	4,999	—	—	649	19,991
Total substandard	4,915	2,438	33,335	1,674	—	920	9,892	53,174
Total doubtful	—	—	—	—	—	—	—	—
Total not rated	—	10,469	2,544	614	99	—	—	13,726
Total	\$ 228,555	\$ 955,254	\$ 426,158	\$ 270,756	\$ 81,385	\$ 165,967	\$ 402,840	\$2,530,915

⁽¹⁾ Includes loans held for investment measured at fair value as of December 31, 2023. Includes fair value adjustments on loans held for investment accounted for under the fair value option.

NOTE 4 – GOODWILL

Goodwill is tested annually for impairment on October 31 or earlier upon the occurrence of certain events. A significant amount of judgement is involved in determining if an indicator of goodwill impairment occurred. Such indicators may include, among others; a significant decline in expected future cash flows; a sustained significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition.

The goodwill impairment analysis includes the determination of the carrying value of the reporting unit, including the existing goodwill, and estimating the fair value of the reporting unit. If the fair value is less than its carrying amount, goodwill impairment is recognized equal to the difference between the fair value and its carrying amount, not to exceed its carrying amount. As of September 30, 2024, there has not been any impairment of goodwill identified or recorded. Goodwill totaled \$30.4 million as of September 30, 2024 and December 31, 2023.

NOTE 5 – LEASES

Leases in which the Company is determined to be the lessee are primarily operating leases comprised of real estate property and office space for our corporate headquarters and profit centers with terms that extend to 2036. In accordance with ASC 842, operating leases are required to be recognized as a right-of-use asset with a corresponding lease liability.

The Company elected to not include short-term leases with initial terms of twelve months or less on the Condensed Consolidated Balance Sheets. The following table presents the classification of the right-of-use assets and corresponding liabilities within the Condensed Consolidated Balance Sheets, as of the dates noted:

<i>(dollars in thousands)</i>		September 30, 2024	December 31, 2023
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Other assets	\$ 18,511	\$ 8,929
Lease Liabilities	Classification		
Operating lease liabilities	Other liabilities	\$ 21,334	\$ 10,900

The Company's operating lease agreements typically include an option to renew the lease at the Company's discretion. To the extent the Company is reasonably certain it will exercise the renewal option at the inception of the lease, the Company will include the extended term in the calculation of the right-of-use asset and lease liability. ASC 842 requires the use of the rate implicit in the lease when it is readily determinable. As this rate is typically not readily determinable, at the inception of the lease, the Company uses its collateralized incremental borrowing rate over a similar term. The amount of the right-of-use asset and lease liability are impacted by the discount rate used to calculate the present value of the minimum lease payments over the term of the lease. The following table presents information related to operating leases:

	September 30, 2024	December 31, 2023
Weighted-Average Remaining Lease Term		
Operating leases	9.72 years	4.67 years
Weighted-Average Discount Rate		
Operating leases	4.12 %	2.78 %

The Company's operating leases contain fixed and variable lease components and it has elected to account for all classes of underlying assets as a single lease component. Variable lease costs primarily represent common area maintenance and parking. The Company recognized lease costs in Occupancy and equipment expense in the accompanying Condensed Consolidated Statements of Income. The following presents the Company's net lease costs during the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Lease Costs				
Operating lease cost	\$ 874	\$ 720	\$ 2,474	\$ 2,239
Variable lease cost	591	453	1,723	1,426
Lease costs, net	\$ 1,465	\$ 1,173	\$ 4,197	\$ 3,665

[Table of Contents](#)

The following presents a maturity analysis of the Company's operating lease liabilities on an annual basis for each of the next five years and total amounts thereafter (dollars in thousands):

Year Ending December 31,	Operating Leases
2024 ⁽¹⁾	\$ 904
2025	2,935
2026	2,443
2027	3,415
2028	3,115
Thereafter	15,122
Total future minimum lease payments	27,934
Less: imputed interest	(6,600)
Present value of net future minimum lease payments	<u>\$ 21,334</u>

⁽¹⁾ Amount represents the remaining three months of year.

Leases in which the Company is determined to be the lessor are considered operating leases and consist of the partial lease of Company owned buildings. In accordance with ASC 842, these leases have been accounted for as operating leases. The Company recognized \$0.1 million of lease income during the three months ended September 30, 2024 and 2023. The Company recognized \$0.2 million and \$0.3 million of lease income during the nine months ended September 30, 2024 and 2023, respectively.

The following presents a maturity analysis of the Company's lease payments to be received on an annual basis for each of the next five years and total amounts thereafter (dollars in thousands):

Year Ending December 31,	Undiscounted Operating Lease Income
2024 ⁽¹⁾	\$ 66
2025	188
2026	144
2027	119
Thereafter	—
Total undiscounted operating lease income	<u>\$ 517</u>

⁽¹⁾ Amount represents the remaining three months of the year.

NOTE 6 – DEPOSITS

The following presents the Company's interest-bearing deposits as of the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Money market deposit accounts	\$ 1,350,619	\$ 1,386,149
Time deposits	533,452	496,452
Interest checking accounts	130,255	147,488
Savings accounts	15,152	16,371
Total interest-bearing deposits	<u>\$ 2,029,478</u>	<u>\$ 2,046,460</u>
Aggregate time deposits of \$250 or greater	\$ 87,647	\$ 91,038

Overdraft balances classified as loans totaled \$0.1 million as of September 30, 2024 and December 31, 2023, respectively.

The following presents the scheduled maturities of all time deposits for each of the next five years and total amounts thereafter (dollars in thousands):

Year ending December 31,	Time Deposits
2024 ⁽¹⁾	\$ 154,835
2025	336,200
2026	3,530
2027	3,956
2028	34,643
Thereafter	288
Total	\$ 533,452

⁽¹⁾ Amount represents the remaining three months of year.

NOTE 7 – BORROWINGS

The Bank has executed a blanket pledge and security agreement with the FHLB which requires certain loans and securities be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of September 30, 2024 and December 31, 2023 amounted to \$1.30 billion and \$1.31 billion, respectively. Based on this collateral and the Company’s holdings of FHLB stock, the Company was eligible to borrow an additional \$612.1 million as of September 30, 2024.

On March 12, 2023 the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors made available through the creation of a new Bank Term Funding Program (“BTFP”). The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institutions need to quickly sell those securities in times of stress. On March 27, 2024 the Company repaid \$31.0 million of BTFP borrowings. As of September 30, 2024, the Company has pledged a par value of \$10.3 million in securities under the BTFP and borrowed \$10.0 million with a maturity date of January 10, 2025. The rate for the borrowing is based on the one year overnight swap rate plus 10 basis points and is fixed over the term of the advance based on the date of the advance. Upon maturity, the Company renewed a three-month \$50 million FHLB advance on July 1, 2024. The rate for the borrowing is adjusted daily based on the SOFR rate plus 15 basis points. The advance matured on October 1, 2024 and was renewed for an additional three months. Additionally, the Company paid off its FHLB line of credit balance of \$128.7 million on July 1, 2024 and did not draw on the line during the remainder of the third quarter.

The following presents the Company’s maturities of FHLB and FRB borrowings (dollars in thousands):

Maturity Date	Rate %	September 30, 2024	December 31, 2023
January 1, 2024 ⁽¹⁾	5.55 %	\$ —	\$ 41,175
March 27, 2024	4.78	—	30,997
March 29, 2024	5.60	—	50,000
October 1, 2024	4.99	50,000	—
January 10, 2025	4.87	10,000	—
		<u>\$ 60,000</u>	<u>\$ 122,172</u>

⁽¹⁾ The borrowing has a one day, automatic daily renewal maturity date, subject to FHLB discretion not to renew.

To bolster the effectiveness of the SBA’s PPP, the Federal Reserve is supplying liquidity to participating financial institutions through term financing collateralized by PPP loans to small businesses. The Paycheck Protection Program Liquidity Facility (“PPPLF”) extends credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value and bearing interest at 35 bps. The terms of the loans are directly tied to the underlying PPP loans, which were originated at 2 or 5 years. As of September 30, 2024 and December 31, 2023, the Company had outstanding \$2.4 million and \$3.5 million, respectively, under the PPPLF program which is included in the FHLB and Federal Reserve borrowings line of the Condensed Consolidated Balance Sheets.

The Bank has borrowing capacity associated with two unsecured federal funds lines of credit up to \$10.0 million and \$19.0 million. As of September 30, 2024 and December 31, 2023, there were no amounts outstanding on any of the federal funds lines.

The following presents the Company's subordinated notes included in the Subordinated notes line of the Condensed Consolidated Balance Sheets as of the periods noted (dollars in thousands):

Issuance Date	Stated Rate	Interest Paid	Maturity	Carrying Value	Initial Debt Issuance Costs	Remaining Net Balance ⁽¹⁾
March 2020	5.125% per annum until 3/31/2025, then alternative rate plus 450 basis points until maturity	Quarterly	3/31/2030	\$ 8,000	\$ 120	\$ 7,988
November 2020	4.25% per annum until 12/1/2025, then SOFR plus 402 basis points until maturity	Semi-annual (Quarterly beginning 12/01/25)	12/1/2030	10,000	162	9,942
August 2021	3.25% per annum until 9/1/2026, then SOFR plus 258 basis points until maturity	Semi-annual (Quarterly beginning 09/01/26)	9/1/2031	15,000	242	14,894
December 2022	7.00% per annum until 12/15/2027, then SOFR plus 328 basis points until maturity	Semi-annual (Quarterly beginning 12/15/27)	12/15/2032	20,000	506	19,684

⁽¹⁾ Remaining net balance includes amortization of debt issuance costs.

For the three months ended September 30, 2024 and 2023, the Company recorded \$0.6 million and \$0.7 million, respectively, of interest expense related to the collective subordinated notes. For the nine months ended September 30, 2024 and 2023, the Company recorded \$2.0 million and \$2.0 million, respectively, of interest expense related to the collective subordinated notes. The subordinated notes are included in Tier 2 capital under current regulatory guidelines and interpretations, subject to limitations.

The Company's borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. See Note 16 – Regulatory Capital Matters for additional information. As of September 30, 2024 and December 31, 2023, the Company was in compliance with the covenant requirements.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company is party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Condensed Consolidated Balance Sheets. Commitments may expire without being utilized. The Company's exposure to credit loss is represented by the contractual amount of these commitments, although material losses are not anticipated. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following table presents the Company's financial instruments whose contract amounts represent credit risk, as of the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024		December 31, 2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 56,617	\$ 468,986	\$ 86,398	\$ 540,255
Standby letters of credit	10,204	10,331	13,922	12,094
Commitments to make loans to sell	56,214	—	18,917	—
Commitments to make loans	1,535	9,110	5,275	7,115

Unused lines of credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Several of the commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the client.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client’s obligation to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Company holds collateral supporting those commitments if deemed necessary.

Commitments to make loans to sell are agreements to lend to a client which would then be sold to an investor in the secondary market for which the interest rate has been locked with the client, provided there is no violation of any condition within the contract with either party. Commitments to make loans to sell have fixed interest rates. Since commitments may expire without being extended, total commitment amounts may not necessarily represent cash requirements.

Commitments to make loans are agreements to lend to a client, provided there is no violation of any condition within the contract. Commitments to make loans generally have fixed expiration dates or other termination clauses. Since commitments may expire without being extended, total commitment amounts may not necessarily represent cash requirements.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

To estimate the ACL on unfunded loan commitments that are not unconditionally cancellable, the Company determines the probability of funding based on historical utilization statistics for unfunded loan commitments. Loss rates are calculated using the same assumptions as the associated funded balance. Refer to Note 3 – Loans and the Allowance for Credit Losses for changes in the factors that influenced the current estimate of ACL and reasons for the changes. The following table presents the changes in the ACL on unfunded loan commitments:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	\$ 1,205	\$ 4,029	\$ 2,178	\$ 419
Impact of adopting ASU 2016-13	—	—	—	3,481
(Release) provision for credit losses	(295)	(992)	(1,268)	(863)
Ending balance	\$ 910	\$ 3,037	\$ 910	\$ 3,037

Litigation, Claims and Settlements

The Company is, from time to time, involved in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based on advice from legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company’s condensed consolidated financial statements.

NOTE 9 – SHAREHOLDERS’ EQUITY

Common Stock

The Company’s common stock has no par value and each holder of common stock is entitled to one vote for each share held (though certain voting restrictions may exist on non-vested restricted stock).

On June 13, 2024, the Company announced that its board of directors authorized the repurchase of up to 200,000 shares of the Company’s common stock, no par value, from time to time, within one year (the “2024 Repurchase Plan”) and that the Board of Governors of the Federal Reserve System advised the Company that it has no objection to the Company’s 2024 Repurchase Plan. The Company may repurchase shares in privately negotiated transactions, in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 promulgated by the Securities and Exchange Commission, or otherwise in a manner that complies with applicable federal securities laws. The 2024 Repurchase Plan does not obligate the Company to acquire a specific dollar amount or number of shares and it may be extended, modified or discontinued at any time without notice. During the three months ended September 30, 2024, the Company repurchased 5,501 shares under the authorization of the 2024 Repurchase Plan. As of September 30, 2024, there were 194,499 shares available for repurchase under the plan.

On January 6, 2022, the Company filed a Form S-3 Registration Statement with the SEC providing that the Company may offer and sell from time to time, separately or together, in multiple series or in one or more offering, any combination of common stock, preferred stock, debt securities, warrants, depository shares and units, up to a maximum aggregate offer price of \$100 million. During the three and nine months ended September 30, 2024, the Company sold no shares of common stock.

Stock-Based Compensation Plans

The 2008 Stock Incentive Plan ("the 2008 Plan") was frozen in connection with the adoption of First Western Financial, Inc. 2016 Omnibus Incentive Plan ("the 2016 Plan") and no new awards may be granted under the 2008 Plan. Remaining shares not issued under the 2008 Plan poured into the 2016 Plan. As of September 30, 2024, there were a total of 409,857 shares available for issuance under the 2016 Plan. If the Awards outstanding under the 2008 Plan or the 2016 Plan are forfeited, cancelled or terminated with no consideration paid to the Company, those amounts will increase the number of shares eligible to be granted under the 2016 Plan.

Stock Options

The Company did not grant any stock options during the nine months ended September 30, 2024 and 2023.

During the three and nine months ended September 30, 2024 and 2023, the Company recognized no stock based compensation expense associated with stock options. As of September 30, 2024, the Company has no unrecognized stock-based compensation expense related to stock options.

The following presents activity for nonqualified stock options during the nine months ended September 30, 2024:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	130,936	\$ 23.79		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	(49,175)	21.28		
Outstanding as of September 30, 2024	<u>81,761</u>	25.29	1.25	⁽¹⁾
Options fully vested / exercisable as of September 30, 2024	81,761	25.29	1.25	⁽¹⁾

⁽¹⁾ Nonqualified stock options outstanding at the end of the period and those fully vested/exercisable had immaterial aggregate intrinsic values.

As of September 30, 2024, there were 81,761 options that were exercisable. Exercise prices are between \$24.32 and \$27.00 per share, and the options are exercisable for a period of ten years from the original grant date and expire on various dates between 2025 to 2026.

Restricted Stock Units

Pursuant to the 2016 Plan, the Company may grant associates and non-associate directors long-term cash and stock-based compensation. Historically, the Company has granted certain associates restricted stock units which are earned over time or based on various performance measures and convert to common stock upon vesting, which are summarized here and expanded further below.

The following presents the activity for the Time Vesting Units and the Financial Performance Units during the nine months ended September 30, 2024:

	Time Vesting Units	Financial Performance Units
Outstanding as of December 31, 2023	242,524	291,416
Granted	75,070	42,805
Vested	(65,765)	(59,449)
Forfeited	(26,848)	(64,769)
Outstanding as of September 30, 2024	224,981	210,003

During the three months ended September 30, 2024, the Company issued 9,054 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 2,776 shares, with a combined market value at the dates of settlement of \$46 thousand, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance. During the nine months ended September 30, 2024, the Company issued 88,419 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 36,795 shares, with a combined market value at the dates of settlement of \$0.7 million, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance. During the three months ended September 30, 2023, the Company issued 8,638 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 3,580 shares, with a combined market value at the dates of settlement of \$0.1 million, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance. During the nine months ended September 30, 2023, the Company issued 52,509 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 20,381 shares, with a combined market value at the dates of settlement of \$0.4 million, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance.

Time Vesting Units

Time Vesting Units are granted to full-time associates and board members at the date approved by the Company's board of directors. The Company granted 75,070 Time Vesting Units during the nine months ended September 30, 2024. During the three months ended September 30, 2024 and 2023, the Company recognized compensation expense of \$0.4 million for the Time Vesting Units. During the nine months ended September 30, 2024 and 2023, the Company recognized compensation expense of \$1.1 million and \$1.2 million, respectively, for the Time Vesting Units. As of September 30, 2024, there was \$4.2 million of unrecognized compensation expense related to the Time Vesting Units, which is expected to be recognized over a weighted-average period of 3.2 years.

Financial Performance Units

Financial Performance Units are granted to certain key associates and are earned based on the Company achieving various financial performance metrics. If the Company achieves the financial metrics, which include various thresholds from 0% up to 150%, then the Financial Performance Units will have a subsequent vesting period.

[Table of Contents](#)

The following presents the Company's existing Financial Performance Units as of September 30, 2024 (dollars in thousands, except share amounts):

Grant Period	Threshold Accrual	Maximum Issuable Shares at Current Threshold	Unrecognized Compensation Expense	Weighted-Average ⁽¹⁾	Financial Metric End Date	Vesting Requirement End Date
May 1, 2020 through December 31, 2021, excluding November 18, 2020	150 %	55,517	\$ 37,147	0.3 years	December 31, 2022	December 31, 2024
On November 18, 2020	114	10,760	40,753	1.1 years	December 31, 2022	50% November 18, 2023 & 2025
May 3, 2021 through August 11, 2021	55	15,721	108,094	1.3 years	December 31, 2023	December 31, 2025
May 2, 2022 through November 2, 2022, excluding August 4, 2022 ⁽²⁾	—	—	—	2.3 years	December 31, 2024	December 31, 2026
On August 4, 2022 ⁽³⁾	33	9,090	127,346	2.3 years	December 31, 2024	December 31, 2026
On May 1, 2023 ⁽²⁾	—	—	—	3.3 years	December 31, 2025	December 31, 2027
On May 1, 2024	100	40,224	620,922	4.3 years	December 31, 2026	December 31, 2028

⁽¹⁾ Represents the expected unrecognized stock-based compensation expense recognition period.

⁽²⁾ As the performance threshold is not expected to be met in future performance periods, there is no related unrecognized compensation as of September 30, 2024.

⁽³⁾ Performance threshold was not met for the years ended December 31, 2022 and 2023. As of September 30, 2024, the 100% threshold is expected to be met for the year ended December 31, 2024.

The following table presents the Company's Financial Performance Units activity for the periods noted (dollars in thousands, except share amounts):

Grant Period	Units Granted		Compensation Expense Recognized			
	Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023
May 1, 2019 through April 30, 2020	—	22,577	\$ —	\$ (18)	\$ —	\$ 65
May 1, 2020 through December 31, 2021, excluding November 18, 2020	—	24,230	37	29	(11)	115
On November 18, 2020	—	2,921	9	91	19	131
May 3, 2021 through August 11, 2021	—	—	22	10	(64)	(81)
May 2, 2022 through November 2022, excluding August 4, 2022 ⁽¹⁾	—	322	—	—	—	—
On August 4, 2022 ⁽²⁾	—	—	14	14	42	19
On May 1, 2023 ⁽¹⁾	—	52,117	—	—	—	—
On May 1, 2024	42,805	—	36	—	61	—

⁽¹⁾ Performance threshold was not met for the three and nine months ended September 30, 2024 and 2023, therefore, no compensation expense was recognized for the three and nine month periods ended September 30, 2024 and 2023.

⁽²⁾ Performance threshold was not met for the years ended December 31, 2022 and December 31, 2023. As of September 30, 2024, the threshold is expected to be met for the year ended December 31, 2024.

NOTE 10 – EARNINGS PER COMMON SHARE

The following presents the calculation of basic and diluted earnings per common share during the periods presented (dollars in thousands, except share and per share amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Earnings per common share - Basic				
Numerator:				
Net income available for common shareholders	\$ 2,134	\$ 3,118	\$ 5,725	\$ 8,444
Denominator:				
Basic weighted average shares	9,663,131	9,553,331	9,643,998	9,529,996
Earnings per common share - basic	<u>\$ 0.22</u>	<u>\$ 0.33</u>	<u>\$ 0.59</u>	<u>\$ 0.89</u>
Earnings per common share - Diluted				
Numerator:				
Net income available for common shareholders	\$ 2,134	\$ 3,118	\$ 5,725	\$ 8,444
Denominator:				
Basic weighted average shares	9,663,131	9,553,331	9,643,998	9,529,996
Diluted effect of common stock equivalents:				
Stock options	—	—	—	5,341
Time Vesting Units	27,212	45,143	24,381	80,174
Financial Performance Units	76,313	144,796	74,387	105,452
Total diluted effect of common stock equivalents	103,525	189,939	98,768	190,967
Diluted weighted average shares	9,766,656	9,743,270	9,742,766	9,720,963
Earnings per common share - diluted	<u>\$ 0.22</u>	<u>\$ 0.32</u>	<u>\$ 0.59</u>	<u>\$ 0.87</u>

Diluted earnings per share was computed without consideration to potentially dilutive instruments as their inclusion would have been anti-dilutive.

The following table presents potentially dilutive securities excluded from the diluted earnings per share calculation during the periods presented:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Stock options	81,761	149,725	99,378	134,307
Time Vesting Units	87,436	136,437	107,682	116,586
Financial Performance Units	—	9,090	3,030	6,060
Total potentially dilutive securities	<u>169,197</u>	<u>295,252</u>	<u>210,090</u>	<u>256,953</u>

NOTE 11 – INCOME TAXES

During the three and nine months ended September 30, 2024, the Company recorded an income tax provision of \$0.5 million and \$1.9 million, respectively, reflecting an effective tax rate of 20.1% and 25.3%, respectively. During the three and nine months ended September 30, 2023, the Company recorded an income tax provision of \$1.1 million and \$3.0 million, respectively, reflecting an effective tax rate of 26.1% and 26.0%, respectively.

NOTE 12 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Recurring Fair Value

Equity Securities: Fair value of equity securities represents the market value of mutual funds based on quoted market prices (Level 1) and the value of stock held in other companies, which is based on recent market transactions or quoted rates that are not actively traded (Level 2).

Equity Warrants: Fair value of equity warrants of private companies are priced using a Black-Scholes option pricing model to estimate the asset fair value by using strike prices, option expiration dates, risk-free interest rates, and option volatility assumptions (Level 3).

Guarantee Asset and Liability: The guarantee asset represents the fair value of the consideration received in exchange for the credit enhancement fee. The guarantee liability represents a financial guarantee to cover the second layer of any losses on loans sold to FHLB under the MPF 125 loan sales agreement. The guarantee liability value on day one is equivalent to the guarantee asset fair value, which is the consideration for the credit enhancement fee paid over the life of the loans. The liability is then carried at amortized cost. Significant inputs in the valuation analysis for the asset are Level 3, due to the nature of this asset and the lack of market quotes. The fair value of the guarantee asset is determined using a discounted cash flow model, for which significant unobservable inputs include assumed future prepayment rates ("CPR") and market discount rate (Level 3). An increase in prepayment rates or discount rate would generally reduce the estimated fair value of the guarantee asset.

Derivatives: Derivatives include our swap derivatives, which are comprised of cash flow hedges and derivatives not designated as hedges. The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Mortgage Related Derivatives: Mortgage related derivatives include our IRLC, FSC, and the forward commitments on our loans held for sale pipeline. The fair value estimate of our IRLC is based on valuation models using market data from secondary market loan sales and direct contacts with third party investors as of the measurement date and pull through assumptions (Level 3). The FSC fair value estimate reflects the potential pair off fee associated with mandatory trades and is estimated by using a market differential and pair off penalty assessed by the investor (Level 3). The fair value estimate of the forward commitments is based on market prices of similar securities to the underlying MBS (Level 2).

Loans Held at Fair Value: The fair value of loans held for investment are typically determined based on discounted cash flow analysis using market-based interest rate spreads. Discounted cash flow analyses are adjusted, as appropriate, to reflect current market conditions and borrower specific credit risk. Due to the nature of the valuation inputs, loans held for investment are classified within Level 3 of the valuation hierarchy.

Mortgage Loans Held for Sale: The fair value of mortgage loans held for sale is estimated based upon quotes from third party investors for similar assets resulting in a Level 2 classification.

Loans Held for Sale: The fair value of loans held for sale is determined using actual quoted commitments from third party investors resulting in Level 1 classification. Where commitments are not yet available, fair value is estimated based on quotes for similar assets resulting in Level 2 classification.

The following presents assets and liabilities measured on a recurring basis as of the dates noted (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
September 30, 2024				
Financial Assets				
Mortgage loans held for sale	\$ —	\$ 12,324	\$ —	\$ 12,324
Loans held for sale	\$ —	\$ 473	\$ —	\$ 473
Loans held at fair value	\$ —	\$ —	\$ 8,646	\$ 8,646
Forward commitments and FSC	\$ —	\$ 85	\$ —	\$ 85
Equity securities	\$ 649	\$ 122	\$ —	\$ 771
Guarantee asset	\$ —	\$ —	\$ 270	\$ 270
IRLC, net	\$ —	\$ —	\$ 1,078	\$ 1,078
Equity warrants	\$ —	\$ —	\$ 795	\$ 795
Swap derivative assets	\$ —	\$ 1,441	\$ —	\$ 1,441
Financial Liabilities				
Forward commitments and FSC	\$ —	\$ 112	\$ 1	\$ 113
Swap derivative liabilities	\$ —	\$ 1,712	\$ —	\$ 1,712
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
December 31, 2023				
Financial Assets				
Mortgage loans held for sale	\$ —	\$ 7,254	\$ —	\$ 7,254
Loans held at fair value	\$ —	\$ —	\$ 13,726	\$ 13,726
Forward commitments and FSC	\$ —	\$ 7	\$ —	\$ 7
Equity securities	\$ 636	\$ 122	\$ —	\$ 758
Guarantee asset	\$ —	\$ —	\$ 189	\$ 189
IRLC, net	\$ —	\$ —	\$ 345	\$ 345
Equity warrants	\$ —	\$ —	\$ 795	\$ 795
Swap derivative asset	\$ —	\$ 763	\$ —	\$ 763
Financial Liabilities				
Forward commitments and FSC	\$ —	\$ 358	\$ —	\$ 358
Swap derivative liabilities	\$ —	\$ 740	\$ —	\$ 740

There were no transfers between levels during the nine months ended September 30, 2024 or year ended December 31, 2023.

As of September 30, 2024, equity securities, equity warrants, IRLC, and guarantee assets have been recorded at fair value within the Other assets line item in the Condensed Consolidated Balance Sheets. All changes are recorded in Non-interest income in the Condensed Consolidated Statements of Income.

Fair Value Option

The Company has elected to account for certain purchased whole loans held for investment under the fair value option in order to align the accounting presentation with the Company's viewpoint of the economics of the loans. Interest income on loans held for investment accounted for under the fair value option is recognized within Interest and dividend income in the accompanying Condensed Consolidated Statements of Income. Not electing fair value generally results in a larger discount being recorded on the date of the loan purchase. The discount is subsequently accreted into interest income over the underlying loan's remaining term using the effective interest method. Additionally, management has elected the fair value option for mortgage loans originated and held for sale.

During the three months ended September 30, 2024, the Company reclassified \$1.0 million of loans held for investment to loans held for sale. During the nine months ended September 30, 2024, the Company reclassified \$3.7 million of loans held for investment to loans held for sale. During the year ended December 31, 2023, the Company reclassified \$39.2 million of loans held for investment to loans held for sale. The transfers occurred at the point in time the Company decided to sell the loans. During the year ended December 31, 2023, a total of \$40.8 million reclassified loans held for sale were sold. As of September 30, 2024 and December 31, 2023, there were \$0.5 million and \$0.0 million of loans held for sale, respectively.

As of September 30, 2024, there were 56 loans totaling \$0.2 million, accounted for under the fair value option that were on non-accrual. As of December 31, 2023, there were 98 loans totaling \$0.2 million, accounted for under the fair value option that were on non-accrual. During the three months ended September 30, 2024 and 2023, the Company recorded net charge-offs of \$0.3 million and \$0.4 million, respectively, on loans accounted for under the fair value option to Net gain/(loss) on loans accounted for under the fair value option on the Condensed Consolidated Statements of Income. During the nine months ended September 30, 2024 and 2023, the Company recorded net charge-offs of \$1.0 million and \$1.4 million, respectively, on loans accounted for under the fair value option to Net gain/(loss) on loans accounted for under the fair value option on the condensed consolidated statements of income.

The following tables provide more information about the fair value carrying amount and unpaid principal outstanding of loans accounted for under the fair value option as of the dates noted (dollars in thousands):

	September 30, 2024								
	Total Loans			Non Accruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Mortgage loans held for sale	\$ 12,324	\$ 12,099	\$ 225	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for sale	473	594	(121)	473	594	(121)	473	594	(121)
Loans held for investment	8,646	8,883	(237)	153	158	(5)	153	158	(5)
	<u>\$ 21,443</u>	<u>\$ 21,576</u>	<u>\$ (133)</u>	<u>\$ 626</u>	<u>\$ 752</u>	<u>\$ (126)</u>	<u>\$ 626</u>	<u>\$ 752</u>	<u>\$ (126)</u>
	December 31, 2023								
	Total Loans			Non Accruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Mortgage loans held for sale	\$ 7,254	\$ 7,106	\$ 148	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for investment	13,726	14,129	(403)	210	220	(10)	210	220	(10)
	<u>\$ 20,980</u>	<u>\$ 21,235</u>	<u>\$ (255)</u>	<u>\$ 210</u>	<u>\$ 220</u>	<u>\$ (10)</u>	<u>\$ 210</u>	<u>\$ 220</u>	<u>\$ (10)</u>

The following table presents the changes in fair value of loans accounted for under the fair value option as of the dates noted:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Mortgage loans held for sale	\$ (346)	\$ (163)	\$ 16	\$ (35)
Loans held for sale	—	—	—	(20)
Loans held for investment	66	110	166	(547)
	<u>\$ (280)</u>	<u>\$ (53)</u>	<u>\$ 182</u>	<u>\$ (602)</u>

The following summarizes the activity pertaining to loans accounted for under the fair value option as of the dates noted (dollars in thousands):

Mortgage loans held for sale	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of period	\$ 26,856	\$ 19,746	\$ 7,254	\$ 8,839
Loans originated	97,878	66,586	270,136	217,774
Fair value changes	(346)	(163)	16	(35)
Sales	(112,033)	(74,064)	(265,034)	(214,467)
Settlements	(31)	—	(48)	(6)
Balance at end of period	<u>\$ 12,324</u>	<u>\$ 12,105</u>	<u>\$ 12,324</u>	<u>\$ 12,105</u>

Loans held for sale	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of period	\$ —	\$ —	\$ —	\$ 1,965
Loans transferred from held for investment	993	—	3,722	39,221
Fair value changes	—	—	—	(20)
Sales	(520)	—	(3,249)	(40,761)
Settlements	—	—	—	(405)
Balance at end of period	<u>\$ 473</u>	<u>\$ —</u>	<u>\$ 473</u>	<u>\$ —</u>

Loans held for investment, fair value option	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Balance at beginning of period	\$ 10,190	\$ 17,523	\$ 13,726	\$ 23,321
Loans acquired	—	—	—	1,162
Fair value changes	66	110	166	(547)
Net charge-offs	(299)	(363)	(1,016)	(1,371)
Settlements	(1,311)	(1,806)	(4,230)	(7,101)
Balance at end of period	<u>\$ 8,646</u>	<u>\$ 15,464</u>	<u>\$ 8,646</u>	<u>\$ 15,464</u>

Level 3 Analysis

The following presents a reconciliation for Level 3 instruments measured at fair value on a recurring basis as of the dates noted (dollars in thousands):

Three Months Ended September 30, 2024	Loans Held at Fair Value	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 10,190	\$ 228	\$ 912	\$ 795
Acquisitions	—	—	1,078	—
Originations	—	21	(1,345)	—
Gains/(losses) in net income, net	66	39	433	—
Net charge-offs	(299)	—	—	—
Settlements	(1,311)	(18)	—	—
Ending balance	<u>\$ 8,646</u>	<u>\$ 270</u>	<u>\$ 1,078</u>	<u>\$ 795</u>

Three Months Ended September 30, 2023	Loans Held at Fair Value	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 17,523	\$ 166	\$ 453	\$ 825
Acquisitions	—	—	312	—
Originations	—	6	(606)	—
Gains/(losses) in net income, net	110	(8)	160	—
Net charge-offs	(363)	—	—	—
Settlements	(1,806)	(6)	—	—
Ending balance	<u>\$ 15,464</u>	<u>\$ 158</u>	<u>\$ 319</u>	<u>\$ 825</u>

Nine Months Ended September 30, 2024	Loans Held at Fair Value	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 13,726	\$ 189	\$ 345	\$ 795
Acquisitions	—	—	2,803	—
Originations	—	68	(3,458)	—
Gains/(losses) in net income, net	166	50	1,388	—
Net charge-offs	(1,016)	—	—	—
Settlements	(4,230)	(37)	—	—
Ending balance	<u>\$ 8,646</u>	<u>\$ 270</u>	<u>\$ 1,078</u>	<u>\$ 795</u>

Nine Months Ended September 30, 2023	Loans Held at Fair Value	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 23,321	\$ 143	\$ 229	\$ 825
Acquisitions	1,162	—	1,652	—
Originations	—	20	(2,784)	—
Gains/(losses) in net income, net	(547)	11	1,222	—
Net charge-offs	(1,371)	—	—	—
Settlements	(7,101)	(16)	—	—
Ending balance	<u>\$ 15,464</u>	<u>\$ 158</u>	<u>\$ 319</u>	<u>\$ 825</u>

Nonrecurring Fair Value

Other Real Estate Owned (“OREO”): Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. They are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than on an annual basis. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. Such adjustments can be significant and typically result in Level 3 classifications of the inputs for determining fair value. OREO is evaluated quarterly for additional impairment and adjusted accordingly.

Collateral Dependent Loans, net of ACL: The fair value of collateral dependent loans individually analyzed and not included in the pooled loan analysis under the ACL is generally based on recent appraisals and the value of any credit enhancements associated with the loan. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in Level 3 classifications of the inputs for determining fair value. Collateral dependent loans are evaluated monthly and adjusted accordingly if needed.

Appraisals for both collateral-dependent loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the Company reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

The following presents quantitative information about Level 3 assets measured on a recurring and nonrecurring basis as of the dates noted:

Quantitative Information about Level 3 Fair Value Measurements as of September 30, 2024				
<i>(dollars in thousands)</i>	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
<i>Recurring fair value</i>				
Loans held for investment at fair value	\$ 8,646	Discounted cash flow	Discount rate	8% (8%)
Guarantee asset	270	Discounted cash flow	Discount rate Prepayment rate	5% (5%) 8.5% (8.5%)
IRLC, net	1,078	Best execution model	Pull through	66% to 100% (84%)
Equity warrants	795	Black-Scholes option pricing model	Volatility Risk-free interest rate Remaining life	23.0% to 59.6% (30.4%) 4.06% (4.06%) 0 to 1.25 years
<i>Nonrecurring fair value</i>				
OREO:				
1-4 Family Residential	\$ 11,421	Appraisal value	Commission, cost to sell, closing costs	5% (5.0%)
Commercial and Industrial	25,615	Appraisal value	Commission, cost to sell, closing costs	6.0% (6.0%)
Collateral dependent loans, net of ACL:				
Commercial and Industrial	691	Sales Comparison-Market Value Approach	Market Rate Adjustments	11% (11%)
Commercial and Industrial	144	Sales comparison, Market approach - guideline transaction method	Loss given default	8% to 62% (42%)

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2023

<i>(dollars in thousands)</i>	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
<i>Recurring fair value</i>				
Loans held for investment at fair value	\$ 13,726	Discounted cash flow	Discount rate	7% to 8% (8%)
Guarantee asset	189	Discounted cash flow	Discount rate Prepayment rate	5% (5%) 5% (5%)
IRLC, net	345	Best execution model	Pull through	48% to 100% (86%)
Equity warrants	795	Black-Scholes option pricing model	Volatility Risk-free interest rate Remaining life	20.1% to 23.0% (22.4%) 4.62% (4.62%) 2.00 to 2.03 years
<i>Nonrecurring fair value</i>				
Collateral dependent loans:				
Consumer and Other	\$ 7,500	Sales Comparison-Market Value Approach	Market rate adjustments	46% (8%)
1-4 Family Residential	2,438	Sales Comparison-Market Value Approach	Market rate adjustments	46% (8%)
Commercial and Industrial	24,791	Sales Comparison-Market Value Approach	Market rate adjustments	46% (8%)
Commercial and Industrial	148	Sales comparison, Market approach – guideline transaction method	Loss given default	14% to 62% (20%)
Commercial and Industrial	799	Sales Comparison-Market Value Approach	Market rate adjustments	21% (11%)
Owner Occupied CRE	3,980	Sales Comparison-Market Value Approach	Market rate adjustments	46% (8%)

Estimated Fair Value of Other Financial Instruments

The following presents carrying amounts and estimated fair values for financial instruments not carried at fair value as of the dates noted (dollars in thousands):

September 30, 2024	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 276,222	\$ 276,222	\$ —	\$ —
Held-to-maturity securities, net of ACL	76,745	247	62,829	7,750
Loans, net ⁽¹⁾	2,355,757	—	—	2,286,056
Accrued interest receivable	10,455	10,455	—	—
Liabilities:				
Term deposits ⁽²⁾	533,452	480,413	—	54,016
Non-term deposits	1,969,602	1,969,602	—	—
Borrowings:				
FHLB borrowings – floating rate	50,000	—	49,993	—
Federal Reserve borrowings – fixed rate	12,373	2,373	9,979	—
Subordinated notes – fixed-to-floating rate	52,508	—	—	47,727
Accrued interest payable	3,339	3,339	—	—
December 31, 2023	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 254,442	\$ 254,442	\$ —	\$ —
Held-to-maturity securities, net of ACL	74,102	242	58,231	8,144
Loans, net ⁽¹⁾	2,493,258	—	—	2,395,468
Accrued interest receivable	11,428	11,428	—	—
Liabilities:				
Term deposits ⁽²⁾	496,452	414,613	—	82,564
Non-term deposits	2,032,587	2,032,587	—	—
Borrowings:				
FHLB borrowings – fixed rate	41,175	—	41,372	—
FHLB borrowings – floating rate	50,000	—	49,986	—
Federal Reserve borrowings – fixed rate	34,536	3,539	30,936	—
Subordinated notes – fixed-to-floating rate	52,340	—	—	48,228
Accrued interest payable	3,793	3,793	—	—

⁽¹⁾ Excludes loans accounted for under the fair value option of \$8.6 million and \$13.7 million as of September 30, 2024 and December 31, 2023, respectively, as these are carried at fair value.

⁽²⁾ Term deposits due within one year totaling \$480.4 million and \$414.6 million as of September 30, 2024 and December 31, 2023, respectively, are classified under Level 1 fair value measurement.

The fair value estimates presented and discussed above are based on pertinent information available to management as of the dates specified. The estimated fair value amounts are based on the exit price notion set forth by ASU 2016-01. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since the balance sheet dates. Therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The methods and assumptions, not previously presented, used to estimate fair values are described as follows.

Cash and Cash Equivalents and Restricted Cash: The carrying amounts of cash and cash equivalents and restricted cash approximate fair values as maturities are less than 90 days and balances are generally in accounts bearing current market interest rates.

Held-to-maturity securities: The fair values for held-to-maturity investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities is not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans, net: The fair values for all fixed-rate and variable-rate performing loans were estimated using the income approach and by discounting the projected cash flows of such loans. Principal and interest cash flows were projected based on the contractual terms of the loans, including maturity, contractual amortization and adjustments for prepayments and expected losses, where appropriate. A discount rate was developed based on the relative risk of the cash flows, considering the loan type, maturity and a required return on capital.

Accrued Interest Receivable and Payable: The carrying amounts of accrued interest approximate fair value due to their short-term nature.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting dates. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Fixed and Floating Rate Borrowings: Borrowings with fixed rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and borrowers with similar credit ratings.

Fixed-to-Floating Rate Borrowings: Borrowings with fixed-to-floating rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and assume the Company will redeem the instrument prior to the first interest rate reset date.

NOTE 13 – DERIVATIVES

During the first quarter of 2023, the Company entered into interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Cash Flow Hedges: On March 21, 2023, the Company executed an interest rate swap with a notional amount that was designated as a cash flow hedge of certain Federal Home Loan Bank borrowings. The swap hedges the benchmark index (SOFR) with a receive float/pay fixed swap for the period March 21, 2023 through April 1, 2026. The notional amount of the interest rate swap as of September 30, 2024 and December 31, 2023 was \$50.0 million. As of September 30, 2024 and December 31, 2023, this hedge was determined to be effective, and the Company expects the hedge to remain effective during the remaining terms of the swap.

Derivatives Not Designated as Hedges: The Company periodically enters into interest rate swaps to offset interest rate exposure with its commercial and residential variable rate loan clients. Clients with variable rate loans may choose to enter into an interest rate swap to hedge the interest rate risk on the loan and effectively pay a fixed rate payment. The Company will simultaneously enter into an interest rate swap on the same underlying loan and notional amount to hedge risk on the fixed rate loan. The notional amount of interest rate swaps with its loan customers as of September 30, 2024 and December 31, 2023 was \$50.6 million and \$30.3 million, respectively. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

The Company presents derivative position gross on the balance sheet. The following table reflects the fair value of derivatives recorded on the condensed consolidated balance sheets as of the periods noted:

	As of September 30, 2024		As of December 31, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<i>(dollars in thousands)</i>				
Included in other assets:				
Derivatives designated as hedges:				
Interest rate swaps – cash flow hedge	\$ —	\$ —	\$ 50,000	\$ 77
Derivatives not designated as hedging instruments:				
Interest rate swaps related to customer loans	50,586	1,441	30,325	686
Total included in other assets		<u>\$ 1,441</u>		<u>\$ 763</u>
Included in other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps – cash flow hedge	\$ 50,000	\$ 226	\$ —	\$ —
Derivatives not designated as hedging instruments:				
Interest rate swaps related to customer loans	50,586	1,486	30,325	740
Total included in other liabilities		<u>\$ 1,712</u>		<u>\$ 740</u>

The effect of cash flow hedge accounting on accumulated other comprehensive income for the periods noted are as follows:

	Three Months Ended September 30,					
	2024			2023		
	Unrealized Gain (Loss) Recorded in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income	Unrealized Gain (Loss) Recorded in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
<i>(dollars in thousands)</i>						
Interest rate contracts	\$ (635)	\$ —	\$ —	\$ 226	\$ —	\$ —

	Nine Months Ended September 30,					
	2024			2023		
	Unrealized Gain (Loss) Recorded in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income	Unrealized Gain (Loss) Recorded in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
<i>(dollars in thousands)</i>						
Interest rate contracts	\$ (230)	\$ —	\$ —	\$ 745	\$ —	\$ —

For the three and nine months ended September 30, 2024, the Company recorded \$0.2 million and \$0.6 million of interest income related to the swap to Other borrowed funds interest expense on the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2023, the Company recorded \$0.2 million and \$0.3 million of interest income related to the swap.

The effect of derivatives not designated as hedging instruments recorded in Other non-interest income on the condensed consolidated statements of income for the three and nine months ended September 30, 2024 and 2023 was immaterial.

NOTE 14 – SEGMENT REPORTING

The Company's reportable segments consist of Wealth Management and Mortgage. The chief operating decision maker ("CODM") is the Chief Executive Officer. The measure of profit or loss used by the CODM to identify and measure the Company's reportable segments is income before income tax.

The Wealth Management segment consists of operations relative to the Company's fully integrated wealth management products and services. Services provided include deposit, loan, insurance, and trust and investment management advisory products and services.

The Mortgage segment consists of operations relative to the Company's residential mortgage service offerings. Mortgage products and services are financial in nature for which premiums are recognized net of expenses, upon the sale of mortgage loans to third parties.

The following presents the financial information for each segment that is specifically identifiable or based on allocations using internal methods as of or during the periods presented (dollars in thousands):

As of or for the three months ended September 30, 2024	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 37,818	\$ 272	\$ 38,090
Total interest expense	22,522	—	22,522
Provision for credit losses	501	—	501
Net interest income, after provision for credit losses	14,795	272	15,067
Non-interest income	5,501	1,471	6,972
Total income before non-interest expense	20,296	1,743	22,039
Depreciation and amortization expense	642	8	650
All other non-interest expense	17,436	1,282	18,718
Income before income taxes	<u>\$ 2,218</u>	<u>\$ 453</u>	<u>\$ 2,671</u>
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	\$ 2,897,317	\$ 14,631	\$ 2,911,948

As of or for the three months ended September 30, 2023	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 36,267	\$ 214	\$ 36,481
Total interest expense	19,715	—	19,715
Provision for credit losses	329	—	329
Net interest income, after provision for credit losses	16,223	214	16,437
Non-interest income	5,424	675	6,099
Total income before non-interest expense	21,647	889	22,536
Depreciation and amortization expense	581	8	589
All other non-interest expense	15,964	1,761	17,725
Income (loss) before income taxes	<u>\$ 5,102</u>	<u>\$ (880)</u>	<u>\$ 4,222</u>
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	\$ 2,989,028	\$ 13,725	\$ 3,002,753

As of or for the nine months ended September 30, 2024	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 113,813	\$ 729	\$ 114,542
Total interest expense	67,126	—	67,126
Provision for credit losses	2,907	—	2,907
Net interest income, after provision for credit losses	43,780	729	44,509
Non-interest income	16,648	4,573	21,221
Total income before non-interest expense	60,428	5,302	65,730
Depreciation and amortization expense	1,884	25	1,909
All other non-interest expense	52,284	3,872	56,156
Income before income taxes	<u>\$ 6,260</u>	<u>\$ 1,405</u>	<u>\$ 7,665</u>
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	\$ 2,897,317	\$ 14,631	\$ 2,911,948

As of or for the nine months ended September 30, 2023	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 107,009	\$ 556	\$ 107,565
Total interest expense	52,791	—	52,791
Provision for credit losses	1,862	—	1,862
Net interest income, after provision for credit losses	52,356	556	52,912
Non-interest income	13,364	2,503	15,867
Total income before non-interest expense	65,720	3,059	68,779
Depreciation and amortization expense	1,747	25	1,772
All other non-interest expense	50,687	4,902	55,589
Income (loss) before income taxes	<u>\$ 13,286</u>	<u>\$ (1,868)</u>	<u>\$ 11,418</u>
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	\$ 2,989,028	\$ 13,725	\$ 3,002,753

NOTE 15 – LOW-INCOME HOUSING TAX CREDIT INVESTMENTS

On December 19, 2019, the Company invested in a low-income housing tax credit ("LIHTC") investment. On June 26, 2023, the Company entered into two additional LIHTC investments for \$3.0 million per investment. As of September 30, 2024 and December 31, 2023, total unfunded commitments related to LIHTC investments totaled \$4.3 million and \$4.9 million, respectively. As of September 30, 2024 and December 31, 2023, the total balance of all LIHTC investments was \$3.1 million. These balances are reflected in the Other assets line item of the Condensed Consolidated Balance Sheets.

The Company uses the proportional amortization method to account for this investment. Amortization expense is included within the Income tax expense line item of the Condensed Consolidated Statements of Income. During the three months ended September 30, 2024 and 2023, the Company recognized amortization expense of \$0.2 million and \$0.2 million, respectively. During the nine months ended September 30, 2024 and 2023, the Company recognized amortization expense of \$0.6 million and \$0.3 million, respectively.

Additionally, during the three months ended September 30, 2024 and 2023, the Company recognized \$0.2 million and \$0.1 million of tax credits and other benefits from the LIHTC investment, respectively. During the nine months ended September 30, 2024 and 2023, the Company recognized \$0.5 million and \$0.3 million of tax credits and other benefits, respectively. During the three and nine months ended September 30, 2024 and 2023, the Company did not incur any impairment losses.

NOTE 16 – REGULATORY CAPITAL MATTERS

First Western and the Bank are subject to various regulatory capital adequacy requirements administered by federal banking agencies. Failure to meet 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 condensed consolidated financial statements. Under capital adequacy guidelines and, additionally for banks, the regulatory framework for prompt corrective action, First Western and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

First Western and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings, and other factors. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") have been fully phased in. The net unrealized gain or loss on held-to-maturity securities included in AOCI and accumulated net gains or losses on cash flow hedges are not included in computing regulatory capital. During the nine months ended September 30, 2024 and the year ended December 31, 2023, First Western made no capital injections into the Bank. Management believes as of September 30, 2024, First Western and the Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations for First Western and the Bank provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The standard ratios established by First Western and the Bank's primary regulators to measure capital require First Western and the Bank to maintain minimum amounts and ratios, set forth in the following table. These ratios are common equity Tier 1 capital ("CET1"), Tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined).

The actual capital ratios of First Western and the Bank, along with the applicable regulatory capital requirements as of September 30, 2024, were calculated in accordance with the requirements of Basel III. The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios. The minimum capital ratios inclusive of the capital conservation buffer are as follows: (i) a CET1 ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. Banks are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

As of September 30, 2024 and December 31, 2023, the most recent filings with the FDIC categorized First Western and the Bank as well capitalized under the regulatory guidelines. To be categorized as well capitalized, an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the following table. Management believes there are no conditions or events since September 30, 2024, that have changed the categorization of First Western and the Bank as well capitalized. Management believes First Western and the Bank met all capital adequacy requirements to which it was subject as of September 30, 2024 and December 31, 2023.

[Table of Contents](#)

The following table presents the actual and required capital amounts and ratios as of dates noted (dollars in thousands):

September 30, 2024	Actual		Required for Capital Adequacy Purposes ⁽¹⁾		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets						
Bank	\$ 252,549	11.39 %	\$ 133,040	6.0 %	\$ 177,387	8.0 %
Consolidated	223,126	10.06	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	252,549	11.39	99,780	4.5	144,127	6.5
Consolidated	223,126	10.06	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	268,970	12.13	177,387	8.0	221,734	10.0
Consolidated	292,546	13.19	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	252,549	9.11	110,905	4.0	138,632	5.0
Consolidated	223,126	8.04	N/A	N/A	N/A	N/A

December 31, 2023	Actual		Required for Capital Adequacy Purposes ⁽¹⁾		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets						
Bank	\$ 244,390	10.54 %	\$ 139,126	6.0 %	\$ 185,502	8.0 %
Consolidated	218,150	9.40	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	244,390	10.54	104,345	4.5	150,720	6.5
Consolidated	218,150	9.40	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	265,391	11.45	185,502	8.0	231,877	10.0
Consolidated	292,151	12.59	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	244,390	8.71	112,244	4.0	140,306	5.0
Consolidated	218,150	7.77	N/A	N/A	N/A	N/A

⁽¹⁾ Does not include capital conservation buffer.

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of September 30, 2024, \$110.3 million of retained earnings is available to pay dividends from the Bank. As of September 30, 2024 and December 31, 2023, no dividends were declared and paid by the Bank.

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

The following discussion and analysis is intended to assist readers in understanding our financial condition and results of operations for the three and nine months ended September 30, 2024 and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in this Quarterly Report on Form 10-Q (this "Form 10-Q") and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 15, 2024. Unless we state otherwise or the context otherwise requires, references in this Form 10-Q to "we," "our," "us," "the Company," and "First Western" refer to First Western Financial, Inc. and its consolidated subsidiaries, including First Western Trust Bank, which we sometimes refer to as "the Bank" or "our Bank."

The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs, and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Cautionary Note Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Item 1A - Risk Factors" included in our Annual Report Form 10-K filed with the SEC on March 15, 2024 and in Part II–Item 1A of this Form 10-Q. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Company Overview

We are a financial holding company founded in 2002 and headquartered in Denver, Colorado. We provide a fully integrated suite of wealth management services to our clients including banking, trust, and investment management products and services. Our mission is to be the best private bank for the Western wealth management client. We target entrepreneurs, professionals, and high-net worth individuals, typically with \$1.0 million-plus in liquid net worth, and their related philanthropic and business organizations, which we refer to as the "Western wealth management client". We believe that the Western wealth management client shares our entrepreneurial spirit and values our sophisticated, high-touch wealth management services that are tailored to meet their specific needs. We partner with our clients to solve their unique financial needs through our expert integrated services provided in a team approach.

We offer our services through a branded network of boutique private trust bank offices, which we believe are strategically located in affluent and high-growth markets in locations across Colorado, Arizona, Wyoming, Montana, and California. Our profit centers, which are comprised of private bankers, lenders, wealth planners, and portfolio managers, under the leadership of a local chairman and/or president, are also supported centrally by teams providing management services such as operations, risk management, credit administration, marketing, technology support, human capital, and accounting/finance services, which we refer to as support centers.

From 2004, when we opened our first profit center, until September 30, 2024, we have expanded our footprint into fourteen full service profit centers, five loan production offices, and one trust office located across five states. As of and for the nine months ended September 30, 2024, we had \$2.91 billion in total assets, \$65.7 million in total revenues, and provided fiduciary and advisory services on \$7.5 billion of assets under management ("AUM").

Recent Industry Developments

During 2023, the banking industry experienced significant disruption and volatility with the failure of multiple banks creating industry wide concerns related to liquidity, deposit outflows, unrealized securities losses, and eroding consumer confidence in the banking industry. Despite the market wide impact to bank stock prices, the Bank remains stable with strong fundamentals including uninsured deposits at \$929.4 million, or 37.1% of total deposits as of September 30, 2024. The Company has a low amount of held-to-maturity securities, which represent 2.6% of total assets, and carries unrecognized losses amounting to 2.5% of Total shareholders’ equity as of September 30, 2024. We have a conservative credit appetite as evidenced by our limited exposure to non-owner occupied office space commercial real estate ("CRE") which has been impacted by the shift to hybrid work environments. Our client base is well diversified with no single industry concentration.

Primary Factors Used to Evaluate the Results of Operations

As a financial institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the comparative levels and trends of the line items in our Condensed Consolidated Balance Sheets and Statements of Income as well as various financial ratios that are commonly used in our industry. The primary factors we use to evaluate our results of operations include net interest income, non-interest income, and non-interest expense.

Net Interest Income

Net interest income represents interest income less interest expense. We generate interest income on interest-earning assets, primarily loans and investment securities. We incur interest expense on interest-bearing liabilities, primarily interest-bearing deposits and borrowings. To evaluate Net interest income, we measure and monitor: (i) yields on loans, investment securities, and other interest-earning assets; (ii) the costs of deposits and other funding sources; (iii) the rates incurred on borrowings and other interest-bearing liabilities; and (iv) the regulatory risk weighting associated with the assets. Interest income is primarily impacted by loan growth and loan repayments, along with changes in interest rates on the loans. Interest expense is primarily impacted by changes in deposit balances, changes in interest rates on deposits, along with the volume and type of interest-bearing liabilities. Net interest income is primarily impacted by changes in market interest rates, the slope of the yield curve, and interest we earn on interest-earning assets or pay on interest-bearing liabilities.

Non-Interest Income

Non-interest income primarily consists of the following:

- *Trust and investment management fees*—fees and other sources of income charged to clients for managing their trust and investment assets, providing financial planning consulting services, 401(k) and retirement advisory consulting services, and other wealth management services. Trust and investment management fees are primarily impacted by rates charged and increases and decreases in AUM. AUM is primarily impacted by opening and closing of client advisory and trust accounts, contributions and withdrawals, and the fluctuation in market values.
- *Net gain on mortgage loans*—gain on originating and selling mortgages and origination fees, less commissions to loan originators, document review, and other costs specific to originating and selling the loan. The market adjustments for interest rate lock commitments ("IRLC"), mortgage derivatives, and gains and losses incurred on the mandatory trading of loans are also included in this line item. Net gain on mortgage loans is primarily impacted by the amount of loans sold, the type of loans sold, and market conditions.
- *Net gain on loans accounted for under the fair value option*—unrealized gains or losses on the fair value adjustments to held for investment loans on which the Bank has elected the fair value option of accounting. This also includes realized gains or losses on charge-offs and recoveries.
- *Bank fees*—income generated through bank-related service charges such as: electronic transfer fees, treasury management fees, bill pay fees, servicing fees for Main Street Lending Program ("MSLP"), loan prepayment penalty fees, loan interest rate swap fees, and other banking fees. Banking fees are primarily impacted by the level of business activities and cash movement activities of our clients.
- *Risk management and insurance fees*—commissions earned on insurance policies we have placed for clients through our client risk management team who incorporate insurance services, primarily life insurance, to support our clients' wealth planning needs. Our insurance revenues are primarily impacted by the type and volume of policies placed for our clients.
- *Income on company-owned life insurance*—income earned on the growth of the cash surrender value of life insurance policies we hold on certain key associates. The income on the increase in the cash surrender value is non-taxable income.

Non-Interest Expense

Non-interest expense is comprised primarily of the following:

- *Salaries and employee benefits*—all forms of compensation-related expenses including salary, incentive compensation, payroll-related taxes, stock-based compensation, benefit plans, health insurance, 401(k) plan match costs, and other benefit-related expenses. Salaries and employee benefit costs are primarily impacted by changes in headcount and fluctuations in benefits costs.
- *Occupancy and equipment*—costs related to building and land maintenance, leasing our office space, depreciation charges for the buildings, building improvements, furniture, fixtures and equipment, amortization of leasehold improvements, utilities, and other occupancy-related expenses. Occupancy and equipment costs are primarily impacted by the number of locations we occupy.

- *Professional services*—costs related to legal, accounting, tax, consulting, personnel recruiting, insurance, and other outsourcing arrangements. Professional services costs are primarily impacted by corporate activities requiring specialized services. FDIC insurance expense is also included in this line and represents the assessments we pay to the FDIC for deposit insurance.
- *Technology and information systems*—costs related to software and information technology services to support office activities and internal networks. Technology and information system costs are primarily impacted by the number of locations we occupy, the number of associates we have, and the level of service we require from our third-party technology vendors.
- *Data processing*—costs related to processing fees paid to our third-party data processing system providers relating to our core private trust banking platform. Data processing costs are primarily impacted by the number of loan, deposit, and trust accounts we have and the level of transactions processed for our clients.
- *Marketing*—costs related to promoting our business through advertising, promotions, charitable events, sponsorships, donations, and other marketing-related expenses. Marketing costs are primarily impacted by the levels of advertising programs and other marketing activities and events held throughout the year.
- *Amortization of other intangible assets*—primarily represents the amortization of intangible assets including client lists, core deposit intangibles, and other similar items recognized in connection with acquisitions.
- *Other*—includes costs related to operational expenses associated with office supplies, postage, travel expenses, meals and entertainment, dues and memberships, costs to maintain or prepare other real estate owned (“OREO”) for sale, director compensation and travel, and other general corporate expenses that do not fit within one of the specific non-interest expense lines described above. Other operational expenses are generally impacted by our business activities and needs.

Operating Segments

The Company’s reportable segments consist of Wealth Management and Mortgage. We measure the overall profitability of operating segments based on Income before income tax. We believe this is a more useful measurement as our wealth management products and services are fully integrated with our private trust bank. We allocate costs to our segments, which consist primarily of compensation and overhead expense directly attributable to the products and services within the Wealth Management and Mortgage segments. We measure the profitability of each segment based on a post-allocation basis, as we believe it better approximates the operating cash flows generated by our reportable operating segments. A description of each segment is provided in Note 14 – Segment Reporting of the accompanying Notes to the Condensed Consolidated Financial Statements.

Primary Factors Used to Evaluate our Balance Sheet

The primary factors we use to evaluate our balance sheet include asset and liability levels, asset quality, capital, liquidity, and potential profit production from assets.

We manage our asset levels to ensure our lending initiatives are efficiently and profitably supported and to ensure we have the necessary liquidity and capital to meet the required regulatory capital ratios. Funding needs are evaluated and forecasted by communicating with clients, reviewing loan maturity and draw expectations, and projecting new loan opportunities.

We manage the diversification and quality of our assets based upon factors that include the level, distribution, severity, and trend of problem assets such as those determined to be classified, delinquent, non-accrual, non-performing or restructured; the adequacy of our allowance for credit losses; the diversification and quality of loan and investment portfolios; the extent of counterparty risks, credit risk concentrations, and other factors.

We manage our liquidity based upon factors that include the level and quality of capital and our overall financial condition, the trend and volume of problem assets, our balance sheet risk exposure, the level of deposits as a percentage of total loans, the amount of non-deposit funding used to fund assets, the availability of unused funding sources and off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, and other factors.

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The Company has adopted the Basel III regulatory capital framework. As of September 30, 2024, the Bank’s capital ratios exceeded the current well capitalized regulatory requirements established under Basel III.

Results of Operations

Overview

The three months ended September 30, 2024 compared with the three months ended September 30, 2023. We reported Net income available to common shareholders of \$2.1 million for the three months ended September 30, 2024, compared to \$3.1 million of Net income available to common shareholders for the three months ended September 30, 2023, a \$1.0 million, or 31.6% decrease. For the three months ended September 30, 2024, our Income before income tax was \$2.7 million, a \$1.6 million, or 36.7% decrease from the three months ended September 30, 2023. The decrease was primarily driven by an increase in Non-interest expense and decrease in Net interest income as a result of higher Interest expense due to higher deposit costs, offset partially by higher Non-interest income.

The nine months ended September 30, 2024 compared with the nine months ended September 30, 2023. We reported Net income available to common shareholders of \$5.7 million for the nine months ended September 30, 2024, compared to \$8.4 million of Net income available to common shareholders for the nine months ended September 30, 2023, a \$2.7 million, or 32.2% decrease. For the nine months ended September 30, 2024, our Income before income tax was \$7.7 million, a \$3.8 million, or 32.9% decrease from the nine months ended September 30, 2023. The decrease was primarily driven by a \$8.4 million decrease in Net interest income, after Provision for credit losses partially offset by a \$5.4 million increase in Non-interest income. The decrease in Net interest income, after Provision for credit losses, was due to higher rates on deposits and borrowings resulting from increased market rates partially offset by higher interest income.

Net Interest Income

The three months ended September 30, 2024 compared with the three months ended September 30, 2023. For the three months ended September 30, 2024, Net interest income, before the Provision for credit losses, was \$15.6 million, a decrease of \$1.2 million, or 7.1%, compared to the three months ended September 30, 2023. The decrease in Net interest income was primarily driven by a \$160.9 million increase in average Interest-bearing deposit balances and a 44 basis point increase in the average rates on interest-bearing deposits. Net interest margin decreased 14 basis points to 2.32% in the third quarter of 2024 from 2.46% reported in the third quarter of 2023 primarily due to pricing pressure on Interest-bearing deposits and an unfavorable mix shift in the deposit portfolio offset partially by an increase in average yield on interest earning assets.

The nine months ended September 30, 2024 compared with the nine months ended September 30, 2023. For the nine months ended September 30, 2024, Net interest income, before the Provision for credit losses, was \$47.4 million, a decrease of \$7.4 million, or 13.4%, compared to the nine months ended September 30, 2023. The decrease in Net interest income was driven by a \$172.2 million increase in average Interest-bearing deposits with a 78 basis point increase in the average rates on Interest-bearing deposits. Net interest income was also negatively impacted by a \$10.3 million decrease in average loans outstanding excluding loans held for sale and loans held at fair value offset by a 34 basis point increase in the average yield on loans. Net interest margin decreased 37 basis points to 2.34% for the nine months ended September 30, 2024 from 2.71% reported for the nine months ended September 30, 2023.

The decrease in average loans outstanding for the three months ended September 30, 2024 compared to the same period in 2023 was primarily due to a net decline in the Cash, Securities and Other, Construction and Development, and Commercial and Industrial portfolios offset by net growth in the Commercial Real Estate portfolio. Another contributing factor to the decline was the resolution of a problem credit relationship, which decreased non-performing loans by \$30.0 million and increased Other real estate owned ("OREO") by \$25.6 million. Average loan yields excluding Loans held for sale and Loans held at fair value were 5.74% and 5.72% for the three and nine months ended September 30, 2024, compared to 5.42% and 5.38% for the three and nine months ended September 30, 2023. The increase in loan yields during the three and nine month periods were primarily driven by an increase in yields on the variable rate portfolio and an increase in yields on new loan production due to the rising interest rate environment.

Interest income on our investment securities portfolio increased as a result of higher average yields, partially offset by lower average investment balances for the three and nine months ended September 30, 2024 compared to the same period in 2023. Our average investment yields during the three and nine months ended September 30, 2024 were 3.57% and 3.43%, an increase of 48 basis points and 32 basis points compared to the same periods in 2023. Our average investment securities balance during the three and nine months ended September 30, 2024 was \$79.0 million and \$76.4 million, a decrease of \$1.0 million and \$3.7 million compared to the same period in 2023.

Interest expense on deposits increased during the three and nine months ended September 30, 2024 compared to the same period in 2023. Average interest-bearing deposit rates were 4.19% and 4.17% for the three and nine months ended September 30, 2024, compared to 3.75% and 3.39% for the three and nine months ended September 30, 2023. The increase in Interest-bearing deposit rates was primarily attributable to the higher interest rate environment and highly competitive deposit market.

The following presents an analysis of Net interest income and Net interest margin during the periods presented, using daily average balances for each major category of interest-earning assets and interest-bearing liabilities, the interest earned or paid, and the average rate earned or paid on those assets or liabilities.

<i>(dollars in thousands)</i>	As of or for the Three Months Ended September 30,					
	2024			2023		
	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	\$ 129,629	\$ 1,754	5.38 %	\$ 102,510	\$ 1,292	5.00 %
Debt securities ⁽²⁾	79,007	708	3.57	78,057	607	3.09
Correspondent bank stock	6,281	134	8.49	7,162	141	7.81
Loans ⁽³⁾	2,429,927	35,081	5.74	2,485,704	33,927	5.42
Mortgage loans held for sale ⁽⁴⁾	18,423	272	5.87	12,680	214	6.70
Loans held at fair value	9,691	141	5.79	16,715	300	7.12
Total interest-earning assets ⁽⁵⁾	2,672,958	38,090	5.67	2,702,828	36,481	5.35
Allowance for credit losses	(27,236)			(22,122)		
Noninterest-earning assets	161,072			125,774		
Total assets	<u>\$ 2,806,794</u>			<u>\$ 2,806,480</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 2,007,265	21,150	4.19	\$ 1,846,318	17,467	3.75
FHLB and Federal Reserve borrowings	62,589	634	4.03	125,250	1,447	4.58
Subordinated notes	52,470	738	5.60	52,242	801	6.08
Total interest-bearing liabilities	2,122,324	22,522	4.22	2,023,810	19,715	3.86
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	395,755			512,956		
Other liabilities	40,089			24,228		
Total noninterest-bearing liabilities	435,844			537,184		
Total shareholders' equity	248,626			245,486		
Total liabilities and shareholders' equity	<u>\$ 2,806,794</u>			<u>\$ 2,806,480</u>		
Net interest rate spread ⁽⁶⁾			1.45			1.49
Net interest income ⁽⁷⁾		<u>\$ 15,568</u>			<u>\$ 16,766</u>	
Net interest margin ⁽⁸⁾			2.32 %			2.46 %

	As of or for the Nine Months Ended September 30,					
	2024			2023		
	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate
<i>(dollars in thousands)</i>						
Assets						
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	\$ 149,511	\$ 5,961	5.33 %	\$ 121,866	\$ 4,361	4.78 %
Debt securities ⁽²⁾	76,378	1,962	3.43	80,090	1,863	3.11
Correspondent bank stock	5,182	334	8.61	8,524	459	7.20
Loans ⁽³⁾	2,454,631	105,038	5.72	2,464,902	99,248	5.38
Mortgage loans held for sale ⁽⁴⁾	15,155	729	6.43	12,033	556	6.18
Loans held at fair value	11,374	518	6.08	19,732	1,078	7.30
Total interest-earning assets ⁽⁵⁾	2,712,231	114,542	5.64	2,707,147	107,565	5.31
Allowance for credit losses	(25,166)			(20,848)		
Noninterest-earning assets	142,985			125,165		
Total assets	<u>\$ 2,830,050</u>			<u>\$ 2,811,464</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 2,005,740	62,620	4.17	\$ 1,833,514	46,423	3.39
FHLB and Federal Reserve borrowings	73,952	2,294	4.14	130,426	4,182	4.29
Subordinated notes	52,415	2,212	5.64	52,189	2,186	5.60
Total interest-bearing liabilities	<u>2,132,107</u>	<u>67,126</u>	4.21	<u>2,016,129</u>	<u>52,791</u>	3.50
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	418,235			528,609		
Other liabilities	32,159			24,754		
Total noninterest-bearing liabilities	<u>450,394</u>			<u>553,363</u>		
Total shareholders' equity	<u>247,549</u>			<u>241,972</u>		
Total liabilities and shareholders' equity	<u>\$ 2,830,050</u>			<u>\$ 2,811,464</u>		
Net interest rate spread ⁽⁶⁾			1.43			1.81
Net interest income ⁽⁷⁾		<u>\$ 47,416</u>			<u>\$ 54,774</u>	
Net interest margin ⁽⁸⁾			2.34 %			2.71 %

⁽¹⁾ Average balance represents daily averages, unless otherwise noted.

⁽²⁾ Represents monthly averages.

⁽³⁾ Non-performing loans are included in the respective average loan balances. Income, if any, on such loans is recognized on a cash basis.

⁽⁴⁾ Mortgage loans held for sale are included in the interest-earning assets above, with interest income recognized in the Interest and dividend income on loans, including fees line in the Condensed Consolidated Statements of Income. These balances are included in the margin calculations in these tables.

⁽⁵⁾ Tax-equivalent yield adjustments are immaterial.

⁽⁶⁾ Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

⁽⁷⁾ Net interest income is the difference between income earned on interest-earning assets and expense paid on interest-bearing liabilities.

⁽⁸⁾ Net interest margin is equal to annualized net interest income divided by average interest-earning assets.

The following table presents the dollar amount of changes in interest income and interest expense during the periods presented for each component of interest-earning assets and interest-bearing liabilities, and distinguishes between changes attributable to volume and interest rates. Changes attributable to both rate and volume that cannot be separated have been allocated to volume:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2024			Nine Months Ended September 30, 2024		
	Compared to 2023			Compared to 2023		
	Increase (Decrease) Due Change in:		Total Increase (Decrease)	Increase (Decrease) Due Change in:		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	\$ 367	\$ 95	\$ 462	\$ 1,102	\$ 498	\$ 1,600
Debt securities	9	92	101	(95)	194	99
Correspondent bank stock	(19)	12	(7)	(215)	90	(125)
Loans	(805)	1,959	1,154	(440)	6,230	5,790
Mortgage loans held for sale	85	(27)	58	150	23	173
Loans held at fair value	(102)	(57)	(159)	(381)	(179)	(560)
Total increase in interest income	(465)	2,074	1,609	121	6,856	6,977
Interest-bearing liabilities:						
Interest-bearing deposits	1,696	1,987	3,683	5,377	10,820	16,197
FHLB and Federal Reserve borrowings	(635)	(178)	(813)	(1,752)	(136)	(1,888)
Subordinated notes	3	(66)	(63)	10	16	26
Total increase in interest expense	1,064	1,743	2,807	3,635	10,700	14,335
Decrease in net interest income	\$ (1,529)	\$ 331	\$ (1,198)	\$ (3,514)	\$ (3,844)	\$ (7,358)

Provision for Credit Losses

We have a dedicated problem loan resolution team comprised of associates from our credit, senior leadership, risk, and accounting teams that meets frequently to ensure that watch list and problem credits are identified early and actively managed. We work to identify potential losses in a timely manner and proactively manage the problem credits to minimize losses. For the three and nine months ended September 30, 2024, we recorded a \$0.5 million and \$2.9 million Provision for credit losses, respectively. For the three and nine months ended September 30, 2023, we recorded a \$0.3 million and \$1.9 million Provision for credit losses, respectively. The \$0.5 million provision recorded for the three months ended September 30, 2024 was primarily due to two non-performing loans written down to fair value through the provision and transferred to Loans held for sale offset by a recovery on one non-performing loan. The \$2.9 million provision recorded for the nine months ended September 30, 2024 was primarily due to an increase in Provision for credit losses on individually analyzed loans due to the charge-off and resolution of one loan relationship partially offset by the release of Provision for credit losses on unfunded loan commitments.

The Company has increased loan level reviews and portfolio monitoring to address the changing environment. Management believes the financial strength of the Bank's clientele and the diversity of the portfolio continues to mitigate the credit risk within the portfolio.

Non-Interest Income

The three months ended September 30, 2024 compared with the three months ended September 30, 2023. For the three months ended September 30, 2024 compared with the three months ended September 30, 2023, Non-interest income increased \$0.9 million, or 14.3%, to \$7.0 million. The increase in Non-interest income during the three months ended September 30, 2024 was driven primarily by an increases in Net gain on mortgage loans and Risk management and insurance fees.

The nine months ended September 30, 2024 compared with the nine months ended September 30, 2023. For the nine months ended September 30, 2024 compared with the nine months ended September 30, 2023, Non-interest income increased \$5.4 million, or 33.7%, to \$21.2 million. The increase in Non-interest income during the nine months ended September 30, 2024 was primarily driven by an increase in Net gain on mortgage loans and a decrease in net loss on loans accounted for under the fair value option.

The following presents the significant categories of our non-interest income during the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2024	2023	\$	%
Non-interest income:				
Trust and investment management fees	\$ 4,728	\$ 4,846	\$ (118)	(2.4)%
Net gain on mortgage loans	1,451	654	797	121.9
Bank fees	392	427	(35)	(8.2)
Risk management and insurance fees	367	145	222	153.1
Income on company-owned life insurance	108	96	12	12.5
Net loss on loans accounted for under the fair value option	(233)	(252)	19	7.5
Unrealized gain (loss) recognized on equity securities	24	(19)	43	226.3
Other	135	202	(67)	(33.2)
Total non-interest income	<u>\$ 6,972</u>	<u>\$ 6,099</u>	<u>\$ 873</u>	<u>14.3%</u>

<i>(dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2024	2023	\$	%
Non-interest income:				
Trust and investment management fees	\$ 14,533	\$ 14,083	\$ 450	3.2 %
Net gain on mortgage loans	4,535	2,447	2,088	85.3
Net gain (loss) on loans held for sale	117	(178)	295	165.7
Bank fees	1,610	1,610	—	—
Risk management and insurance fees	525	375	150	40.0
Income on company-owned life insurance	319	277	42	15.2
Net loss on loans accounted for under the fair value option	(850)	(1,919)	1,069	55.7
Unrealized gain (loss) recognized on equity securities	16	(20)	36	180.0
Other	416	(808)	1,224	151.5
Total non-interest income	<u>\$ 21,221</u>	<u>\$ 15,867</u>	<u>\$ 5,354</u>	<u>33.7 %</u>

* Represents percentages that are insignificant

Trust and investment management fees—Trust and investment management fees decreased \$0.1 million, or 2.4% for the three months ended September 30, 2024. The increase in Trust and investment management fees of \$0.5 million, or 3.2% for the nine months ended September 30, 2024 was primarily attributable to an increase in assets under management due to an increase in market values and an increase in our fee structure compared to the prior year.

Net gain on mortgage loans—The increase in Net gain on mortgage loans of \$0.8 million, or 121.9% for the three months ended September 30, 2024 was driven by higher origination volumes. The increase in Net gain on mortgage loans of \$2.1 million, or 85.3% for the nine months ended September 30, 2024 was driven by higher average gain on sale margins and origination volumes.

Net gain (loss) on loans held for sale—During the nine months ended September 30, 2024, the Company reclassified \$3.7 million of loans held for investment to loans held for sale for three non-performing notes. The transfers occurred at the point in time the Company decided to sell the loans. During the nine months ended September 30, 2024, a total of \$3.2 million reclassified loans held for investment were sold, resulting in a Net gain on loans held for sale of \$0.1 million. During the nine months ended September 30, 2023, the Company transferred \$39.2 million of non-relationship loans held for investment to Loans held for sale. Upon transfer of the loans, the Company recorded a net loss on Loans held for sale of \$0.2 million, primarily attributable to the slight decline in fair value as a result of the rising interest rates on comparable loans in the market.

Risk management and insurance fees—The increase in Risk management and insurance fees of \$0.2 million, or 153.1% and \$0.2 million, or 40.0% for the three and nine months ended September 30, 2024 was primarily driven by an increase in insurance client agreements.

Net loss on loans accounted for under the fair value option—The Company elected the fair value option on certain loans purchased in 2022. The decrease in loss on loans accounted for under the fair value option of \$1.1 million, or 55.7% for the nine months ended September 30, 2024 was primarily attributable to improvement in fair value due to an increase in interest rates and overall improved performance of the portfolio.

Other—The increase in other income of \$1.2 million, or 151.5% for the nine months ended September 30, 2024 was attributable to a \$1.2 million impairment taken in 2023 to the carrying value of a contingent consideration asset related to the sale of First Western Capital Management in 2020. The value was established using asset growth assumptions provided by the buyer, which had not materialized.

Non-Interest Expense

The three months ended September 30, 2024 compared with the three months ended September 30, 2023. The increase in Non-interest expense of 5.8% to \$19.4 million for the three months ended September 30, 2024 was driven by Salaries and employee benefits due to increased front office headcount and higher insurance commissions, Technology and information system costs related to enhancements of our information technology infrastructure, and Occupancy and equipment costs related to additional rent expense on the extension of a lease in the first quarter of 2024.

The nine months ended September 30, 2024 compared with the nine months ended September 30, 2023. The increase in Non-interest expense of 1.2% to \$58.1 million for the nine months ended September 30, 2024, was driven by Other operational costs attributed to higher costs on non-performing asset workouts and fraud losses, Technology and information system costs related to enhancements of our information technology infrastructure, and Occupancy and equipment costs related to additional rent expense on the extension of a lease in the first quarter of 2024, offset by lower Salaries and employee benefits as a result of staffing reductions in 2023 to better align expenses with lower revenue.

The following presents the significant categories of our Non-interest expense during the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2024	2023	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 11,439	\$ 10,968	\$ 471	4.3 %
Occupancy and equipment	2,126	1,807	319	17.7
Professional services	1,893	1,867	26	1.4
Technology and information systems	1,045	906	139	15.3
Data processing	1,101	1,159	(58)	(5.0)
Marketing	374	355	19	5.4
Amortization of other intangible assets	57	62	(5)	(8.1)
Other	1,333	1,190	143	12.0
Total non-interest expense	\$ 19,368	\$ 18,314	\$ 1,054	5.8 %

<i>(dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2024	2023	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 33,803	\$ 35,214	\$ (1,411)	(4.0)%
Occupancy and equipment	6,182	5,660	522	9.2
Professional services	6,130	5,648	482	8.5
Technology and information systems	3,097	2,569	528	20.6
Data processing	3,150	3,350	(200)	(6.0)
Marketing	811	1,125	(314)	(27.9)
Amortization of other intangible assets	170	188	(18)	(9.6)
Other	4,722	3,607	1,115	30.9
Total non-interest expense	\$ 58,065	\$ 57,361	\$ 704	1.2 %

Salaries and employee benefits—The increase in Salaries and employee benefits of \$0.5 million, or 4.3% for the three months ended September 30, 2024 was primarily due to increased front office headcount. The decrease in Salaries and employee benefits of \$1.4 million, or 4.0% for the nine months ended September 30, 2024 was primarily related to staffing reductions in 2023 to better align expenses with lower revenue.

Occupancy and equipment—The increase in Occupancy and equipment of \$0.3 million, or 17.7%, and \$0.5 million, or 9.2% for the three and nine months ended September 30, 2024, was driven by additional rent expense relating to the extension of a lease in the first quarter of 2024.

Professional services—The increase in Professional services of \$0.5 million, or 8.5% for the nine months ended September 30, 2024, was driven by increased legal fees, audit fees, and FDIC insurance costs due to an increase in our assessment rate.

Technology and information systems—The increase in Technology and information systems of \$0.1 million, or 15.3%, and \$0.5 million or 20.6% for the three and nine months ended September 30, 2024, was primarily driven by increased costs related to enhancements of our information technology infrastructure.

Data processing—The decrease in Data processing of \$0.2 million, or 6.0% for the nine months ended September 30, 2024, was driven by lower system costs related to our trust and investment management system.

Marketing—The decrease in Marketing \$0.3 million, or 27.9% for the nine months ended September 30, 2024, was driven by lower advertising costs and decreased events and sponsorships to better align expenses with lower revenue.

Other—The increase in Other of \$0.1 million, or 12.0%, for the three months ended September 30, 2024, was primarily driven by costs related to non-performing asset workouts. The increase in Other of \$1.1 million, or 30.9%, for the nine months ended September 30, 2024, was primarily driven by increased costs related to non-performing asset workouts and fraud losses.

Income Tax

The Company recorded an income tax provision of \$0.5 million and \$1.1 million for the three months ended September 30, 2024 and 2023, respectively, reflecting an effective tax rate of 20.1% and 26.1%, respectively. The Company recorded an income tax provision of \$1.9 million and \$3.0 million for the nine months ended September 30, 2024 and 2023, respectively, reflecting an effective tax rate of 25.3% and 26.0%, respectively.

Segment Reporting

We have two reportable operating segments: Wealth Management and Mortgage. Our Wealth Management segment consists of operations relating to the Company's fully integrated wealth management products and services. Services provided include deposit, loan, insurance, and trust and investment management advisory products and services for which fee revenue is recognized. Our Mortgage segment consists of operations relating to the Company's residential mortgage service offerings. Services provided by our Mortgage segment include soliciting, originating, and selling mortgage loans into the secondary market. Mortgage products are financial in nature, for which origination fees are recognized net of origination expenses, upon the funding of the mortgage loans. Mortgage loans held for sale are accounted for under the fair value option with changes in fair value reported through earnings at inception when loans are locked to the borrower and until the loan is sold to third parties, at which time additional gains or losses on the sale are recorded. Mortgage loans originated and held for investment purposes are recorded in the Wealth Management segment, as this segment provides ongoing services to our clients.

The following table presents key metrics related to our segments during the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2024			Nine Months Ended September 30, 2024		
	Wealth Management	Mortgage	Consolidated	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 20,296	\$ 1,743	\$ 22,039	\$ 60,428	\$ 5,302	\$ 65,730
Income before taxes	2,218	453	2,671	6,260	1,405	7,665
Profit margin	10.9 %	26.0 %	12.1 %	10.4 %	26.5 %	11.7 %

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Wealth Management	Mortgage	Consolidated	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 21,647	\$ 889	\$ 22,536	\$ 65,720	\$ 3,059	\$ 68,779
Income (loss) before taxes	5,102	(880)	4,222	13,286	(1,868)	11,418
Profit margin	23.6 %	(99.0)%	18.7 %	20.2 %	(61.1)%	16.6 %

⁽¹⁾ Net interest income after provision plus non-interest income.

The following presents selected financial metrics of each segment as of and during the periods presented:

Wealth Management

<i>(dollars in thousands)</i>	As of or for the Three Months Ended September 30,			
	2024	2023	\$ Change	% Change
Total interest income	\$ 37,818	\$ 36,267	\$ 1,551	4.3 %
Total interest expense	22,522	19,715	2,807	14.2
Provision for credit losses	501	329	172	52.3
Net interest income, after provision for credit losses	14,795	16,223	(1,428)	(8.8)
Non-interest income	5,501	5,424	77	1.4
Total income	20,296	21,647	(1,351)	(6.2)
Depreciation and amortization expense	642	581	61	10.5
All other non-interest expense	17,436	15,964	1,472	9.2
Income before income taxes	\$ 2,218	\$ 5,102	\$ (2,884)	(56.5)
Goodwill	\$ 30,400	\$ 30,400	\$ —	—
Total assets	\$ 2,897,317	\$ 2,989,028	\$ (91,711)	(3.1)%

<i>(dollars in thousands)</i>	As of or for the Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change
Total interest income	\$ 113,813	\$ 107,009	\$ 6,804	6.4 %
Total interest expense	67,126	52,791	14,335	27.2
Provision for credit losses	2,907	1,862	1,045	56.1
Net interest income, after provision for credit losses	43,780	52,356	(8,576)	(16.4)
Non-interest income	16,648	13,364	3,284	24.6
Total income	60,428	65,720	(5,292)	(8.1)
Depreciation and amortization expense	1,884	1,747	137	7.8
All other non-interest expense	52,284	50,687	1,597	3.2
Income before income taxes	\$ 6,260	\$ 13,286	\$ (7,026)	(52.9)
Goodwill	\$ 30,400	\$ 30,400	\$ —	—
Total assets	\$ 2,897,317	\$ 2,989,028	\$ (91,711)	(3.1)%

The Wealth Management segment reported Income before income tax of \$2.2 million for the three months ended September 30, 2024, compared to \$5.1 million for the same period in 2023. The Wealth Management segment reported Income before income tax of \$6.3 million for the nine months ended September 30, 2024, compared to \$13.3 million for the same period in 2023. The majority of our assets and liabilities are on the Wealth Management segment balance sheet and the decrease in Income before taxes is primarily driven by a decrease in Net interest income and increase in Non-interest expense partially offset by an increase in Non-interest income. The decrease in Net interest income is primarily due to pricing pressure on interest-bearing deposits and an unfavorable mix shift in the deposit portfolio, offset partially by an increase in Interest income.

Mortgage

<i>(dollars in thousands)</i>	As of or for the Three Months Ended September 30,			
	2024	2023	\$ Change	% Change
Total interest income	\$ 272	\$ 214	\$ 58	27.1 %
Total interest expense	—	—	—	—
Provision for credit losses	—	—	—	—
Net interest income, after provision for credit losses	272	214	58	27.1
Non-interest income	1,471	675	796	117.9
Total income	1,743	889	854	96.1
Depreciation and amortization expense	8	8	—	—
All other non-interest expense	1,282	1,761	(479)	(27.2)
Income (loss) before income taxes	\$ 453	\$ (880)	\$ 1,333	151.5 %
Total assets	\$ 14,631	\$ 13,725	\$ 906	6.6 %

<i>(dollars in thousands)</i>	As of or for the Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change
Total interest income	\$ 729	\$ 556	\$ 173	31.1 %
Total interest expense	—	—	—	—
Provision for credit losses	—	—	—	—
Net interest income, after provision for credit losses	729	556	173	31.1
Non-interest income	4,573	2,503	2,070	82.7
Total income	5,302	3,059	2,243	73.3
Depreciation and amortization expense	25	25	—	—
All other non-interest expense	3,872	4,902	(1,030)	(21.0)
Income (loss) before income taxes	\$ 1,405	\$ (1,868)	\$ 3,273	175.2 %
Total assets	\$ 14,631	\$ 13,725	\$ 906	6.6 %

The Mortgage segment reported Income before income tax of \$0.5 million for the three months ended September 30, 2024, compared to a loss before income tax of \$0.9 million for the same period in 2023. The Mortgage segment reported Income before income tax of \$1.4 million for the nine months ended September 30, 2024, compared to a loss before income tax of \$1.9 million for the same period in 2023. The overall increase in Income before taxes was primarily driven by an increase in Non-interest income and a decrease in Non-interest expense. The increase in Non-interest income was primarily driven by higher average gain on sale margins and origination volume. The decrease in Non-interest expense was due to lower Salaries and employee benefits as a result of staffing reductions in 2023 to better align expenses with lower levels of origination activity.

Financial Condition

The following presents our Condensed Consolidated Balance Sheets as of the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023	\$ Change	% Change
Balance Sheet Data:				
Cash and cash equivalents	\$ 276,222	\$ 254,442	\$ 21,780	8.6 %
Held-to-maturity debt securities, net of allowance for credit losses of \$71 and \$71, (fair value of \$70,826 and \$66,617), respectively	76,745	74,102	2,643	3.6
Loans (includes \$8,646 and \$13,726 measured at fair value, respectively)	2,383,199	2,530,915	(147,716)	(5.8)
Allowance for credit losses	(18,796)	(23,931)	5,135	21.5
Loans, net of allowance	2,364,403	2,506,984	(142,581)	(5.7)
Loans held for sale, at fair value	473	—	473	—
Mortgage loans held for sale, at fair value	12,324	7,254	5,070	69.9
Goodwill and other intangible assets, net	31,684	31,854	(170)	(0.5)
Company-owned life insurance	16,849	16,530	319	1.9
Other assets	133,248	84,296	48,952	58.1
Total assets	\$ 2,911,948	\$ 2,975,462	\$ (63,514)	(2.1)%
Deposits	\$ 2,503,054	\$ 2,529,039	\$ (25,985)	(1.0)%
Borrowings	114,881	178,051	(63,170)	(35.5)
Other liabilities	45,182	25,634	19,548	76.3
Total liabilities	2,663,117	2,732,724	(69,607)	(2.5)
Total shareholders' equity	248,831	242,738	6,093	2.5
Total liabilities and shareholders' equity	\$ 2,911,948	\$ 2,975,462	\$ (63,514)	(2.1)%

Cash and cash equivalents increased by \$21.8 million, or 8.6%, to \$276.2 million as of September 30, 2024 compared to December 31, 2023. The increase was a result of the decrease in loans, offset partially by a decrease in borrowings and deposits.

Held-to-maturity debt securities increased by \$2.6 million, or 3.6%, to \$76.7 million as of September 30, 2024 compared to December 31, 2023. The increase is primarily due to Held-to-maturity debt security purchases executed during the second quarter of 2024.

Loans, net of allowance decreased by \$142.6 million, or 5.7%, to \$2.4 billion as of September 30, 2024 compared to December 31, 2023. The decrease is due to limited new production that was more than offset by payoffs and a lower level of draws on existing credit lines than previous quarters.

Mortgage loans held for sale increased \$5.1 million, or 69.9%, to \$12.3 million as of September 30, 2024 compared to December 31, 2023. The increase was driven by higher funded loan volume and the timing of loan sale settlements.

Other assets increased by \$49.0 million, or 58.1%, to \$133.2 million as of September 30, 2024 compared to December 31, 2023. The increase was primarily driven by an increase in our lease assets due to an extension of a lease recorded during the first quarter and an increase of \$37.0 million in other real estate owned due to taking physical possession of three foreclosed properties during the second and third quarters.

Deposits decreased \$26.0 million, or 1.0%, to \$2.50 billion as of September 30, 2024 compared to December 31, 2023. The decrease was driven primarily by seasonal tax payments, operating account fluctuations and clients using liquidity for strategic investments. Money market deposit accounts decreased \$35.5 million, or 2.6%, to \$1.35 billion as of September 30, 2024 compared to December 31, 2023. Time deposit accounts increased \$37.0 million, or 7.5%, from December 31, 2023 to \$533.5 million as of September 30, 2024. Interest checking accounts decreased \$17.2 million, or 11.7%, to \$130.3 million from December 31, 2023 to September 30, 2024.

[Table of Contents](#)

Borrowings decreased \$63.2 million, or 35.5%, to \$114.9 million as of September 30, 2024 compared to December 31, 2023. The decrease was primarily driven by a lower reliance on FHLB and FRB borrowings due to the decrease in loans.

Other liabilities increased \$19.5 million, or 76.3%, to \$45.2 million as of September 30, 2024 compared to December 31, 2023. The increase is primarily due to an increase in payables related to participated problem credits and an increase in our lease liability due to an extension of a lease recorded in the first quarter, offset by lower salaries payable due to timing of 401K match payouts and incentive compensation payments and a decrease in accrued interest payable on borrowings related to the interest on the \$31.0 million repayment of a Bank Term Funding Program loan that matured in March 2024.

Total shareholders' equity increased \$6.1 million, or 2.5%, from December 31, 2023 to \$248.8 million as of September 30, 2024. The increase is primarily due to Net income for the year.

Assets Under Management

<i>(dollars in millions)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Managed Trust Balance as of Beginning of Period	\$ 1,936	\$ 1,957	\$ 1,913	\$ 1,802
New relationships	—	3	7	9
Closed relationships	(3)	(2)	(17)	(8)
Contributions	17	5	29	11
Withdrawals	(97)	(16)	(272)	(123)
Market change, net	142	(107)	335	149
Ending Balance	\$ 1,995	\$ 1,840	\$ 1,995	\$ 1,840
Yield*	0.15 %	0.19 %	0.25 %	0.19 %
Directed Trust Balance as of Beginning of Period	\$ 1,734	\$ 1,318	\$ 1,622	\$ 1,285
New relationships	—	—	—	—
Closed relationships	(3)	(2)	(3)	(2)
Contributions	18	58	95	62
Withdrawals	(23)	(8)	(46)	(23)
Market change, net	342	45	400	89
Ending Balance	\$ 2,068	\$ 1,411	\$ 2,068	\$ 1,411
Yield*	0.11 %	0.09 %	0.14 %	0.08 %
Investment Agency Balance as of Beginning of Period	\$ 1,591	\$ 1,655	\$ 1,607	\$ 1,618
New relationships	1	6	26	44
Closed relationships	(5)	(32)	(24)	(77)
Contributions	23	13	54	54
Withdrawals	(66)	(53)	(203)	(148)
Market change, net	89	(41)	173	57
Ending Balance	\$ 1,633	\$ 1,548	\$ 1,633	\$ 1,548
Yield*	0.72 %	0.84 %	1.12 %	0.80 %
Custody Balance as of Beginning of Period	\$ 598	\$ 531	\$ 545	\$ 493
New relationships	6	3	8	7
Closed relationships	—	—	(2)	—
Contributions	3	7	136	52
Withdrawals	(49)	(6)	(190)	(105)
Market change, net	32	(28)	93	60
Ending Balance	\$ 590	\$ 507	\$ 590	\$ 507
Yield*	0.05 %	0.03 %	0.08 %	0.03 %
401(k)/Retirement Balance as of Beginning of Period	\$ 1,153	\$ 1,043	\$ 1,066	\$ 909
New relationships	—	3	—	3
Closed relationships	1	(3)	(77)	(4)
Contributions	32	32	128	89
Withdrawals	(27)	(24)	(84)	(71)
Market change, net	21	39	147	164
Ending Balance⁽¹⁾	\$ 1,180	\$ 1,090	\$ 1,180	\$ 1,090
Yield*	0.13 %	0.14 %	0.20 %	0.14 %
Total Assets Under Management as of Beginning of Period	\$ 7,012	\$ 6,504	\$ 6,753	\$ 6,107
New relationships	7	15	41	63
Closed relationships	(10)	(39)	(123)	(91)
Contributions	93	115	442	268
Withdrawals	(262)	(107)	(795)	(470)
Market change, net	626	(92)	1,148	519
Total Assets Under Management	\$ 7,466	\$ 6,396	\$ 7,466	\$ 6,396
Yield*	0.25 %	0.30 %	0.39 %	0.29 %

* Trust & investment management fees divided by period end balance.

⁽¹⁾ AUM reported for the current period is one quarter in arrears.

AUM increased \$454.0 million, or 6.5%, during the three months ended September 30, 2024 driven primarily by a net increase in market values, offset slightly by asset withdrawals. For the nine months ended September 30, 2024, AUM increased \$713.0 million, or 10.6%. The increase was attributable to contributions and improving market conditions year-over-year resulting in an increase in the value of assets under management balances offset partially by withdrawals.

Debt Securities

Debt securities we intend to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are recorded at fair value using current market information from a pricing service, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. The carrying values of our debt securities classified as available-for-sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity.

Debt securities for which we have the intent and ability to hold to their maturity are classified as Held-to-maturity debt securities and are recorded at amortized cost. Debt securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity. As of September 30, 2024 and December 31, 2023, all our investments in debt securities were classified as held-to-maturity.

The following presents the amortized cost and estimated fair value of our debt securities as of the dates noted:

	September 30, 2024				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
<i>(dollars in thousands)</i>					
Debt securities held-to-maturity:					
U.S. Treasury debt	\$ 246	\$ 2	\$ —	\$ 248	\$ —
Corporate bonds	23,654	—	(2,986)	20,668	(71)
Government National Mortgage Association ("GNMA") mortgage-backed securities ("MBS") – residential	31,605	28	(2,437)	29,196	—
Federal National Mortgage Association ("FNMA") MBS – residential	12,507	112	(345)	12,274	—
Government collateralized mortgage obligations ("GMO") and MBS – commercial	5,205	10	(245)	4,970	—
Corporate collateralized mortgage obligations ("CMO") and MBS	3,599	—	(129)	3,470	—
Total debt securities held-to-maturity	<u>\$ 76,816</u>	<u>\$ 152</u>	<u>\$ (6,142)</u>	<u>\$ 70,826</u>	<u>\$ (71)</u>
December 31, 2023					
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
<i>(dollars in thousands)</i>					
Debt securities held-to-maturity:					
U.S. Treasury debt	\$ 253	\$ —	\$ (11)	\$ 242	\$ —
Corporate bonds	23,687	—	(3,020)	20,667	(71)
GNMA mortgage-backed securities – residential	34,579	—	(3,410)	31,169	—
FNMA mortgage-backed securities – residential	6,035	—	(509)	5,526	—
Government GMO and MBS – commercial	5,836	9	(377)	5,468	—
Corporate CMO and MBS	3,783	—	(238)	3,545	—
Total debt securities held-to-maturity	<u>\$ 74,173</u>	<u>\$ 9</u>	<u>\$ (7,565)</u>	<u>\$ 66,617</u>	<u>\$ (71)</u>

The following presents the book value of our contractual maturities and weighted average yield for our investment securities as of the dates presented. Contractual maturities may differ from expected maturities because issuers can have the right to call or prepay obligations without penalties. Our investments are taxable securities. The weighted average yield for each range of maturities was calculated using the yield on each security within that range weighted by the amortized cost of each security as of September 30, 2024. Weighted average yields are not presented on a taxable equivalent basis.

		Maturities as of September 30, 2024							
		One Year or Less		After One to Five Years		After Five to Ten Years		After Ten Years	
<i>(dollars in thousands)</i>		Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Held-to-maturity:									
U.S. Treasury debt	\$	—	— %	\$ 246	0.01 %	\$ —	— %	\$ —	— %
Corporate bonds		—	—	4,066	0.36	19,407	1.19	181	—
GNMA mortgage-backed securities – residential		—	—	45	—	28	—	31,531	1.05
FNMA mortgage-backed securities – residential		—	—	3,039	0.21	964	0.02	8,505	0.40
Government GMO and MBS – commercial		—	—	128	0.01	1,321	0.05	3,757	0.11
Corporate CMO and MBS		—	—	—	—	371	0.02	3,227	0.16
Total held-to-maturity	\$	—	— %	\$ 7,524	0.59 %	\$ 22,091	1.28 %	\$ 47,201	1.72 %

		Maturities as of December 31, 2023							
		One Year or Less		After One to Five Years		After Five to Ten Years		After Ten Years	
<i>(dollars in thousands)</i>		Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Held-to-maturity:									
U.S. Treasury debt	\$	253	* %	\$ —	— %	\$ —	— %	\$ —	— %
Corporate bonds		—	—	4,078	0.30 %	19,395	1.23	214	0.01
GNMA mortgage-backed securities – residential		—	—	66	*	—	—	34,513	1.14
FNMA mortgage-backed securities – residential		—	—	—	—	1,116	0.02	4,919	0.13
Government GMO and MBS – commercial		—	—	178	0.01	1,579	0.07	4,079	0.13
Corporate CMO and MBS		—	—	—	—	415	0.03	3,368	0.18
Total held-to-maturity	\$	253	— %	\$ 4,322	0.31 %	\$ 22,505	1.35 %	\$ 47,093	1.59 %

* Represents percentages that are not meaningful due to being insignificant or exceeding 100%

As of September 30, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

Allowance for Credit Losses for HTM Debt Securities

Management measures expected credit losses on Held-to-maturity debt securities on a collective basis by major security type. The majority of our held-to-maturity investment portfolio consists of debt securities issued by U.S. government entities and agencies and we consider the risk of credit loss to be zero and, therefore, we do not record an ACL. The Company's non-government backed debt securities include private label CMO and MBS as well as corporate bonds. Accrued interest receivable on Held-to-maturity debt securities totaled \$0.5 million and \$0.4 million as of September 30, 2024 and December 31, 2023, respectively, and is excluded from the estimate of credit losses. The following table presents the activity in the Allowance for credit losses for debt securities held-to-maturity by major security type for the periods noted:

<i>(dollars in thousands)</i>	Three Months Ended September 30,			
	2024		2023	
	Corporate Bonds	Corporate CMO	Corporate Bonds	Corporate CMO
Allowance for credit losses:				
Beginning balance	\$ 71	\$ —	\$ 71	\$ —
Provision for credit losses	—	—	—	—
Securities charged-off (recoveries)	—	—	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ —</u>

<i>(dollars in thousands)</i>	Nine Months Ended September 30,			
	2024		2023	
	Corporate Bonds	Corporate CMO	Corporate Bonds	Corporate CMO
Allowance for credit losses:				
Beginning balance	\$ 71	\$ —	\$ —	\$ —
Impact of ASU 2016-13 adoption	—	—	71	—
Provision for credit losses	—	—	—	—
Securities charged-off (recoveries)	—	—	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ —</u>

Loan Portfolio

Our primary source of interest income is derived through interest earned on loans to high net worth individuals and their related commercial interests. Our senior lending and credit team consists of seasoned, experienced personnel and we believe that our officers are well versed in the types of lending in which we are engaged. Underwriting policies and decisions are managed centrally and the approval process is tiered based on loan size, making the process consistent, efficient, and effective. The management team and credit culture demands prudent, practical, and conservative approaches to all credit requests in compliance with the loan policy guidelines to ensure strong credit underwriting practices.

In addition to originating loans for our own portfolio, we conduct mortgage banking activities in which we originate and sell servicing-released, whole loans in the secondary market. Our mortgage banking loan sale activities are primarily directed at originating single family mortgages that are priced and underwritten to conform to previously agreed-upon criteria before loan funding and are delivered to the investor shortly after funding. The level of future loan originations, loan sales, and loan repayments depends on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market. The amount of gain or loss on the sale of loans is primarily driven by market conditions and changes in interest rates, as well as our pricing and asset liability management strategies. As of September 30, 2024 and December 31, 2023, we had Mortgage loans held for sale of \$12.3 million and \$7.3 million, respectively, of residential mortgage loans we originated. As of September 30, 2024 and December 31, 2023, we had loans held for sale of \$0.5 million and \$0.0 million, respectively, consisting of one non-performing loan.

Beginning in the first quarter of 2022, the Company entered into whole loan purchase agreements to acquire third party originated and serviced unsecured consumer loans to hold for investment. As of September 30, 2024, the Company has \$8.6 million in loans accounted for under the fair value option with an unpaid principal balance amount of \$8.9 million. As of December 31, 2023, the Company had \$13.7 million in loans accounted for under the fair value option with an unpaid principal balance amount of \$14.1 million. See Note 12 – Fair Value in the Notes to Condensed Consolidated Financial Statements.

As of September 30, 2024, the Company has \$2.6 million in PPP loans outstanding with \$50 thousand in remaining fees to be recognized. As of December 31, 2023, the Company had \$4.2 million in PPP loans outstanding with \$0.1 million in remaining fees to be recognized. The remaining fees represent the net amount of the fees from the SBA for participation in the PPP less the loan origination costs on these loans. The current amortization of this income is being recognized over a five-year period from the time of origination, however, if a loan receives full forgiveness from the SBA or if the borrower repays the loan, the remaining income will be recognized upon payoff.

The following presents the amortized cost of our loan portfolio by type of loan as of the dates noted (dollars in thousands):

	September 30,		December 31,	
	2024		2023	
	Amount	% of Total	Amount	% of Total
Cash, Securities, and Other ⁽¹⁾	\$ 119,284	5.0 %	\$ 139,947	5.6 %
Consumer and Other	12,193	0.5	27,028	1.1
Construction and Development	300,270	12.6	345,516	13.7
1-4 Family Residential	922,725	38.9	927,965	36.9
Non-Owner Occupied CRE	605,323	25.5	543,692	21.6
Owner Occupied CRE	174,928	7.4	195,861	7.8
Commercial and Industrial	239,830	10.1	337,180	13.3
Loans held for investment at amortized cost	\$ 2,374,553	100.0 %	\$ 2,517,189	100.0 %
Loans accounted for under the fair value option ⁽²⁾	8,646		13,726	
Total loans held for investment	\$ 2,383,199		\$ 2,530,915	
Mortgage loans held for sale, at fair value ⁽³⁾	\$ 12,324		\$ 7,254	
Loans held for sale, at fair value	\$ 473		\$ —	

⁽¹⁾ Includes PPP loans of \$2.6 million and \$4.2 million as of September 30, 2024 and December 31, 2023, respectively.

⁽²⁾ Includes \$8.9 million and \$14.1 million of unpaid principal balance of Loans held for investment accounted for under fair value option as of September 30, 2024 and December 31, 2023, respectively.

⁽³⁾ Includes \$12.1 million and \$7.1 million of unpaid principal balance of Mortgage loans held for sale as of September 30, 2024 and December 31, 2023, respectively.

- *Cash, Securities, and Other*—consists of consumer and commercial purpose loans, which are primarily secured by securities managed and under custody with us, cash on deposit with us, or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of collateral. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers’ employment prospects, income levels, and overall economic sentiment. PPP loans that are fully guaranteed by the SBA are classified within this line item and had balances of \$2.6 million and \$4.2 million as of September 30, 2024 and December 31, 2023, respectively.
- *Consumer and Other*—consists of unsecured consumer loans. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers’ employment prospects, income levels, and overall economic sentiment. Loans held for investment accounted for under the fair value option are primarily consumer and other loans and are presented separately within the above table. They had an unpaid principal balance of \$8.9 million and \$14.1 million as of September 30, 2024 and December 31, 2023, respectively.
- *Construction and Development*—consists of loans to finance the construction of residential and non-residential properties. These loans are dependent on the strength of the industries of the related borrowers and the risks consistent with construction projects.

- *1-4 Family Residential*—consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with owner occupied or non-owner occupied 1-4 family residential properties. Loans in this segment are dependent on the industries tied to these loans as well as the national and local economies, and local residential and commercial real estate markets.
- *Commercial Real Estate, Owner Occupied, and Non-Owner Occupied*—consists of commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. These loans are dependent on the strength of the industries of the related borrowers and the success of their businesses.
- *Commercial and Industrial*—consists of commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. This portfolio primarily consists of term loans and lines of credit which are dependent on the strength of the industries of the related borrowers and the success of their businesses. MSLP loans of \$2.0 million and \$5.1 million as of September 30, 2024 and December 31, 2023, respectively, are included in this category.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range, at amortized cost as of the dates noted, are summarized in the following tables:

As of September 30, 2024					
<i>(dollars in thousands)</i>	One Year or Less	After One Through Five Years	After Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 37,313 ⁽¹⁾	\$ 78,928 ⁽¹⁾	\$ 2,375	\$ 668	\$ 119,284
Consumer and Other	5,389	4,945	712	1,147	12,193
Construction and Development	80,686	208,319	4,497	6,768	300,270
1-4 Family Residential	68,862	141,908	27,286	684,669	922,725
Non-Owner Occupied CRE	86,860	407,427	98,438	12,598	605,323
Owner Occupied CRE	11,454	97,787	57,888	7,799	174,928
Commercial and Industrial	80,505	130,831	28,494	—	239,830
Total	<u>\$ 371,069</u>	<u>\$ 1,070,145</u>	<u>\$ 219,690</u>	<u>\$ 713,649</u>	<u>\$ 2,374,553</u>
Loans accounted for under the fair value option	484	8,003	159	—	8,646
Total loans	<u>\$ 371,553</u>	<u>\$ 1,078,148</u>	<u>\$ 219,849</u>	<u>\$ 713,649</u>	<u>\$ 2,383,199</u>
Amounts with fixed rates	156,185	694,030	132,857	30,131	1,013,203
Amounts with floating rates	215,368	384,118	86,992	683,518	1,369,996
Total loans	<u>\$ 371,553</u>	<u>\$ 1,078,148</u>	<u>\$ 219,849</u>	<u>\$ 713,649</u>	<u>\$ 2,383,199</u>
As of December 31, 2023					
<i>(dollars in thousands)</i>	One Year or Less	After One Through Five Years	After Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 70,558 ⁽¹⁾	\$ 67,101 ⁽¹⁾	\$ 1,611	\$ 677	\$ 139,947
Consumer and Other	18,425	6,175	1,206	1,222	27,028
Construction and Development	106,993	180,210	51,253	7,060	345,516
1-4 Family Residential	43,275	172,349	34,053	678,288	927,965
Non-Owner Occupied CRE	34,328	334,516	161,669	13,179	543,692
Owner Occupied CRE	13,491	93,844	79,610	8,916	195,861
Commercial and Industrial	120,061	187,240	29,879	—	337,180
Total	<u>\$ 407,131</u>	<u>\$ 1,041,435</u>	<u>\$ 359,281</u>	<u>\$ 709,342</u>	<u>\$ 2,517,189</u>
Loans accounted for under the fair value option	105	13,163	458	—	13,726
Total loans	<u>\$ 407,236</u>	<u>\$ 1,054,598</u>	<u>\$ 359,739</u>	<u>\$ 709,342</u>	<u>\$ 2,530,915</u>
Amounts with fixed rates	141,485	699,578	235,132	23,903	1,100,098
Amounts with floating rates	265,751	355,020	124,607	685,439	1,430,817
Total loans	<u>\$ 407,236</u>	<u>\$ 1,054,598</u>	<u>\$ 359,739</u>	<u>\$ 709,342</u>	<u>\$ 2,530,915</u>

⁽¹⁾ Includes PPP loans.

Loan Modifications

The following table presents the amortized cost basis as of September 30, 2024 of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during the nine months ended September 30, 2024. For the three months ended September 30, 2024, there were no loan modifications made to borrowers experiencing financial difficulty. For the three and nine months ended September 30, 2023, the Company made protective advances of \$0.0 million and \$0.5 million to borrowers experiencing financial difficulty. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

<i>(dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ 978	\$ —	\$ —	0.4 %
Total	\$ —	\$ —	\$ 978	\$ —	\$ —	

The following table presents the amortized cost basis as of September 30, 2023 of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during the three and nine months ended September 30, 2023.

<i>(dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ —	\$ 185	\$ —	0.1 %
Total	\$ —	\$ —	\$ —	\$ 185	\$ —	

The following tables present the financial effect by type of modification made to borrowers experiencing financial difficulty during the periods noted:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2024			Nine Months Ended September 30, 2024		
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension
Commercial and Industrial	—	—	—	—	—	5 months

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension
Commercial and Industrial	\$185	—	2.8 years	\$185	—	2.8 years

There were no loans that experienced a default during the three and nine months ended September 30, 2024, subsequent to being granted a modification in the preceding twelve months. There were no loans that experienced a default during the three and nine months ended September 30, 2023, subsequent to being granted a modification in the preceding twelve months.

Non-Performing Assets

Non-performing assets include non-accrual loans and OREO. The accrual of interest on loans is discontinued at the time the loan becomes 90 or more days delinquent unless the loan is well secured and in the process of collection or renewal due to maturity. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off if collection of interest or principal is considered doubtful.

OREO represents assets acquired through, or in lieu of, foreclosure. The amounts reported as OREO are supported by recent appraisals, with the appraised values adjusted, where applicable, for expected transaction fees likely to be incurred upon sale of the property. We incur recurring expenses relating to OREO in the form of maintenance, taxes, insurance, and legal fees, among others, until the OREO parcel is disposed. While disposition efforts with respect to our OREO are generally ongoing, if these properties are appraised at lower-than-expected values or if we are unable to sell the properties at the prices for which we expect to be able to sell them, we may incur additional losses. In the second quarter of 2024, the Company recorded \$11.4 million of OREO as a result of obtaining physical possession of two foreclosed properties as partial consideration for amounts owed on non-performing loans related to an isolated loan relationship. During the third quarter of 2024, the Company recorded an additional \$25.6 million of OREO related to a third foreclosed property within the same loan relationship. As of September 30, 2024, these OREO properties had a carrying amount of \$37.0 million. As of December 31, 2023, we did not own any OREO properties.

The amount of lost interest for non-accrual loans was \$1.6 million and \$0.5 million for the three months ended September 30, 2024 and 2023, respectively. The amount of lost interest for non-accrual loans was \$6.2 million and \$1.4 million for the nine months ended September 30, 2024 and 2023, respectively.

We had amortized cost of \$51.5 million and \$50.8 million in non-performing assets as of September 30, 2024 and December 31, 2023, respectively. Although consistent balances of non-performing assets when comparing September 30, 2024 and December 31, 2023, there was significant activity within the three months ended September 30, 2024. Non-performing assets increased \$2.7 million during the three months ended September 30, 2024, which was the combination of an increase in OREO of \$25.6 million, offset by a decrease in non-performing loans of \$22.9 million. The decrease in non-performing loans was driven by the migration of one loan relationship out of non-performing loans and into OREO, pay downs, charge-offs, and the sale of a non-performing loan, offset by additions to non-performing loans.

The following table presents the amortized cost basis of non-performing assets as of the dates noted:

<i>(dollars in thousands)</i>	September 30,	December 31,
	2024	2023
Non-accrual loans by category		
Cash, Securities, and Other	\$ 1,704	\$ 1,704
Consumer and Other	—	7,504
Construction and Development	—	2,719
1-4 Family Residential	1,468	3,016
Owner Occupied CRE	—	3,980
Commercial and Industrial	11,242	31,893
Total non-performing loans	14,414	50,816
OREO ⁽²⁾	37,036	—
Total non-performing assets	\$ 51,450	\$ 50,816
Non-accrual loans to total loans ⁽¹⁾	0.61 %	2.02 %
Non-performing assets to total assets	1.77 %	1.71 %
Allowance for credit losses to non-accrual loans	130.40 %	47.09 %
Accruing loans 90 or more days past due	\$ —	\$ 285

⁽¹⁾ Excludes Mortgage loans held for sale of \$12.3 million and \$7.3 million as of September 30, 2024 and December 31, 2023, respectively. Excludes loans held for sale of \$0.5 million and \$0.0 million as of September 30, 2024 and December 31, 2023, respectively. Excludes \$8.9 million and \$14.1 million of unpaid principal balance of loans held for investment accounted for under the fair value option as of September 30, 2024 and December 31, 2023, respectively.

⁽²⁾ Held at the lower of cost or market as noted per Note 12.

Credit Quality Indicators

We categorize loans into risk categories based on relevant information about the ability of the borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans by credit risk on a quarterly basis, which are segregated into the following definitions for risk ratings:

Special Mention—Loans categorized as special mention have a potential weakness or borrowing relationships that require more than the usual amount of management attention. Adverse industry conditions, deteriorating financial conditions, declining trends, management problems, documentation deficiencies, or other similar weaknesses may be evident. Ability to meet current payment schedules may be questionable, even though interest and principal are still being paid as agreed. The asset has potential weaknesses that may result in deteriorating repayment prospects if left uncorrected. Loans in this risk grade are not considered adversely classified.

Substandard—Substandard loans are considered "classified" and are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in this category may be placed on non-accrual status and may individually be evaluated.

Doubtful—Loans graded doubtful are considered "classified" and have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. However, the amount or certainty of eventual loss is not known because of specific pending factors.

Loans accounted for under the fair value option are not rated.

Loans not meeting any of the three criteria above are considered to be pass-rated loans.

As of September 30, 2024 and December 31, 2023, non-performing loans of \$14.4 million and \$50.8 million, respectively, were included in the substandard category in the table below. The following presents the amortized cost basis of loans by credit quality indicator, by class of financing receivable, as of the dates noted:

As of September 30, 2024						
<i>(dollars in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Cash, Securities, and Other ⁽¹⁾	\$ 117,580	\$ —	\$ 1,704	\$ —	\$ —	\$ 119,284
Consumer and Other ⁽²⁾	12,144	—	49	—	8,646	20,839
Construction and Development	295,985	—	4,285	—	—	300,270
1-4 Family Residential	920,704	—	2,021	—	—	922,725
Non-Owner Occupied CRE	599,929	4,898	496	—	—	605,323
Owner Occupied CRE	173,527	—	1,401	—	—	174,928
Commercial and Industrial	223,627	484	15,719	—	—	239,830
Total	<u>\$ 2,343,496</u>	<u>\$ 5,382</u>	<u>\$ 25,675</u>	<u>\$ —</u>	<u>\$ 8,646</u>	<u>\$ 2,383,199</u>

As of December 31, 2023						
<i>(dollars in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Cash, Securities, and Other ⁽¹⁾	\$ 138,243	\$ —	\$ 1,704	\$ —	\$ —	\$ 139,947
Consumer and Other ⁽²⁾	19,528	—	7,500	—	13,726	40,754
Construction and Development	328,454	14,343	2,719	—	—	345,516
1-4 Family Residential	924,949	—	3,016	—	—	927,965
Non-Owner Occupied CRE	538,693	4,999	—	—	—	543,692
Owner Occupied CRE	191,881	—	3,980	—	—	195,861
Commercial and Industrial	302,276	649	34,255	—	—	337,180
Total	<u>\$ 2,444,024</u>	<u>\$ 19,991</u>	<u>\$ 53,174</u>	<u>\$ —</u>	<u>\$ 13,726</u>	<u>\$ 2,530,915</u>

⁽¹⁾ Includes PPP loans of \$2.6 million and \$4.2 million as of September 30, 2024 and December 31, 2023, respectively.

⁽²⁾ Includes \$8.6 million and \$13.7 million of loans held for investment accounted for under fair value option as of September 30, 2024 and December 31, 2023, respectively.

Allowance for Credit Losses on Loans

The Allowance for credit losses (“ACL”) 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. The ACL excludes loans held for sale and loans accounted for under the fair value option. The Company elected to not measure an ACL for accrued interest receivables, as we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued but uncollected interest is reversed from current income. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Actual Company and regional peer historical credit loss experience provides the basis for the estimation of expected credit losses. The Company identified and grouped portfolio segments based on risk characteristics and underlying collateral. The call code for each financial asset type was assessed and, where appropriate, expanded for certain call codes into separate segments based on risk characteristics.

ASU 2016-13 for Current Expected Credit Losses (“CECL”) requires an allowance for credit losses on all portfolio loans including purchased loans without credit deterioration. As of September 30, 2024, the Company held \$172.6 million in acquired loans with \$1.4 million in Allowance for credit losses as well as \$3.9 million in unamortized discounts. As of December 31, 2023, the Company held \$208.2 million in acquired loans with \$2.0 million in Allowance for credit losses as well as \$3.9 million in unamortized discounts.

ACL for pooled loans are estimated using a discounted cash flow (“DCF”) methodology using the amortized cost basis (excluding interest) for all loans modeled within a performing pool of loans. The DCF analysis pairs loan-level term information, for example, maturity date, payment amount, interest rate, with top-down pool assumptions such as default rates, prepayment speeds, to produce individual expected cash flows for every instrument in the segment. The results are then aggregated to produce segment level results and reserve requirements for each segment.

The quantitative DCF model also incorporates forward-looking macroeconomic information over a reasonable and supportable period of four quarters. Subsequent to the four quarter period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a four quarter reversion period.

The Company applies qualitative factors to capture losses that are expected but may not be adequately reflected in the quantitative model described above. Qualitative adjustments are made based on management’s assessment of the risks that may lead to a future loan loss or differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, changes in environmental and economic conditions, or other relevant factors.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

ACL – held-to-maturity securities: Held-to maturity securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. With respect to these securities, we consider the risk of credit loss to be zero and, therefore, we do not record an ACL for these securities. The Company’s non-government backed securities include private label CMO and MBS debt securities and corporate bonds. Private label refers to private institutions such as brokerage firms, banks, and home builders, that also securitize mortgages.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management reviewed the collectability of CMO and MBS debt securities and corporate bonds taking into consideration factors such as the asset quality and delinquencies of the issuers.

ACL – off-balance sheet credit exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance.

The ACL represents Management’s best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans’ contractual terms, adjusted for expected prepayments when appropriate. Our quantitative discounted cash flow models use economic forecasts including; housing price index (“HPI”), gross domestic product (“GDP”), and national unemployment. The HPI, GDP, and unemployment twelve-month forecasts used in our model remained consistent during the nine months ended September 30, 2024. As such, the \$1.6 million release of provision on pooled loans for the nine months ended September 30, 2024 was predominately due to net pay downs in the loan portfolio. The Allowance for credit losses on individually analyzed loans was \$0.3 million and \$3.8 million as of September 30, 2024 and December 31, 2023, respectively. This \$3.5 million release of provision on individually analyzed loans for the nine months ended September 30, 2024 was due to the migration of one loan relationship out of non-performing loans and into OREO, pay downs, charge-offs, and the sale of a non-performing loan.

The following presents summary information regarding our allowance for credit losses during the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Average loans outstanding ⁽¹⁾⁽²⁾	\$ 2,429,927	\$ 2,485,704	\$ 2,454,631	\$ 2,464,902
Total loans outstanding at end of period ⁽³⁾	\$ 2,374,553	\$ 2,514,995	\$ 2,374,553	\$ 2,514,995
Allowance for credit losses at beginning of period	\$ 27,319	\$ 22,044	\$ 23,931	\$ 17,183
Impact of adopting ASU 2016-13	—	—	—	3,470
Provision for credit losses	796	1,321	4,175	2,725
Charge-offs:				
Cash, Securities, and Other	—	—	—	—
Consumer and Other	(4)	(12)	(30)	(42)
Construction and Development	—	—	—	—
1-4 Family Residential	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	(9,336)	(186)	(9,336)	(186)
Total charge-offs	(9,340)	(198)	(9,366)	(228)
Recoveries:				
Cash, Securities, and Other	—	—	—	—
Consumer and Other	4	4	27	19
Construction and Development	—	—	—	—
1-4 Family Residential	1	3	7	3
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	16	1	22	3
Total recoveries	21	8	56	25
Net (charge-offs) recoveries	(9,319)	(190)	(9,310)	(203)
Allowance for credit losses at end of period	\$ 18,796	\$ 23,175	\$ 18,796	\$ 23,175
Allowance for credit losses to total loans	0.79 %	0.92 %	0.79 %	0.92 %
Net charge-offs to average loans	0.38	0.01	0.38	0.01

⁽¹⁾ Average balances are average daily balances.

⁽²⁾ Excludes average outstanding balances of Mortgage loans held for sale of \$18.4 million and \$12.7 million for the three months ended September 30, 2024 and 2023, respectively, and \$15.2 million and \$12.0 million for the nine months ended September 30, 2024 and 2023, respectively. Excludes average outstanding balances of loans held for investment under the fair value option of \$9.7 million and \$16.7 million for the three months ended September 30, 2024 and 2023, respectively, and \$11.4 million and \$19.7 million for the nine months ended September 30, 2024 and 2023, respectively.

⁽³⁾ Excludes Mortgage loans held for sale of \$12.3 million and \$12.1 million as of September 30, 2024 and 2023, respectively. Excludes Loans held for sale of \$0.5 million and \$0.0 million as of September 30, 2024 and December 31, 2023, respectively. Excludes \$8.9 million and \$16.1 million of unpaid principal balance of loans held for investment accounted for under the fair value option as of September 30, 2024 and 2023, respectively.

The following presents the allocation of the allowance for credit losses among loan categories and other summary information. The allocation for credit losses by category should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The allocation of a portion of the allowance for credit losses to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(dollars in thousands)</i>	As of September 30, 2024		As of December 31, 2023	
	Amount	% ⁽¹⁾	Amount	% ⁽¹⁾
Cash, Securities, and Other	\$ 401	5.0 %	\$ 961	5.6 %
Consumer and Other	137	0.5	124	1.1
Construction and Development	5,334	12.6	7,945	13.7
1-4 Family Residential	5,325	38.9	4,370	36.9
Non-Owner Occupied CRE	4,342	25.5	2,325	21.6
Owner Occupied CRE	691	7.4	1,034	7.8
Commercial and Industrial	2,566	10.1	7,172	13.3
Total allowance for credit losses	<u>\$ 18,796</u>	<u>100.0 %</u>	<u>\$ 23,931</u>	<u>100.0 %</u>

⁽¹⁾ Represents the percentage of loans to total loans in the respective category.

Allowance for credit losses - off-balance sheet credit exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance. Refer above for changes in the factors that influenced the current estimate of ACL and reasons for the changes. The following table presents the changes in the ACL on unfunded loan commitments:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	\$ 1,205	\$ 4,029	\$ 2,178	\$ 419
Impact of adopting ASU 2016-13	—	—	—	3,481
(Release) provision for credit losses	(295)	(992)	(1,268)	(863)
Ending balance	<u>\$ 910</u>	<u>\$ 3,037</u>	<u>\$ 910</u>	<u>\$ 3,037</u>

Deferred Tax Assets, Net

Deferred tax assets, net of our valuation allowance, represent the differences in timing of when items are recognized for GAAP purposes and when they are recognized for tax purposes, as well as our net operating losses. Our deferred tax assets, net, are valued based on the amounts that are expected to be recovered in the future utilizing the tax rates in effect at the time recognized. Deferred tax assets, net as of September 30, 2024 were \$4.1 million, a decrease of \$2.3 million, or 36.4%, from December 31, 2023.

Deposits

Our deposit products include money market accounts, demand deposit accounts, time-deposit accounts (typically certificates of deposit), interest checking accounts, and savings accounts. Our accounts are federally insured by the FDIC up to the legal maximum amount.

Total deposits decreased by \$26.0 million, or 1.0%, to \$2.50 billion as of September 30, 2024, from December 31, 2023. Total average deposits for the three months ended September 30, 2024 were \$2.40 billion, an increase of \$43.7 million, or 1.9%, compared to \$2.36 billion as of September 30, 2023. Total average deposits for the nine months ended September 30, 2024 were \$2.42 billion, an increase of \$61.9 million, or 2.6%, compared to \$2.36 billion as of September 30, 2023. The increase in average deposits for the three and nine months ended September 30, 2024 compared to the same periods in 2023 were driven primarily by Interest-bearing deposits due to new and expanded deposit relationships offset partially by a decline in Noninterest-bearing deposits.

The following presents the average balances and average rates paid on deposits during the periods presented:

	For the Three Month Period Ending September 30,			
	2024		2023	
	Average Balance	Average Rate	Average Balance	Average Rate
<i>(dollars in thousands)</i>				
Deposits				
Money market deposit accounts	\$ 1,334,760	4.30 %	\$ 1,293,580	4.05 %
Interest checking accounts	131,090	0.36	159,219	0.38
Uninsured time deposits	62,966	4.57	67,273	4.08
Other time deposits	463,629	5.05	309,030	4.37
Total time deposits	526,595	4.99	376,303	4.32
Savings accounts	14,820	0.10	17,216	0.09
Total interest-bearing deposits	2,007,265	4.19	1,846,318	3.75
Noninterest-bearing accounts	395,755		512,956	
Total deposits	<u>\$ 2,403,020</u>	3.50 %	<u>\$ 2,359,274</u>	2.94 %
	For the Nine Months Ended September 30,			
	2024		2023	
	Average Balance	Average Rate	Average Balance	Average Rate
<i>(dollars in thousands)</i>				
Deposits				
Money market deposit accounts	\$ 1,358,943	4.31 %	\$ 1,279,310	3.75 %
Interest checking accounts	136,640	0.34	186,178	0.41
Uninsured time deposits	62,669	4.53	65,436	3.60
Other time deposits	431,617	5.03	282,247	3.91
Total time deposits	494,286	4.96	347,683	3.85
Savings accounts	15,871	0.09	20,343	0.05
Total interest-bearing deposits	2,005,740	4.17	1,833,514	3.39
Noninterest-bearing accounts	418,235		528,609	
Total deposits	<u>\$ 2,423,975</u>	3.45 %	<u>\$ 2,362,123</u>	2.63 %

Average noninterest-bearing deposits to average total deposits was 16.5% and 21.7% for the three months ended September 30, 2024 and 2023, respectively, and 17.3% and 22.4% for the nine months ended September 30, 2024 and 2023, respectively.

Our average cost of funds was 3.56% and 3.08% for the three months ended September 30, 2024 and 2023, respectively, and 3.52% and 2.77% for the nine months ended September 30, 2024 and 2023, respectively. The increase in cost of funds was primarily driven by increased rates on Interest-bearing deposit accounts and borrowings due to the current rate environment and an unfavorable mix shift in deposit balances.

Total money market accounts as of September 30, 2024 were \$1.4 billion, a decrease of \$35.5 million, or 2.6%, compared to December 31, 2023. Interest checking accounts decreased \$17.2 million, or 11.7%, to \$130.3 million compared to December 31, 2023.

Total time deposits as of September 30, 2024 were \$533.5 million, an increase of \$37.0 million, or 7.5%, from December 31, 2023.

The following presents the amount of certificates of deposit by time remaining until maturity as of September 30, 2024:

<i>(dollars in thousands)</i>	Three Months or Less	Three to Six Months	Six to 12 Months	After 12 Months	Total
Uninsured Time Deposits	\$ 17,373	\$ 22,250	\$ 20,855	\$ 2,940	\$ 63,418
Other	137,462	144,156	138,317	50,099	470,034
Total	\$ 154,835	\$ 166,406	\$ 159,172	\$ 53,039	\$ 533,452

Borrowings

We have short-term and long-term borrowing sources available to supplement deposits and meet our liquidity needs. As of September 30, 2024 and December 31, 2023, borrowings totaled \$114.9 million and \$178.1 million, respectively.

On March 12, 2023 the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors made available through the creation of a new Bank Term Funding Program (“BTFP”). The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institution’s need to quickly sell those securities in times of stress. On March 27, 2024, the Company repaid \$31.0 million of BTFP borrowings. As of September 30, 2024, the Company has pledged a par value of \$10.3 million in securities under the BTFP and borrowed \$10.0 million with a maturity date of January 10, 2025. The rate for the borrowing is based on the one year overnight swap rate plus 10 basis points and is fixed over the term of the advance based on the date of the advance.

The decrease in borrowings as of September 30, 2024 compared to December 31, 2023 was driven by a lower reliance on FHLB and FRB borrowings due to the decrease in loans.

The following presents balances of each of the borrowing facilities as of the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Borrowings		
FHLB borrowings	\$ 50,000	\$ 91,175
Federal Reserve borrowings	12,373	34,536
Subordinated notes	52,508	52,340
Total	\$ 114,881	\$ 178,051

FHLB

We have a blanket pledge and security agreement with FHLB that requires certain loans and securities to be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of September 30, 2024 and December 31, 2023 amounted to \$1.30 billion and \$1.31 billion, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow an additional \$612.1 million as of September 30, 2024.

<i>(dollars in thousands)</i>	As of or for the Nine Months Ended September 30, 2024
Short-term borrowings	
Maximum outstanding at any month-end during the period	\$ 178,712
Balance outstanding at end of period	50,000
Average outstanding during the period	51,652
Average interest rate during the period	5.40 %
Average interest rate at the end of the period	4.83

The Bank has borrowing capacity associated with two unsecured federal funds lines of credit up to \$10.0 million and \$19.0 million. As of September 30, 2024 and December 31, 2023, there were no amounts outstanding on any of the federal funds lines.

Our borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. As of September 30, 2024 and December 31, 2023, the Company was in compliance with the covenant requirements.

Derivatives

Cash Flow Hedges: On March 21, 2023, the Company executed an interest rate swap with a notional amount that was designated as a cash flow hedge of certain Federal Home Loan Bank borrowings. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The swap hedges the benchmark index (SOFR) with a receive float/pay fixed swap for the period March 21, 2023 through April 1, 2026. The notional amount of the interest rate swap as of September 30, 2024 and December 31, 2023 was \$50.0 million. As of September 30, 2024 and December 31, 2023, this hedge was determined to be effective, and the Company expects the hedge to remain effective during the remaining terms of the swap.

Derivatives Not Designated as Hedges: The Company periodically enters into interest rate swaps to offset interest rate exposure with its commercial and residential variable rate loan clients. Clients with variable rate loans may choose to enter into an interest rate swap to hedge the interest rate risk on the loan and effectively pay a fixed rate payment. The Company will simultaneously enter into an interest rate swap on the same underlying loan and notional amount to hedge risk on the fixed rate loan. The notional amount of interest rate swaps with its loan customers as of September 30, 2024 and December 31, 2023 was \$50.6 million and \$30.3 million, respectively. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

Liquidity and Capital Resources

Liquidity resources primarily include Interest-bearing and Noninterest-bearing deposits which contribute to our ability to raise funds to support asset growth, acquisitions, and meet deposit withdrawals and other payment obligations. Access to purchased funds include the ability to borrow from FHLB, other correspondent banks, and the use of brokered deposits.

The following table presents the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Sources of Funds:				
Deposits:				
Noninterest-bearing	14.10 %	18.28 %	14.78 %	18.80 %
Interest-bearing	71.51	65.79	70.87	65.22
FHLB and Federal Reserve borrowings	2.23	4.46	2.61	4.64
Subordinated notes	1.87	1.86	1.85	1.86
Other liabilities	1.43	0.86	1.14	0.88
Shareholders' equity	8.86	8.75	8.75	8.60
Total	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Uses of Funds:				
Total loans	85.95 %	88.38 %	86.25 %	87.63 %
Investment securities	2.81	2.78	2.70	2.85
Correspondent bank stock	0.22	0.26	0.18	0.30
Mortgage loans held for sale	0.66	0.45	0.54	0.43
Interest-bearing deposits in other financial institutions	4.62	3.65	5.28	4.33
Noninterest-earning assets	5.74	4.48	5.05	4.46
Total	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Average noninterest-bearing deposits to total average deposits	16.47 %	21.74 %	17.25 %	22.38 %
Average loans to total average deposits	101.12 %	105.36 %	101.26 %	104.35 %
Average interest-bearing deposits to total average deposits	83.53 %	78.26 %	82.75 %	77.62 %

Our primary source of funds is Interest-bearing and Noninterest-bearing deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future.

Capital Resources

Total shareholders' equity increased \$6.1 million, or 2.5%, from December 31, 2023 to \$248.8 million as of September 30, 2024. The increase was primarily due to Net income year to date.

On January 6, 2022, the Company filed a Form S-3 Registration Statement with the SEC providing that the Company may offer and sell from time to time, separately or together, in multiple series or in one or more offerings, any combination of common stock, preferred stock, debt securities, warrants, depository shares and units, up to a maximum aggregate offer price of \$100 million.

On June 13, 2024, the Company announced that its board of directors authorized the repurchase of up to 200,000 shares of the Company's common stock, no par value, from time to time, within one year (the "2024 Repurchase Plan") and that the Board of Governors of the Federal Reserve System advised the Company that it has no objection to the Company's 2024 Repurchase Plan. The Company may repurchase shares in privately negotiated transactions, in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 promulgated by the Securities and Exchange Commission, or otherwise in a manner that complies with applicable federal securities laws. The 2024 Repurchase Plan does not obligate the Company to acquire a specific dollar amount or number of shares and it may be extended, modified or discontinued at any time without notice. During the three months ended September 30, 2024, the Company repurchased 5,501 shares under the authorization of the 2024 Repurchase Plan. As of September 30, 2024, there were 194,499 shares available for repurchase under the plan.

We are subject to various regulatory capital adequacy requirements at a consolidated level and the Bank level. These requirements are administered by federal banking agencies. Failure to meet 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 condensed consolidated financial statements. Under capital adequacy guidelines and, additionally for banks, 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.

Capital levels are viewed as important indicators of an institution's financial soundness by banking regulators. Generally, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. As of September 30, 2024 and December 31, 2023, our holding company and Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized," for purposes of the prompt corrective action regulations. As we continue to grow our operations and maintain capital requirements, our regulatory capital levels may decrease depending on our level of earnings. We continue to monitor growth and control our capital activities in order to remain in compliance with all applicable regulatory capital standards.

The following table presents our regulatory capital ratios for the dates noted:

<i>(dollars in thousands)</i>	September 30, 2024		December 31, 2023	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets				
Bank	\$ 252,549	11.39 %	\$ 244,390	10.54 %
Consolidated Company	223,126	10.06	218,150	9.40
Common Equity Tier 1(CET1) to risk-weighted assets				
Bank	252,549	11.39	244,390	10.54
Consolidated Company	223,126	10.06	218,150	9.40
Total capital to risk-weighted assets				
Bank	268,970	12.13	265,391	11.45
Consolidated Company	292,546	13.19	292,151	12.59
Tier 1 capital to average assets				
Bank	252,549	9.11	244,390	8.71
Consolidated Company	223,126	8.04	218,150	7.77

Contractual Obligations and Off-Balance Sheet Arrangements

We enter into credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our clients. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Condensed Consolidated Balance Sheets. Commitments may expire without being utilized. Our exposure to credit loss is represented by the contractual amount of these commitments, although material losses are not anticipated. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

The following presents future contractual obligations to make future payments during the periods presented:

<i>(dollars in thousands)</i>	As of September 30, 2024				
	1 Year or Less	After 1 Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years	Total
FHLB and Federal Reserve	\$ 60,000	\$ —	\$ 2,373	\$ —	\$ 62,373
Subordinated notes	—	—	—	52,508 ⁽¹⁾	52,508
Time deposits	480,412	17,983	35,057	—	533,452
Minimum lease payments	904	5,379	6,529	15,122	27,934
Total	\$ 541,316	\$ 23,362	\$ 43,959	\$ 67,630	\$ 676,267

⁽¹⁾ Reflects contractual maturity dates of March 31, 2030, December 1, 2030, September 1, 2031, and December 15, 2032.

The following presents financial instruments whose contract amounts represent credit risk, as of the periods presented:

<i>(dollars in thousands)</i>	September 30, 2024		December 31, 2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 56,617	\$ 468,986	\$ 86,398	\$ 540,255
Standby letters of credit	10,204	10,331	13,922	12,094
Commitments to make loans to sell	56,214	—	18,917	—
Commitments to make loans	1,535	9,110	5,275	7,115

We may enter into contracts for services in the conduct of ordinary business operations, which may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. We do not believe these off-balance sheet arrangements have or are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have an effect on future operations.

Critical Accounting Policies

Our accounting policies and procedures are described in Note 1 – Organization and Summary of Significant Accounting Policies in the accompanying Notes to the Condensed Consolidated Financial Statements as well as the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity and Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices, and equity prices. Our market risk arises primarily from interest rate risk inherent in lending, investing, and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. We do not have any market risk sensitive instruments entered into for trading purposes.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited within established guidelines of acceptable levels of risk-taking.

The board of directors monitors interest rate risk by analyzing the potential impact on the net economic value of equity and net interest income from potential changes in interest rates and considers the impact of alternative strategies or changes in balance sheet structure. We manage our balance sheet, in part, to maintain the potential impact on economic value of equity and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed at least quarterly by the board of directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the change in net interest income and economic value of equity in the event of hypothetical changes in interest rates. If potential changes to net economic value of equity and net interest income resulting from hypothetical interest rate changes are not within the limits established by our board of directors, the board of directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

The following presents the sensitivity in net interest income and fair value of equity during the periods presented, using a parallel ramp scenario.

Change in Interest Rates (Basis Points)	As of September 30, 2024		As of December 31, 2023	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
200	1.84 %	(7.05)%	(5.19)%	(11.03)%
100	2.87	(1.17)	(2.82)	(5.90)
Base	—	—	—	—
-100	3.22	4.22	2.38	3.16
-200	13.70	(5.80)	8.27	(5.27)

The model simulations as of September 30, 2024 imply that our balance sheet maintains a relatively consistent interest rate risk profile compared to our balance sheet as of December 31, 2023.

Although the simulation model is useful in identifying potential exposure to interest rate changes, actual results for net interest income and economic value of equity may differ. There are a variety of factors that can impact the outcomes such as timing and magnitude of interest rate changes, asset and liability mix, pre-payment speeds, deposit beta assumptions, and decay rates that differ from our projections. Additionally, the results do not account for actions implemented to manage our interest rate risk exposure.

Impact of Inflation

Our Condensed Consolidated Financial Statements and related notes included within this Form 10-Q have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Our assets and liabilities are substantially monetary in nature. Therefore, changes in interest rates can significantly impact our performance beyond the general effects of inflation. Interest rates do not necessarily move in the same direction or magnitude as prices of general goods and services, while other operating expenses can be correlated with the impact of general levels of inflation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the "Exchange Act") were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three and nine months ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company, from time to time, is involved in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, after consulting with our legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company's condensed consolidated financial statements. See Note 8 – Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under “Item 1A. Risk Factors” of the Company's 2023 Annual Report on Form 10-K filed with the SEC on March 15, 2024.

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

(c) Issuer Purchases of Equity Securities

	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ⁽²⁾	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ⁽²⁾
July 1, 2024 through July 31, 2024	—	\$ —	—	200,000
August 1, 2024 through August 31, 2024	8,277	16.38	5,501	194,499
September 1, 2024 through September 30, 2024	—	—	—	194,499

⁽¹⁾ 2,776 of these shares relate to the net settlement by employees related to vested, restricted stock awards and do not impact the shares available for repurchase. They were purchased at an average price paid per share of \$16.61. Net settlements represent instances where employees elect to satisfy their income tax liability related to the vesting of restricted stock through the surrender of a proportionate number of the vested shares to the Company.

⁽²⁾ These shares relate to the 2024 Repurchase Plan. Refer to Note 9 - Shareholders' Equity for further information.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

† Indicates a management contract or compensatory plan.

SIGNATURES

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

First Western Financial, Inc.

November 1, 2024

Date

By: /s/ Scott C. Wylie

Scott C. Wylie
Chairman, Chief Executive Officer, and President of
First Western Financial, Inc.

November 1, 2024

Date

By: /s/ David R. Weber

David R. Weber
Chief Financial Officer and Treasurer