



**FVCBankcorp, Inc.**

**2022** Annual Report

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*“I am proud of what our company and our employees have achieved. We have long championed the essential role of community banking — its potential for unifying people, assisting companies and individuals to achieve their dreams, and being a source of strength in challenging times.”*

David W. Pijor, Esq.  
Chairman & CEO

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# To Our Shareholders



FVCBankcorp, Inc. has a strong history of expansion and profitability. During 2022, your company's hallmarks shined brightly. Our total assets increased 6% to \$2.34 billion, a result of our unprecedented loan growth of 22% to end at \$1.84 billion at December 31, 2022. We achieved record net income of \$25.0 million, an increase of \$3.1 million, or 14% compared to 2021. Diluted earnings per share increased 12% to \$1.35 per share for the year ended December 31, 2022. For the past 15 years, our shareholders have supported our growth model, which is why your Board of Directors approved a five-for-four stock split of our common stock in the form of a 25% stock dividend in December 2022 to show their appreciation.

As one of the largest community banks headquartered in vibrant Northern Virginia with nearly \$2.34 billion in total assets and a robust legal lending limit, we are gaining momentum toward becoming the leading community business bank in the area. To that end, 2022 marked a pivotal time of notable investments in financial technology as we partnered with Numerated, an Inc. 5000 fastest-growing fintech company and developer of an innovative digitized loan application platform the Bank quickly branded as Lightning Lending. The Lightning Lending platform reduces a customer's funding timeline from weeks or months to within 48 hours for smaller loans up to \$500,000.

We operate nine branches and one loan production office, boasting an impressive footprint from Baltimore, to Washington, DC, Northern Virginia, and all points in between. In addition, we expanded our team to include top bankers focused on business development and pipeline-building. Finally, while executing our growth strategy, we focused on risk management resulting in updating our framework of policies, procedures, and controls.

At FVCbank we focus on providing the best customer experience. Our bankers balance technological upgrades with personalized, accessible, and expert service. Banking is at its finest when customers enjoy easy and efficient financial expertise. Each FVCbank customer is viewed not as a

number but as a valued member of our company. FVCbank customers receive the support of a dedicated team of bankers whose primary responsibility is ensuring client satisfaction and doing anything FVCbank can do to contribute to financial success. The banking industry is evolving. To meet the needs of every customer, we are constantly pivoting to upgrade products with leading technology to make banking more convenient for customers.

FVCbank maintains a robust business development effort to serve specific industry segments. Many of these industry segments are highlighted in this report, which confirms our commitment to the communities we serve. Much of our success is directly attributable to our Board of Directors. Our Directors work together throughout the year to ensure effective corporate governance and sustainable, responsible growth. FVCbank is privileged to have a strong independent Board of Directors to provide oversight and guidance on implementing strategies and serving our customers.

To our highly-talented team of professional bankers, we pledge our commitment to support your efforts. It is an honor to work alongside these bankers as FVCbank continues to execute its growth strategy. And to our community, we are here to serve businesses and consumers with our financial resources and expertise.

Finally, to our shareholders, thank you for your trust in our mission, our people, and, of course, FVCBankcorp, Inc. Your management team and dedicated bankers intend to build shareholder value by relentlessly focusing on growing profitable core banking relationships, remaining vigilant on controlling risk, and maintaining strict cost containment. As a result, FVCBankcorp, Inc. is well positioned for improved operational performance and value creation to better serve our shareholders, customers, bankers, and local communities.

A handwritten signature in blue ink, reading "David W. Pijor". The signature is fluid and cursive, with a large "D" and "P".

David W. Pijor, Esq.  
Chairman and Chief Executive Officer



### EXECUTIVE OFFICERS

L to R Back Row: B. Todd Dempsey, Alissa M. Curry Briggs, Michael G. Nassy, Sharon L. Jackson, William G. Byers, Jennifer L. Deacon  
Front Row: Patricia A. Ferrick, President, David W. Pijor, Esq., Chairman & CEO



# Directors and Officers

## Directors

**David W. Pijor, Esq.**

Chairman & CEO

**L. Burwell Gunn**

Vice Chairman

**Patricia A. Ferrick**

President

**Marc N. Duber**

**Meena Krishnan**

**Scott Laughlin**

**Thomas L. Patterson**

**Devin Satz**

**Lawrence W. Schwartz**

**Sidney G. Simmonds**

**Daniel M. Testa**

**Phillip “Trey” R. Wills III**

**Steven M. Wiltse**

## Executive Officers

**David W. Pijor, Esq.**

Chairman & CEO

**Patricia A. Ferrick**

President

**William G. Byers**

Executive Vice President and Chief Lending Officer

**Jennifer L. Deacon**

Executive Vice President and Chief Financial Officer

**B. Todd Dempsey**

Executive Vice President and Chief Operating Officer

**Sharon L. Jackson**

Executive Vice President and Chief Banking Officer

**Michael G. Nassy**

Executive Vice President and Chief Credit Officer

## Regional Lending Officers

**Alissa M. Curry Briggs**

Executive Director of Commercial Real Estate Lending

**James C. Elliott**

Market President Virginia

**Timothy Moorstein**

Director of GovCon and C&I Lending

**Gerald A. Muccioli**

Market President Maryland and Washington, DC

**Joshua F. Steele**

Commercial Real Estate Lending Executive

## Senior Officers

**Joanna Atchison**

Senior Vice President / Credit Administration

**Michelle Buckles**

Chief Risk Officer

**Joseph Catalano**

Senior Vice President / Commercial Loan Officer

**Lisa M. Craze**

Senior Vice President / Loan Documentation and Administration

**Christian Delisle**

Senior Vice President / Commercial Real Estate Loan Officer

**Craig Gajewski**

Senior Vice President / Commercial Loan Officer

**R. Bruce Gemmill**

Senior Vice President / Chief Marketing Officer

**Alberta A. Gibson**

Senior Vice President / Director of Human Resources

**Taylor Gilden**

Senior Vice President / Controller

**Sharon Gray**

Senior Vice President / Loan Operations

**Uriel Gregoire**

Senior Vice President / GovCon and C&I Commercial Loan Officer

**Josh Grimes**

Senior Vice President / Director of IT

**Craig Laudeman**

Senior Vice President / Commercial Loan Officer

**Linda Long**

Senior Vice President / Commercial Loan Officer

**Christopher Muracco**

Senior Vice President / Director of Digital Banking

**Mark Palmer**

Senior Vice President / Commercial Loan Officer

**Brandon Parker**

Senior Vice President / Director of Portfolio Credit Risk

**Eric Radcliffe**

Senior Vice President / Commercial Loan Officer

**Sharon Ricciardi**

Senior Vice President / Director of Business Development

**Christine M. Rowe**

Senior Vice President / Treasury Services Manager

**Altat Shadick**

Chief Retail Officer

**Huong V. Song**

Senior Vice President / Commercial Loan Officer

**Steffany R. Watson**

Senior Vice President / Directory of Treasury Management Services

# Our Locations

## Headquarters

11325 Random Hills Road, Suite 240  
Fairfax, VA 22030  
703-436-3800

## Main Branch

11325 Random Hills Road, Suite 140  
Fairfax, VA 22030  
703-672-2580

## Arlington Branch

2500 Wilson Boulevard, Suite 100  
Arlington, VA 22201  
703-387-5050

## Baltimore Branch

224 Albemarle Street  
Baltimore, MD 21202  
410-685-4611

## Bethesda Branch

6929 Arlington Road  
Bethesda, MD 20814  
301-652-2265

## Manassas Branch

7900 Sudley Road, Suite 100  
Manassas, VA 20109  
703-656-7300

## Reston Branch

11260 Roger Bacon Drive, Suite 101  
Reston, VA 20190  
703-436-3880

## Rockville Branch

1600 E. Gude Drive  
Rockville, MD 20850  
240-268-2265

## Springfield Branch

6975 Springfield Boulevard  
Springfield, VA 22150  
703-672-2590

## Washington, DC Branch

1301 9th Street, NW  
Washington, DC 20001  
202-628-5500

## Loan Production Office

100 West Road, Suite 302  
Towson, MD 21204  
410-387-2607



# Banking Adapts to Changing Technology

## Fintech

With the rising prominence of fintech, today's banking is constantly changing. FVCbank continuously applies the most current and innovative technology to improve the customer experience. For example, we partnered with Numerated, an Inc. 5000 fastest-growing fintech company, to implement the latest loan application platforms. In addition, we recognize businesses' fast-paced environment, making technology crucial for easing day-to-day financial operations. Therefore, we continuously research and update software to ensure a streamlined and agile financial experience.



## Transforming Banking

We remain vigilant for new capabilities to expand our products so clients can quickly, safely, and conveniently perform important daily financial transactions. Taking advantage of the latest technology trends always benefits our customers because they experience quicker, more convenient, and seamless financial transactions. Our popular small business funding and accessible account opening services have proven wise decisions on the technology front. As a result, mobile banking has made great strides in recent years, as customers quickly make deposits and perform other critical financial functions.

FVCbank is always mindful of those who place their trust in us. We consider ways to make the banking experience convenient, fast, and secure each day. Today's banking technology requires ongoing research throughout the year to remain competitive and to provide our customers with products and services of maximum benefit, whether businesses or individuals.

While technology is vital to providing an enhanced customer banking experience, it can never replace the personal attention each FVCbank





customer receives. Walk into any of our branches, and you will be greeted with a smile and prompt assistance. We have a receptionist answering phones to quickly and politely transfer you to the appropriate person or department.

Banks seem to offer similar products and services. Yet, it is the banker who so often makes the difference. FVCbank stands out among other local banks because of our commitment to providing the latest technology and our emphasis on customer service. We make it a win-win for the customer.

## Customized Banking

Today's banking technology makes running a business or personal activities more manageable. Fewer trips to bank branches free up time to devote to other important matters. FVCbank recognizes the need to leverage the latest secure technology and cash management trends to provide customers with the most seamless banking experience.

In recent years, we have seen community bank consolidation through mergers and acquisitions. However, FVCbank remains steadfast in its mission to establish itself as the region's premier community bank. The Bank's rapid growth energizes our commitment to remaining true to

the spirit of community banking by providing accessible, fast, secure, efficient, and personal service for our customers.

Small businesses are the economic engine in the United States, and it is undoubtedly true in the Washington, DC, and Baltimore, Maryland metropolitan regions. FVCbank proudly finances local small businesses. As such, we are committed to the success of the businesses we are privileged to serve. As a local community bank, we are confident we can better serve the needs of local companies, and we take our role seriously. Our officers are familiar with the local economies and can provide small business loans customized to satisfy the financial needs of clients.

FVCbank loan officers structure terms to benefit the needs of a particular business' unique goals, guiding customers through each loan's risks and rewards. Every FVCbank officer is dedicated to providing optimum service to help our customers achieve their goals with maximum convenience and security. We are accountable to our customers, shareholders, and fellow FVCbank colleagues.



## Community Involvement

FVCbank is committed to the communities we serve. It is our privilege to give back to neighbors in need. In addition, we play a small part in building healthier and happier communities by remaining active on boards, assisting nonprofit staff, or teaching financial best practices. The following is a condensed list of organizations in which our bank officers are involved:

### Cornerstones

**Ronald McDonald House**

**INOVA Life with Cancer**

**Charity Golf Tournaments**

**Financial Literacy**

**Virginia Hospital Center Medical Brigade**



## Lasting Client Relationships

Our Executive Management team diligently works to stay current with banking technology and keep pace with the latest platforms that make banking with us seamless, secure, and accessible. While technology is critical to providing improved customer online and mobile banking experiences, it is a faceless companion. We make up for technology's impersonal presence with our team of bankers and the extra personal attention they provide to each customer.

By aligning personal service with the convenience of today's technology, FVCbank will continue serving the Baltimore, Washington, D.C., and Northern Virginia region for many years. As a result, our bankers are knowledgeable about the local market, accessible, and empowered to make timely decisions. In addition, our dedication to providing all it takes for the best customer experience leads to FVCbank enjoying lasting relationships with its clients and a positive experience for its investors.





# Testimonials

FVC



# Medical Services

Healthcare providers require convenient, efficient, secure banking to ensure timely payment from private insurers. FVCbank works with healthcare practices to customize banking packages for efficient cash flow and management of revenues.

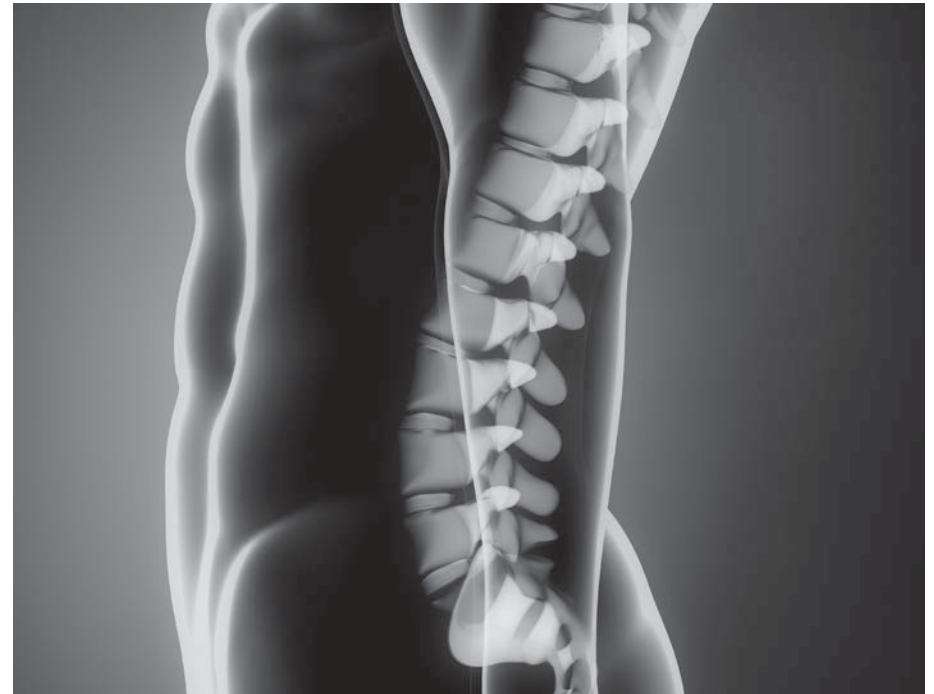
## Virginia Spine Institute

The Virginia Spine Institute is a worldwide destination for innovative spine solutions. Thirty years ago, the Virginia Spine Institute was founded in Reston, Virginia, to provide unparalleled spine care that did not exist elsewhere. Today, they have helped over 100,000 people improve their quality of life.

“We have the top spine doctors and therapists in the world, offering modern treatment solutions which boast a 92% patient success rate,” said Gordon Taylor, COO & CFO of the Virginia Spine Institute. When the Virginia Spine Institute required an elevated banking service level and solutions for an expanding business Christopher Good MD, President of Virginia Spine Institute, was referred to FVCbank. “I called the bank’s chief lending officer on the weekend to discuss our needs, and the responsiveness I received from the start put FVCbank at the forefront of our search,” said Dr. Good.

While the Virginia Spine Institute was with a national bank for over 25 years, Dr. Good began searching for new options to find a more personalized approach. “I’ve worked with many banks, but FVCbank worked with us to create a customized financial plan to fit our needs. This is aligned with our business philosophy to provide individualized spine treatments that our patients deserve,” said Dr. Good, adding, “and we expect the same from our business partners. Therefore, we transitioned our entire banking relationship to FVCbank.”

For more information about the Virginia Spine Institute, visit [www.spinemd.com](http://www.spinemd.com), or call 703-709-1114.



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*“FVCbank worked with us to create a customized financial plan to fit our needs.”*

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**VIRGINIA SPINE INSTITUTE**



L to R: Dr. Yash Mehta, Dr. William Kemp, Dr. Colin Haines, Dr. Thomas Schuler, Dr. Christopher Good, Dr. Niteesh Bharara, Dr. Thomas Nguyen, Dr. Ehsan Jazini



# Commercial Property Management

Property Management firms require seamless cash management for closings, receipt of rent payments, and maximizing payables. In addition, property management companies recognize FVCbank as the go-to source for lines of credit, term loans, sweep accounts, remote check deposits, and fraud prevention services.

## Rappaport

Rappaport has been the Greater Washington area's retail authority for the past 38 years, currently managing and leasing more than 200 properties in the District, Maryland, and Virginia. As a responsible corporate citizen, Rappaport invests its energies and talents to enhance the communities it serves, and provides clients the focused attention required for their satisfaction and success.

A solid banking relationship is critical to an organization's success. Bankers nurture the relationship and the bank's products and services ensure healthy financial results. Rappaport describes the relationship with FVCbank as a bank that stands out because of its responsiveness and flexibility. "Our commercial loan officer worked diligently to customize the loan around unusual collateral and to meet our needs." That loan has been repaid, but the experience led Rappaport to look for more opportunities to work with FVCbank. "Rappaport did find an opportunity when, in 2022, Rappaport needed to refinance a property in suburban Baltimore. The closing process with FVCbank is incredibly smooth."

Of significant importance is the long-term relationship Rappaport has with its FVCbank loan officer. While other banks have a tendency to regularly transfer bankers, FVCbank creates value by maintaining stability among its customer-facing team.

"FVCbank is part of a very small list of lenders to whom we give priority when Rappaport is in the market for financing."



L to R: Larry Spott, Executive Vice President; Henry Fonvielle, President; Gary D. Rappaport, Chief Executive Officer; Frank Pieruccini, Chief Financial Officer; Stephen R. Pugh, Chief Operating Officer

*"FVCbank is part of a very small list of lenders to whom we give priority when Rappaport is in the market for financing."*

For more information about Rappaport, visit [www.rappaportco.com](http://www.rappaportco.com), or call 571-382-1200.





# Real Estate Development

Term loans, lines of credit, remote check deposits, IOLTA accounts, and merchant services generally meet the banking requirements of real estate developers, law firms, CPAs, and consulting firms. FVCbank blends the right balance between financial management and customized personal service to accommodate the needs of this diverse industry.

## Community Three

Community Three's investment and development capabilities focus on multi-family and mixed-use assets, primarily in the DMV (DC, MD and VA), that create value through robust conceptual design and community-driven vision. Community Three's team are experienced specialists in historic rehabilitation and adaptive reuse having converted numerous sites and/or buildings including churches, schools, mansions and office buildings into mixed used residential communities.

The firm is comprised of two visionary leaders, Grant Epstein and Lynn Hackney. Grant serves as President chiefly leading Community Three's execution and design teams. Lynn serves as the Principal, running Community Three's acquisition, capital, and market research teams.

Lynn Hackney is bullish on building, buying, and living in Washington, and is equally bullish on FVCbank. "I used to serve on bank loan committees. That experience has helped me to understand how a deal should be structured," Hackney said. "Without hesitation, I can say FVCbank is superior to other banks I have dealt with in business. I mean, they are really good! They take the time to understand the project, and then they return with a detailed term sheet. What FVCbank puts in their term sheet is what they follow. As a bank customer, that's golden. I can rely on FVCbank to do what they say they are going to do."

For more information about Community Three, visit [www.communitythree.com](http://www.communitythree.com), or call 202-232-3068



Grant Epstein



Lynn Hackney

*"I can say FVCbank is superior to other banks I have dealt with in business."*



# COMMUNITY THREE





# Government Contractors

The Government Contracting industry provides various services to federal, state, and local government agencies, from defense-related weapons systems to complex information systems and office supplies. FVCbank has dedicated lenders and cash management specialists who understand the unique banking requirements of the government contracting industry.

## Kore Capital Corporation

Kore Capital Corporation specializes in providing short-term working capital through accounts receivable financing, or factoring and asset-based lending. Government contractors and small businesses are Kore's primary client base. Often, traditional bank financing is not an option.

Kwesi Rogers started Kore Capital right at the beginning of the COVID-19 pandemic. From 2020 until mid-2022, COVID suppressed the need for liquidity in the market, putting Rogers in a difficult spot. Kore's customer base was dealing with the harsh financial realities brought on by COVID, and the market was flooded with liquidity from the Payroll Protection Program. "Market demand for Kore's services and products for working capital was almost non-existent. It was a challenging time," said Rogers.

Rogers appreciates all the banks that have showed an interest in Kore. "When I met with FVCbank, I knew it was the right bank from the start," Rogers said. "FVCbank officers genuinely wanted to listen to my plans even though we fell short of our initial projections during the first 24 months in business."

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*"Without a doubt, FVCbank is the most responsive banking relationship I have ever experienced over my 31 years in business."*

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Kwesi Rogers

Rogers closed with, "Without a doubt, FVCbank is the most responsive banking relationship I have ever experienced over my 31 years in business. Everyone I talk with at FVCbank is helpful, friendly, and supportive. Thanks to FVCbank, I was able to thrive during trying times."

For more information about Kore Capital Corporation, go to [www.korecc.com](http://www.korecc.com), or call 301-307-5091.



# Private Schools

FVCbank understands the financial needs of private schools. Our bank has helped get new schools off the ground with term loans and improved the cash flow of prominent and established schools with lines of credit, remote check deposit, merchant, and ACH services.

## ImagiNation Learning Centers

For 36 years, young minds have been nourished by the dedicated faculty and staff at what is now ImagiNation Learning Center, a childcare nonprofit organization. In 2011, the name was changed from Westfields Play and Learn to ImagiNation Learning Center.

Silke Duke is a woman on a mission. ImagiNation Learning Centers is the solution to her goal of providing children from infancy to five years a safe and nurturing place for exploration, discovery, and learning. Duke's approach to nurturing children is highly popular with parents. "Three centers meet the needs of increasing enrollment, and FVCbank has financed our expansion," Duke added.

"Life is about relationships," says Duke. "At ImagiNation, we form trusting relationships with the children, their parents, family members, our professional staff, vendors, and bankers. I should say, banker, singular. The relationship we have formed with FVCbank is incredible. It's built on trust, respect, a common interest in ImagiNation, and exceptional customer service," added Duke.



"I am a huge FVCbank fan, and without hesitation, I recommend FVCbank to others seeking a helpful, sincere, responsive, friendly, technologically savvy bank," Duke stated.

For more information about [www.imaginationlearning.net](http://www.imaginationlearning.net), or call 703-743-9667.

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*"I am a huge FVCbank fan, and without hesitation, I recommend FVCbank to others seeking a helpful, sincere, responsive, friendly, technologically savvy bank."*

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# Title and Settlement

Title searches, surveys, tax certificates, legal services, escrow, filing, recording, documentation, and delivery require reliable, prompt, and secure funds transfer. FVCbank completes its wire transfers, ACH transactions, and sweep accounts. Add our fraud prevention positive pay, and funds swiftly and securely are transferred on time.

## Certified Title Corporation

CEO Michael Segal and President Stephen Millstein, Esq., established Certified Title Corporation 30 years ago. Over the years, they have grown the business into a leading nationwide company.

Before FVCbank, Certified Title had relationships with regional and national banks but never a community bank. “The other banks took our money but never bothered to learn our names or business,” said Segal. “They all worked hard to get our business but not to keep it.”

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*“We are extremely pleased with FVCbank.  
It’s a true relationship.”*

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Millstein added, “We are extremely pleased with FVCbank. It’s a true relationship. FVCbank knows our business, and they even know our names. Our business moves money. FVCbank moves money. It’s a great fit.”

Segal and Millstein are impressed by the technology FVCbank employs. They noted FVCbank’s online banking as “exceptional, and the customer service is second to none. Cash Management staff will identify a duplicate wire transfer. Before releasing the duplicate, they take the time to call us and ask if it is an authorized transfer.”



Segal stressed how much he appreciates FVCbank Chairman and CEO David Pijor. “When I met David over three years ago, he asked what products and services Certified Title needed. I listed our needs, and David said FVCbank would deliver the products. He then had a package customized for Certified Title. We have been spoiled by FVCbank ever since.”

For more information about Certified Title, visit [www.certifiedtitlecorp.com](http://www.certifiedtitlecorp.com), or call 410-902-5884.





Certified Title  
CORPORATION



## Selected Financial Data (Dollars and shares in thousands, except per share data)

	Years Ended December 31,				
	2022	2021	2020	2019	2018
<b>Income Statement Data:</b>					
Interest income	\$80,682	\$68,428	\$67,103	\$66,734	\$51,924
Interest expense	15,438	10,481	14,483	18,671	12,110
Net interest income	65,244	57,947	52,620	48,063	39,814
Provision for loan losses	2,629	(500)	5,016	1,720	1,920
Net interest income after provision for loan losses	62,615	58,447	47,604	46,343	37,894
Non-interest income	2,834	4,302	2,891	2,546	1,661
Non-interest expense	34,460	34,540	30,838	28,877	26,448
Net income before income taxes	30,989	28,209	19,657	20,012	13,107
Provision for income taxes	6,005	6,276	4,156	4,184	2,238
Net income	\$24,984	\$21,933	\$15,501	\$15,828	\$10,869
<b>Balance Sheet Data:</b>					
Total assets	\$2,344,322	\$2,202,924	\$1,821,481	\$1,537,295	\$1,351,576
Loans receivable, net of fees	1,840,434	1,503,849	1,466,083	1,270,526	1,136,743
Allowance for loan losses	(16,040)	(13,829)	(14,958)	(10,231)	(9,159)
Total investment securities	278,333	358,038	126,415	141,589	125,298
Total deposits	1,830,162	1,883,769	1,532,493	1,285,722	1,162,440
Other borrowed funds	284,565	44,510	69,085	49,487	24,407
Total shareholders' equity	202,382	209,796	189,500	179,078	158,336
Common shares outstanding	17,476	13,727	13,511	13,902	13,713
<b>Per Common Share Data<sup>(1)</sup>:</b>					
Basic net income	\$1.43	\$1.29	\$0.91	\$0.92	\$0.74
Fully diluted net income	1.35	1.20	0.88	0.86	0.68
Book value	11.58	12.23	11.22	10.30	9.24
Tangible book value <sup>(2)</sup>	11.14	11.76	10.73	9.81	8.74
<b>Performance Ratios:</b>					
Return on average assets	1.18%	1.11%	0.91%	1.09%	0.94%
Return on average equity	12.34	10.92	8.48	9.32	9.29
Net interest margin <sup>(3)</sup>	3.19	3.09	3.28	3.48	3.51
Efficiency ratio <sup>(4)</sup>	50.62	55.49	55.55	57.06	63.07
Non-interest income to average assets	0.13	0.22	0.17	0.18	0.14
Non-interest expense to average assets	1.62	1.75	1.80	1.99	2.28
Loans receivable, net of fees to total deposits	100.56	79.83	95.67	98.82	97.79

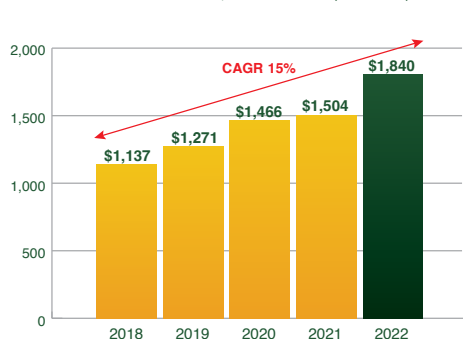


## Selected Financial Data (Dollars and shares in thousands, except per share data)

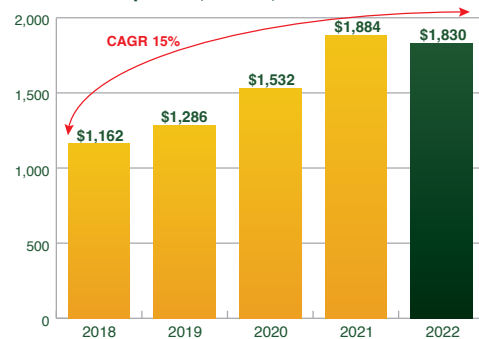
	Years Ended December 31,				
	2022	2021	2020	2019	2018
<b>Asset Quality Ratios:</b>					
Net charge-offs (recoveries) to average loans receivable, net of fees	0.03%	0.04%	0.02%	0.05%	0.05%
Nonperforming loans to loans receivable, net of fees	0.24	0.23	0.38	0.84	0.34
Nonperforming assets to total assets	0.19	0.16	0.52	0.95	0.57
Allowance for loan losses to nonperforming loans	357.00	394.21	266.11	95.39	285.24
Allowance for loan losses to loans receivable, net of fees	0.87	0.92	1.02	0.81	0.81
<b>Capital Ratios (Bank Only):</b>					
Tier 1 risk-based capital	13.28%	13.54%	15.27 %	12.72 %	13.27%
Total risk-based capital	12.45	12.72	14.25	13.43	14.02
Common Equity Tier 1 capital	12.45	12.72	14.25	12.72	13.27
Leverage capital ratio	10.75	10.55	11.65	12.15	12.41
<b>Other:</b>					
Average shareholders' equity to average total assets	9.53%	10.15%	10.70%	11.71%	10.09%
Average loans receivable, net of fees to average total deposits	86.77%	86.80%	98.51%	98.56%	96.56%
Average common shares outstanding <sup>(1)</sup> :					
Basic	17,431	17,062	16,928	17,271	14,644
Diluted	18,484	18,227	17,668	18,531	16,028

(1) Amounts for all periods reflect the effect of a 5-for-4 stock split declared on December 15, 2022.  
(2) Tangible book value is calculated as total shareholders' equity, less goodwill and other intangible assets, divided by common shares outstanding.  
(3) Net interest margin is calculated as net interest income divided by total average earning assets.  
(4) Efficiency ratio is calculated as total non-interest expense divided by the total of net interest income and non-interest income.

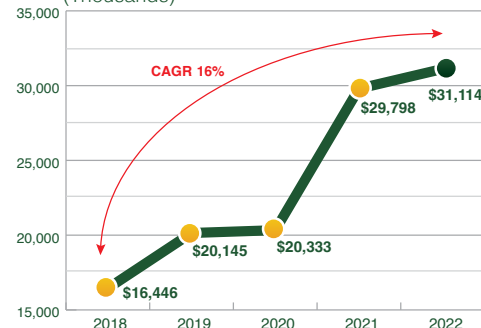
**Loans Receivable, net of fees (Millions)**



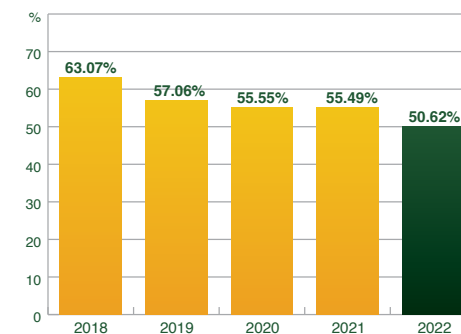
**Total Deposits (Millions)**



**Income Before Nonrecurring Expenses and Taxes (Thousands)**



**Efficiency Ratio**





**FVCbank**



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*“Staying current with financial technology is central to our bank’s mission to provide an exceptional customer experience, superior internal efficiencies, and a competitive edge among our peers. At the same time, maintaining a healthy and happy work environment is essential to achieving the mission.”*

Patricia A. Ferrick  
President

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**FVCBankcorp, Inc.**

**[fvcbank.com](http://fvcbank.com)**



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2022

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: 001-38647

**FVCBankcorp, Inc.**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction  
of incorporation or organization)

**47-5020283**

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

**11325 Random Hills Road, Suite 240**  
**Fairfax, Virginia**

(Address of principal executive offices)

**22030**

(Zip Code)

Registrant's telephone number, including area code: **(703) 436-3800**

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

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Stock, \$0.01 par value	FVCB	The Nasdaq Stock Market, LLC

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☒

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2022: \$237,799,174.

The number of shares outstanding of Common Stock, as of March 17, 2023, was 17,674,224.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2023 Annual Meeting of Shareholders are incorporated by reference into Part III of the Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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## Cautionary Note About Forward-Looking Statements

This Annual Report on Form 10-K, as well as other periodic reports filed with the U.S. Securities and Exchange Commission, and written or oral communications made from time to time by or on behalf of FVCBankcorp, Inc. and its subsidiary (the "Company"), may contain statements relating to future events or future results of the Company that are considered "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "aim," "intend," "plan," or words or phrases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- general business and economic conditions nationally or in the markets that the Company serves could adversely affect, among other things, real estate valuations, unemployment levels, inflation levels, the ability of businesses to remain viable, consumer and business confidence, and consumer or business spending, which could lead to decreases in demand for loans, deposits, and other financial services that the Company provides and increases in loan delinquencies and defaults;
- the risk of changes in interest rates on levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;
- changes in the Company's liquidity requirements could be adversely affected by changes in its assets and liabilities;
- changes in the assumptions underlying the establishment of reserves for possible loan losses;
- changes in market conditions, specifically declines in the commercial and residential real estate market, volatility and disruption of the capital and credit markets, and soundness of other financial institutions we do business with;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- the Company's investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates used to value the securities in the portfolio;
- declines in the Company's common stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to record a noncash impairment charge to earnings in future periods;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- geopolitical conditions, including acts or threats of terrorism, or actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- the occurrence of significant natural disasters, including severe weather conditions, floods, health related issues or emergencies, including the COVID-19 pandemic, and other catastrophic events;

- our management of risks inherent in our real estate loan portfolio, and the risk of a prolonged downturn in the real estate market, which could impair the value of our collateral and our ability to sell collateral upon any foreclosure;
- changes in consumer spending and savings habits;
- technological and social media changes;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or our subsidiary bank in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products;
- the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- the impact of changes in laws, regulations and policies affecting the real estate industry;
- the effect of changes in accounting policies and practices, as may be adopted from time to time by bank regulatory agencies, the U.S. Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setting bodies;
- the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the willingness of users to substitute competitors' products and services for our products and services;
- the effect of acquisitions we may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- changes in the level of our nonperforming assets and charge-offs;
- our involvement, from time to time, in legal proceedings and examination and remedial actions by regulators; and
- potential exposure to fraud, negligence, computer theft and cyber-crime.

The foregoing factors should not be considered exhaustive and should be read together with other cautionary statements that are included in this Form 10-K, including those discussed in the section entitled "Risk Factors" in Item 1A below. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us.



## PART I

### Item 1. Business

#### Overview

The Company is a registered bank holding company headquartered in Fairfax, Virginia. We operate primarily through our sole subsidiary, FVCbank, (the "Bank"), a community oriented, locally-owned and managed commercial bank organized under the laws of the Commonwealth of Virginia. We serve the banking needs of commercial businesses, nonprofit organizations, professional service entities, and their respective owners and employees located in the greater Washington, D.C. and Baltimore metropolitan areas. The Company was established as the holding company for the Bank in 2015.

Since the Bank began operations in November 2007, it has grown largely organically, through *de novo* branch expansion, banker and customer acquisition, and two whole-bank acquisitions. In 2012, we completed the acquisition of 1st Commonwealth Bank of Virginia ("1<sup>st</sup> Commonwealth"), a \$58.9 million asset savings and loan association in Arlington, Virginia.

On October 12, 2018, we completed our acquisition of Colombo Bank ("Colombo"), which was headquartered in Rockville, Maryland, and added five banking locations in Washington, D.C., and Montgomery County and the City of Baltimore in Maryland.

Our acquisition of Colombo supported our business allowing us to expand our presence in adjacent markets where we lend, but in which we had no physical presence. Colombo's branch locations strengthened our strategy as they enabled us to add lenders and banking services in areas where we lend. Our strong infrastructure and wide range of products and services allowed us to develop deeper relationships with Colombo's customers, as well as enhance our platform for generating new relationships.

On August 31, 2021, we announced that the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for \$20.4 million to obtain a 28.7% ownership interest in ACM. This ownership interest is subject to an earnback option of up to 3.7% over the next three years. As of December 31, 2022, our percentage ownership had decreased to 27.7%. In addition, the Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify our held to investment loan portfolio.

#### Market Area

We operate in one of the most economically dynamic and wealthy regions of the Washington and Baltimore Metropolitan Statistical Areas ("MSA"), focusing primarily on the Virginia counties of Arlington, Fairfax, Loudoun and Prince William and the independent cities located within those counties, as well as Washington, D.C. and its Maryland suburbs and Baltimore, Maryland and its surrounding suburbs. As of June 30, 2022, the Washington MSA had total deposits of \$297.1 billion and the Baltimore MSA had total deposits of \$104.6 billion, based on Federal Deposit Insurance Corporation ("FDIC") data.

Our market area's unemployment rate has generally remained below the national average for the last several years. While the region continues to experience the economic effects of the COVID-19 pandemic, the region's unemployment rate remained below the national average as the region has the benefit of a highly trained and educated workforce concentrated in government and professional service businesses. These factors, along with the ability of the regional infrastructure to support remote working, have provided a greater amount of resiliency during the pandemic on the overall employment metrics for our market.

In addition to the presence of the federal government, the Washington MSA is defined by attractive market demographics, including strong household incomes, dense populations and the presence of a diverse group of large and small businesses. According to the U.S. Census Bureau, the region is home to four of the top ten most highly educated counties in the nation and four to the top ten most affluent counties, as measured by household income. As of December 31, 2020, the Washington MSA had a median household income of \$106,415, which ranks as sixth highest among all MSAs nationally, and a population of 6.3 million. The Virginia and Maryland localities within the Washington MSA in which we primarily operate have higher median household incomes than the Washington MSA as a whole and have an unemployment rate of 2.8% as of December 2022. The significant presence of national and international businesses make

the Washington MSA one of the most economically vibrant and diverse markets in the country. The Washington MSA is currently home to 16 Fortune 500 companies, including eight based in Fairfax County.

The Baltimore MSA also has strong economic factors which enhance our business profile. As of December 31, 2020, the Baltimore MSA had a median household income of \$83,811 which represented 3.3% growth over the previous year. The Baltimore MSA has an unemployment rate of 3.1% as of December 2022. With a population of 2.8 million, the top industries of the Baltimore MSA include health care, education, and professional, scientific and technical services.

Our business, financial condition, and results of operations have been profoundly affected by the pandemic, which will potentially have adverse effects on our future performance. Both globally and within the United States, the pandemic has resulted in negative impacts and a disruption to economic and commercial activity and financial markets. The local economy in which we operate began to strengthen and improve during 2021 and continued into 2022. This economic improvement resulted in lower unemployment, increased consumer confidence, and increased housing development and housing prices. However, our business opportunities may be tempered by concerns related to inflation, the cessation of pandemic-related government stimulus, and contractionary monetary policy. Volatility in global economic markets, continued domestic political turmoil and various episodes of geopolitical unrest continue to provide a degree of uncertainty in financial markets. Aside from these challenges, we continue to be encouraged by the resiliency of the current economic environment and the prospects for continued growth of the Company.

### **Growth Strategy**

Our approach features competitive customized financial services offered to customers and prospects in a personal relationship context by seasoned professionals. We provide a full range of banking services that become integral to our customers' business operations, which helps to enhance our ability to retain our relationships. We offer a better value proposition to our customers by providing high-touch service with few added fees. Our capabilities and reputation enable us to be selective in loan and customer selection, which contributes to our strong asset quality, and our ability to provide multiple services to customers.

We intend to continue expanding our market position through organic growth, through expansion of our relationships with our existing customers, acquisition of new customers and acquisition of seasoned bankers with strong customer relationships, through selective branching, and potentially opportunistic acquisitions or other strategic transactions, while increasing profitability, maintaining strong asset quality and a high level of customer service.

Our success has been driven by our mission to help our clients, communities and employees prosper. We strive to exceed our clients' expectations by delivering superior, personalized client service supported with high quality bank products and services. We invest in the growth of our employees and we give back to the communities in which we do business to foster a brighter future for everyone who lives there. Much of our early growth was the result of the active promotion by our organizing shareholders, our board of directors, our advisory board and our shareholders as many of the aforementioned are customers. We receive referrals from existing customers and all employees are encouraged to promote the Company. We believe having such a large group of individuals actively promote the Company has and will continue to augment our ability to generate both deposits and loans through staff and management led marketing and calling campaigns. As we have grown, we have increased our reliance on management originated customer relationships, but believe that our strong network of personal, customer and shareholder relationships and referrals will continue to be a significant factor in our business development strategy.

Our vision is to be known as the number one community bank in experience and service in our community. Our passion is to provide the utmost banking experience for each of our clients, to create a positive and empowering work environment for our employees, to fulfill our obligation of corporate citizenship in the communities in which we operate and to ensure that our Bank increases profitability and grows prudently, ensuring its strength and continuity, and increasing shareholder value.

### **Our Products and Services**

We emphasize providing commercial banking services to small and medium-sized businesses, professionals, non-profit organizations and associations, and investors living and working in and near our service area. We offer retail banking services to accommodate the individual needs of both corporate customers as well as the communities we serve. We also offer online banking, mobile banking and a remote deposit service, which allows clients to facilitate and expedite deposit transactions through the use of electronic devices. A sophisticated suite of treasury management products is a key feature



of our client focused, relationship driven marketing. We have partnered with experienced service providers in both insurance and merchant services to further augment the products available to our customers.

## **Lending Products**

We provide a variety of lending products to small and medium-sized businesses, including (i) commercial real estate loans; (ii) commercial construction loans; (iii) commercial loans for a variety of business purposes such as for working capital, equipment purchases, lines of credit, and government contract financing; (iv) Small Business Administration ("SBA") lending; (v) asset based lending and accounts receivable financing; (vi) home equity loans, or home equity lines of credit; and (vii) consumer loans for constructive purposes. Through our partnership with ACM, we purchase residential mortgage loans primarily originated in our market area that meet our product criteria and pricing, to help with the diversification of our loan portfolio. Although we do not generally actively originate them, we have acquired pools of other types of loans, student loans and other consumer loans, in order to diversify the loan portfolio, put capital to work before organic loan production requires it, and to increase margin. We may also purchase participations from other banks in our market. Any acquired loans must meet our standard underwriting requirements.

During 2020 and 2021, we participated in the SBA's Paycheck Protection Program ("PPP"), which provided forgivable loans to small businesses to enable them to maintain payroll, rehire employees who had been laid off, and cover applicable overhead. These loans are fully guaranteed by the SBA and provide for the full forgiveness of the loans during a specified forgiveness period that meet specific guidelines provided by the SBA. Loans that do not meet forgiveness criteria will enter a repayment period of either 2 or 5 years. At December 31, 2022, PPP loans totaled \$2.0 million, net of fees, or 0.1% of total loans as this population continues to decline as no new originations occurred during 2022.

*Commercial Real Estate Loans.* Commercial real estate loans, which comprise the largest portion of the loan portfolio, are secured by both owner occupied and investor owned commercial properties, including multi-family residential real estate. Commercial real estate loans are structured using both variable and fixed rates and renegotiable rates which adjust in three to five years, with maturities of generally five to ten years. At December 31, 2022, owner occupied commercial real estate loans represented 11.3% of the loan portfolio. At December 31, 2022, non-owner occupied commercial real estate loans represented approximately 39.0% of the loan portfolio and multi-family residential real estate comprised 9.4% of the portfolio. We seek to mitigate lending risks typical of this type of loan such as declines in real estate values, changes in borrower cash flow and general economic conditions. We typically require a maximum loan to value of 80% and minimum cash flow and debt service coverages, of at least 1.20 to 1.00. Personal guarantees are generally required, but may be limited. We generally require that interest rates adjust not less frequently than five years. For purposes of geographic diversification, we will also make commercial real estate loans outside of our primary and secondary markets, in an area extending south to Richmond, Virginia, and north of Baltimore, Maryland, and between Winchester, Virginia and the Eastern Shore of Maryland.

*Construction Loans.* Commercial construction loans for the acquisition, development and construction of commercial real estate also comprise a significant and growing portion of the portfolio. At December 31, 2022, such loans represented 8.0% of the loan portfolio. Our typical commercial construction loan involves property that will ultimately be leased to a non-owner occupant. We will finance construction projects of a speculative nature, which are well-conceived and structured with appropriate interest reserves and analyzed fully. In underwriting commercial construction loans, we consider the expected costs of the transaction, the loan to value ratio, the credit history, cash flows and liquidity of the borrower, the project and the guarantors, the debt service coverage ratios (which are stressed prior to approval), take out sources for the permanent loan or repayment of the construction loan, the reputation, experience and qualifications of the borrower, the general contractor and others involved with the project and other factors. Commercial construction loans are generally made on a variable rate basis, typically based on the Wall Street Journal Prime Rate and subject to rate floors, for terms of 12 - 24 months. Generally, we do not make commercial construction loans outside of our primary or secondary market areas.

*Commercial Loans, Government Contracting.* Commercial loans, excluding PPP loans, for a variety of business purposes, including working capital, equipment purchases, lines of credit, and government contract financing and asset based lending and accounts receivable financing, comprise approximately 13.2% of our loan portfolio at December 31, 2022. The warehouse facility provided to ACM is also included in this loan type. We make commercial loans on a secured or unsecured basis. We generally require the owners, managing members, general partners and principals of the borrowing entity or that control more than 20% of the borrower to guaranty the loan, unless a combination of low leverage, significant income and debt service coverage ratios, and substantial experience in operating the business, strong management and internal controls and/or other factors are demonstrated. Commercial loans are typically made with variable or adjustable

rates. The cash flow of the borrower/borrower's operating business is often the principal source of debt service, with a secondary emphasis on other collateral.

We have developed a special expertise in government contract financing. We lend to government contractors or subcontractors headquartered in the Washington, D.C. metropolitan area. This area of lending encompasses lines of credit for working capital, financing of government leases, mergers and acquisition financing, and, less frequently term loans, to operating companies that recognize over 50% of their total revenues from services provided to federal government agencies or rated state and municipal governments. Our borrowers are typically engaged in technology or service businesses, but may also include construction and equipment providers, or entities working on "classified" projects. A government contractor borrower must have an acceptable level of eligible accounts receivable, provide appropriate security instruments perfecting our rights in the accounts receivable or other collateral, and are subject to periodic review and monitoring of their receivables, contract backlog and contract compliance. The contractor is typically required to have its primary deposit relationship with us. Advance rates will be up to 90% of prime eligible government receivables, and lower percentages depending on the nature of the receivables. At December 31, 2022, outstanding loans to government contractors represented 40.3% of our commercial and industrial segment. Total commitments to government contractors totaled \$305.1 million at December 31, 2022. Government contract loans are typically made with variable or adjustable rates. Lines of credit typically have a one year term. As with other commercial loans, guarantees are typically required.

*Consumer Residential.* We actively originate loans for residential 1-4 family trust investment purposes and HELOCs in the communities we serve in the Washington and Baltimore MSAs. In addition, we have portfolio mortgage products that we developed for use by ACM to help diversify our total loan portfolio. Our HELOCs generally have a maximum loan to value of up to 85%, however, due to the favorable economic conditions and strong residential real estate market in these markets, actual loan to values are typically lower than the maximum. We provide HELOCs as a service to our customers and when we receive referrals from various mortgage brokers within our market area. As of December 31, 2022, HELOCs comprise 1.9% of total loans. Loans originated for residential 1-4 family trust investment purposes comprise 4.9% of total loans as of December 31, 2022. While we do not typically originate residential first mortgages, we will occasionally originate a mortgage loan meeting our investment preferences presented by a mortgage broker. We have also purchased portfolios of 1-4 family residential first mortgage loans on properties primarily located in our market area for yield and diversification. At December 31, 2022, consumer residential loans represented 18.5% of the loan portfolio.

*Other Loans.* We occasionally originate consumer loans both on an unsecured basis and secured by non-real estate collateral. We have also purchased pools of unsecured consumer loans and student loans from a third party for yield and diversification.

The lending activities in which we engage carry the risk that the borrowers will be unable to perform on their obligations. As such, interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve") and general economic conditions, nationally and in our market areas, could have a significant impact on our results of operations. To the extent that economic conditions deteriorate business and individual borrowers may be less able to meet their obligations to us in full, in a timely manner, resulting in decreased earnings or losses. Economic conditions may also adversely affect the value and liquidity of property pledged as security for loans.

Our goal is to mitigate risks in the event of unforeseen threats to the loan portfolio as a result of economic downturn or other negative influences. Plans for mitigating inherent risks in managing loan assets include: carefully enforcing loan policies and procedures, evaluating each borrower's business plan during the underwriting process and throughout the loan term, identifying and monitoring primary and alternative sources for loan repayment, and obtaining collateral to mitigate economic loss in the event of liquidation. Specific loan reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is employed to proactively estimate loss exposure and provide a measuring system for setting general and specific reserve allocations.

Our lending activities are subject to a variety of lending limits imposed by state and federal law. These limits will increase or decrease in response to increases or decreases in our level of capital. At December 31, 2022, the Bank had a legal lending limit of \$38.5 million. At December 31, 2022, our average funded loan size outstanding, excluding PPP loans, for commercial real estate (including commercial construction) and commercial loans was \$2.2 million and \$1.1 million, respectively. In accordance with internal lending policies, we may sell participations of loans to other banks, which allows us to manage risk involved in these loans and to meet the lending needs of our clients.

*Concentrations of Credit Risk.* Most of our lending is conducted with businesses and individuals in the suburbs of Washington, D.C. Our loan portfolio consists primarily of commercial real estate loans, including construction and land



loans, which totaled \$1.25 billion and constituted 67.8% of total loans as of December 31, 2022, and commercial loans, including loans to government contractors and the ACM warehouse lending facility, which totaled \$243.2 million and constituted 13.2% of total loans as of December 31, 2022. The geographic concentration of our loans subjects our business to the general economic conditions within our market area. The risks created by such concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover probable incurred losses in our loan portfolio as of December 31, 2022.

Comprehensive risk management practices and appropriate capital levels are essential elements of a sound commercial real estate lending program. A concentration in commercial real estate adds a dimension of risk that compounds the risk inherent in individual loans. The federal banking agencies have issued guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that institutions that have (i) total reported loans for construction, land development, and other land which represent 100% or more of an institution's total risk-based capital; or (ii) total reported commercial real estate loans, excluding loans secured by owner-occupied commercial real estate, representing 300% or more of the institution's total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. We have a concentration in commercial real estate loans, and we have experienced significant growth in our commercial real estate portfolio in recent years. As of December 31, 2022, commercial real estate loans as defined for regulatory purposes represented 405% of our total risk-based capital. Of those loans, commercial construction, development and land loans represented 57% of our total risk based capital. Owner-occupied commercial real estate loans represented an additional 81% of our total risk based capital. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened portfolio monitoring and reporting, and strong underwriting criteria with respect to our commercial real estate portfolio.

## **Deposit Products**

We offer a wide array of deposit products for individuals, professionals, government contractors and other businesses, including interest and noninterest-bearing transaction accounts, certificates of deposit, savings, and money market accounts. We are a relationship based bank, and maintenance of significant deposit relationships is a factor in our decision to make loans and the pricing of our products.

Our sophisticated treasury management and online banking platform allows a commercial customer to view balances, initiate payments, pay bills (including positive pay), issue stop payments, reconcile accounts and set up custom alerts. Online wires, ACH (including positive authorization), remote capture, cash disbursement and cash concentration are additional payment options available to businesses. We provide customers with a sophisticated escrow management product which facilitates and simplifies management of multiple escrow balances. We also provide secure credit card processing and merchant services, with reporting tailored to customer needs. Additionally, we offer online and mobile banking products to our consumer depositors, to complement our branch network.

## **Other Services**

Through third party networks, we offer our customers access to a full range of business insurance products and business and consumer credit card products.

## **Competition**

We are one of the few remaining locally owned and managed independent community banks headquartered in Northern Virginia. We believe that this is an advantageous position and valuable quality which positively differentiates us from our competitors and positions us for future growth from individuals and small and mid-sized business customers who value the attention and customized services which a locally owned and managed community bank can provide.

As of June 30, 2022, there were approximately \$297.1 billion in total deposits shared between banking institutions located in the Washington MSA, according to the FDIC. As of the aforementioned date, our deposit market share was approximately 0.64% in the Washington MSA. Our strategic goal is to increase our market share through selective new branch additions, opportunistic acquisitions, and acquisitions of customers from larger competitors. PNC Bank, Capital One, Wells Fargo Bank, Truist Bank, and Bank of America Corporation hold the primary market shares. However, we believe these large banks generally cannot provide the same level of attention and customization of services to small

businesses that we seek to provide. Through correspondents, referrals to third parties with whom we have partnered, and our own capabilities, we are a full service financial provider, able to compete in substantially all areas of banking, except trust services. Additionally, we believe we provide competitively priced products, superior customer service, flexibility and responsiveness when compared to our larger competitors.

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, financial technology companies and other financial institutions operating in the Washington and Baltimore MSAs and elsewhere.

Our market area is a highly competitive, highly branched, banking market. Competition in our market area for loans to small and middle-market businesses and professionals, our target market, is intense and pricing is important. Several of our competitors have substantially greater resources and lending limits than we have, and offer certain services, such as extensive and established branch networks and trust services that we do not currently provide or currently expect to provide in the near future. Moreover, larger institutions operating in the Washington, D.C. metropolitan market have access to borrowed funds at a lower cost than may be available to us. Additionally, deposit competition among institutions in the market area is strong. As a result, it is possible that we may pay above market rates to attract deposits.

## **Risk Management**

We believe that effective risk management is of primary importance. Risk management refers to the activities by which we identify, measure, monitor, evaluate and manage the risks we face in the course of our banking activities. These include liquidity, interest rate, credit, operational, compliance, regulatory, strategic, financial and reputational risk exposures. Our board of directors and management team have created a risk-conscious culture that is focused on quality growth, which starts with capable and experienced risk management teams and an infrastructure capable of addressing the evolving risks we face, as well as the changing regulatory and compliance landscape. Our risk management approach employs comprehensive policies and processes to establish robust governance. We believe a disciplined and conservative underwriting approach has been the key to our strong asset quality.

Our board of directors sets the tone at the top of our organization, adopting and overseeing the implementation of our risk management, establishing our overall risk appetite and risk management strategy. The board of directors approves our various operating policies, which include risk policies, procedures, limits, targets and reporting structured to guide decisions regarding the appropriate balance between risk and return considerations in our business. Our board of directors receives periodic reporting on the risks and control environment effectiveness and monitors risk levels in relation to the approved risk appetite.

Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms and the risk that credit assets will suffer significant deterioration in market value. We manage and control credit risk in our loan portfolio by adhering to well-defined underwriting criteria and account administration standards established by management, and approved by the board of directors. Our written loan policies document underwriting standards, approval levels, exposure limits and other limits or standards deemed necessary and prudent. Portfolio diversification at the obligor, product and geographic levels is actively managed to mitigate concentration risk. In addition, credit risk management includes an independent credit review process that assesses compliance with policies, risk rating standards and other critical credit information. In addition to implementing risk management practices that are based upon established and sound lending practices, we adhere to sound credit principles. We evaluate our customers' borrowing needs and capacity to repay, in conjunction with their character and history. Our management and board of directors place significant focus on maintaining a healthy risk profile and ensuring sustainable growth. Our risk appetite seeks to balance the risks necessary to achieve our strategic goals while ensuring that our risks are appropriately managed and remain within our defined limits.

Our management of interest rate and liquidity risk is overseen by our Asset and Liability Committee, based on a risk management infrastructure approved by our board of directors that outlines reporting and measurement requirements. In particular, this infrastructure reviews financial performance, trends, and significant variances to budget; reviews and recommends for board approval risk limits and tolerances; reviews ongoing monitoring and reporting regarding our performance with respect to these areas of risk, including compliance with board-approved risk limits and stress-testing; ensures annual back-testing and independent validation of models at a frequency commensurate with risk level; reviews all hedging strategies and recommends changes as appropriate; reviews and recommends our contingency funding plan; establishes wholesale borrowing limits to be submitted to the board of directors; and acts as a second line of defense in

reviewing information and reports submitted to the committee for the purpose of identifying, investigating, and assuring remediation, to its satisfaction, of errors or irregularities, if any.

## **Investment Portfolio**

Our investment securities portfolio is primarily maintained as an on-balance sheet contingent source of liquidity to fund loans and meet the demands of depositors. It provides additional interest income and we seek to have limited interest rate risk and credit risk. We currently classify substantially all of our investment securities as available-for-sale. Our investment policy authorizes investment primarily in securities of the U.S. government and its agencies; mortgage backed securities and collateralized mortgage obligations issued and fully backed by U.S. government agencies, securities of municipalities and to a lesser extent corporate bonds and other obligations, in each case meeting identified credit standards. The securities portfolio, along with certain loans, may also be used to collateralize public deposits, Federal Home Loan Bank of Atlanta ("FHLB") borrowings, and Federal Reserve Bank of Richmond ("FRB") borrowings. We manage our investment portfolio according to written investment policies approved by our board of directors. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk and interest rate risk which is reflective in the yields obtained on those securities.

## **Employees**

As of December 31, 2022, we had 131 full-time employees and 4 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

## **Additional Information**

Our common stock is currently listed on the Nasdaq Capital Market under the symbol "FVCB." We maintain a website at [www.fvcbank.com](http://www.fvcbank.com).

We make available free of charge through our website all of our U.S. Securities and Exchange Commission ("SEC") filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after electronically filing or furnishing such material to the SEC at [www.sec.gov](http://www.sec.gov). Information on our website does not constitute part of, and is not incorporated into, this report or any other filing we make with the SEC.

## **SUPERVISION AND REGULATION**

Our business and operations are subject to extensive federal and state governmental regulation and supervision. The following is a brief summary of certain statutes and rules and regulations that affect or may affect us. This summary is not intended to be an exhaustive description of the statutes or regulations applicable to our business. Supervision, regulation, and examination of the Company by the regulatory agencies are intended primarily for the protection of depositors and the Deposit Insurance Fund, rather than our shareholders.

*The Company.* The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended ("the Act"), and is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Act and other federal laws subject bank holding companies to restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and actions, including regulatory enforcement actions for violations of laws and regulations and unsafe and unsound banking practices. As a bank holding company, the Company is required to file with the Federal Reserve an annual report and such other additional information as the Federal Reserve may require pursuant to the Act. The Federal Reserve may also examine the Company and each of its subsidiaries. As a small bank holding company under the Federal Reserve's Small Bank Holding Company Policy Statement, the Company is not subject to risk-based capital requirements adopted by the Federal Reserve, which are substantially identical to those applicable to the Bank, and which are described below.

The Act requires approval of the Federal Reserve for, among other things, a bank holding company's direct or indirect acquisition of control of more than five percent (5%) of the voting shares, or substantially all the assets, of any bank or the merger or consolidation by a bank holding company with another bank holding company. The Act also generally permits the acquisition by a bank holding company of control, or substantially all of the assets of, any bank located in a state other



than the home state of the bank holding company, except where the bank has not been in existence for the minimum period of time required by state law; but if the bank is at least 5 years old, the Federal Reserve may approve the acquisition.

With certain limited exceptions, a bank holding company is prohibited from acquiring control of any voting shares of any company which is not a bank or bank holding company and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or furnishing services to or performing service for its authorized subsidiaries. A bank holding company may, however, engage in, or acquire an interest in a company that engages in, activities which the Federal Reserve has determined by order or regulation to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such a determination, the Federal Reserve is required to consider whether the performance of such activities can reasonably be expected to produce benefits to the public, such as convenience, increased competition or gains in efficiency, which outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. Some of the activities that the Federal Reserve has determined by regulation to be closely related to banking include making or servicing loans, performing certain data processing services, acting as a fiduciary or investment or financial advisor, and making investments in corporations or projects designed primarily to promote community welfare. The Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

The Gramm Leach-Bliley Act of 1999 ("GLB Act"), allows a bank holding company or other company to certify its status as a financial holding company, which would allow such company to engage in activities that are financial in nature, that are incidental to such activities, or are complementary to such activities. The GLB Act enumerates certain activities that are deemed financial in nature, such as underwriting insurance or acting as an insurance principal, agent or broker, underwriting, dealing in or making markets in securities, and engaging in merchant banking under certain restrictions. It also authorizes the Federal Reserve to determine by regulation what other activities are financial in nature, or incidental or complementary thereto. The Company has not elected financial holding company status.

The Act and the Federal Deposit Insurance Act ("FDIA"), require a bank holding company to serve as a source of financial and managerial strength to its bank subsidiaries. As a result of a bank holding company's source of strength obligation, a bank holding company may be required to provide funds to a bank subsidiary in the form of subordinated capital or other instruments which qualify as capital under bank regulatory rules. Any loans from the holding company to such subsidiary banks likely would be unsecured and subordinated to such bank's depositors and perhaps to other creditors of the Bank. In addition, where a bank holding company has more than one FDIC-insured bank or thrift subsidiary, each of the bank holding company's subsidiary FDIC-insured depository institutions is responsible for losses to the FDIC as a result of an affiliated depository institution's failure.

A bank holding company is generally required to give the Federal Reserve prior written notice of any purchase or redemption of its own then outstanding equity securities. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve.

As a Virginia corporation, the Company is subject to additional limitations and restrictions. For example, state law restrictions include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records, minutes, borrowing and the observance of corporate formalities.

*The Bank.* The Bank is a Virginia chartered commercial bank and a member of the Federal Reserve System, whose accounts are insured by the Deposit Insurance Fund of the FDIC up to the maximum legal limits of the FDIC. The Bank is subject to regulation, supervision and regular examination by the Virginia Bureau of Financial Institutions (the "VBFI") and the Federal Reserve. The regulations of these various agencies govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowing, dividends and location and number of branch offices.

The laws and regulations governing the Bank generally have been promulgated to protect depositors and the Deposit Insurance Fund, and not for the purpose of protecting shareholders.

Commercial banks, savings and loan associations and credit unions are generally able to engage in interstate banking or acquisition activities. As a result, banks in the Washington, D.C. metropolitan area can, subject to limited restrictions, acquire or merge with a bank in another jurisdiction, and can branch *de novo* in any jurisdiction.

Banking is a business, which depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings and the interest received by a bank on loans extended to its customers and on securities held in its investment portfolio constitutes the major portion of the Bank's earnings. Thus, the earnings and growth of the Bank are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve, which regulates the supply of money through various means including open market dealings in United States government securities. The nature and timing of changes in such policies and their impact on the Bank cannot be predicted.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or any of its subsidiaries, or investments in the stock or other securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. Further, a bank holding company and any subsidiary bank are prohibited from engaging in certain tying arrangements in connection with the extension of credit. A subsidiary bank may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that: (i) the customer obtain or provide some additional credit, property or services from or to such bank other than a loan, discount, deposit or trust service; (ii) the customer obtain or provide some additional credit, property or service from or to the Company or any other subsidiary of the Company; or (iii) the customer not obtain some other credit, property or service from competitors, except for reasonable requirements to assure the soundness of credit extended.

*Branching and Interstate Banking.* The federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks has opted out of the interstate bank merger provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, or the Riegle-Neal Act, by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997 which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Such interstate bank mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration limitations described in the Riegle-Neal Act. Washington, D.C., Maryland and Virginia have each enacted laws, that permit interstate acquisitions of banks and bank branches. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") authorizes national and state banks to establish *de novo* branches in other states to the same extent as a bank chartered by that state would be permitted to branch.

The GLB Act made substantial changes in the historic restrictions on non-bank activities of bank holding companies, and allows affiliations between types of companies that were previously prohibited. The GLB Act also allows banks to engage in a wider array of nonbanking activities through "financial subsidiaries."

*Brokered Deposits.* A "brokered deposit" is any deposit that is obtained from or through the mediation or assistance of a deposit broker. Deposit brokers may attract deposits from individuals and companies throughout the United States and internationally whose deposit decisions are based primarily on obtaining the highest interest rates. Certain reciprocal deposits of up to the lesser of \$5 billion or 20% of an institution's deposits are excluded from the definition of brokered deposits, where the institution is "well-capitalized" and has a composite rating of 1 or 2. We have used brokered deposits in the past, and we intend to continue to use brokered deposits as one of our funding sources to support future growth. There are risks associated with using brokered deposits. In order to continue to maintain our level of brokered deposits, we may be forced to pay higher interest rates than those contemplated by our asset-liability pricing strategy. In addition, banks that become less than "well-capitalized" under applicable regulatory capital requirements may be restricted in their ability to accept or renew, or prohibited from accepting or renewing, brokered deposits. If this funding source becomes more difficult to access, we will have to seek alternative funding sources in order to continue to fund our growth. This may include increasing our reliance on FHLB borrowings, attempting to attract additional non-brokered deposits, and selling loans and securities. There can be no assurance that brokered deposits will be available, or if available, sufficient to support our continued growth. The unavailability of a sufficient volume of brokered deposits could have a material adverse effect on our business, financial condition and results of operations. The FDIC has proposed to adopt regulations that are intended to expand the ability of institutions to accept brokered deposits by, among other things, simplifying the process by which institutions and deposit brokers may obtain exemptions from the restriction or conditions on the acceptance of brokered deposits.

*Anti-Money Laundering Laws and Regulations.* The Company is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities ("AML laws"). This category of laws includes the Bank Secrecy Act of 1970, the Money Laundering Control Act of 1986, the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020.

The AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

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

*Capital Adequacy.* The Federal Reserve and the FDIC have adopted risk-based and leverage capital adequacy requirements, pursuant to which they assess the adequacy of capital in examining and supervising banks and bank holding companies and in analyzing bank regulatory applications. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

The federal banking agencies have adopted rules to implement the framework for strengthening international capital and liquidity regulation adopted by the Basel Committee on Banking Supervision ("Basel III"). The Basel III framework, among other things, (i) introduced the concept of common equity tier one capital ("CET1"), (ii) required that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, (iii) expanded the scope of the adjustments to capital that may be made as compared to existing regulations, and (iv) specified that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements.

The Basel III rules require institutions to maintain: (i) a minimum ratio of CET1 to risk-weighted assets of 4.5%, plus a "capital conservation buffer" of 2.5%, or 7.0%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer, or 8.5%; (iii) a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of 8.0%, plus the capital conservation buffer, or 10.5%; and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average of the month-end ratios each month during a calendar quarter).

Basel III also provides for a "countercyclical capital buffer," generally to be imposed when federal banking agencies determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. This buffer would be a CET1 add-on to the capital conservation buffer of 2.5%. The current policy of the Federal Reserve is to maintain the countercyclical capital buffer at 0% in a normal risk environment.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the minimum plus the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) may face constraints on their ability to pay dividends, effect equity repurchases, and pay discretionary bonuses to executive officers, which constraints vary based on the amount of the shortfall.

The Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA") also directed the federal banking agencies to develop a "Community Bank Leverage Ratio" ("CBLR"), calculated by dividing tangible equity capital



by average consolidated total assets. In October 2019, the federal banking agencies adopted a CBLR of 9%. If a "qualified community bank," generally a depository institution or depository institution holding company with consolidated assets of less than \$10 billion, has a leverage ratio which exceeds the CBLR, then such institution is considered to have met all generally applicable leverage and risk based capital requirements, the capital ratio requirements for "well capitalized" status under Section 38 of the FDIA, and any other leverage or capital requirements to which it is subject. An institution or holding company may be excluded from qualifying community bank status based on its risk profile, including consideration of its off-balance sheet exposures; trading assets and liabilities; total notional derivatives exposures; and such other facts as the appropriate federal banking agencies determine to be appropriate. We adopted this simplified capital regime on January 1, 2020. Effective September 30, 2022, we opted out of the CBLR framework. A banking organization that opts out of the CBLR framework can subsequently opt back into the CBLR framework if it meets the criteria listed above. We believe that the Bank met all capital adequacy requirements to which it was subject as of December 31, 2021 and December 31, 2022.

As discussed below, the Basel III rules also integrate the new capital requirements into the prompt corrective action provisions under Section 38 of the FDIA.

The capital ratios described above are the minimum levels that the federal banking agencies expect. Our state and federal regulators have the discretion to require us to maintain higher capital levels based upon our concentrations of loans, the risk of our lending or other activities, the performance of our loan and investment portfolios and other factors. Failure to maintain such higher capital expectations could result in a lower composite regulatory rating, which would impact our deposit insurance premiums and could affect our ability to borrow and costs of borrowing, and could result in additional or more severe enforcement actions. In respect of institutions with high concentrations of loans in areas deemed to be higher risk, or during periods of significant economic stress, regulators may require an institution to maintain a higher level of capital, and/or to maintain more stringent risk management measures, than those required by these regulations.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets, which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the federal banking agencies who are tasked with implementing Basel IV supported the revisions. Although it is uncertain at this time, it is anticipated that some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to the Bank.

In 2016, FASB issued the current expected credit losses ("CECL") model, which became applicable to us on January 1, 2023. CECL requires financial institutions to estimate and establish a provision for credit losses over the lifetime of the asset, at the origination or the date of acquisition of the asset, as opposed to reserving for incurred or probable losses through the balance sheet date. Upon implementation, an institution would recognize a one-time cumulative effect adjustment to the allowance for credit losses. The Federal Reserve and FDIC have adopted a rule providing for an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments.

*Prompt Corrective Action.* Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions that it regulates. The federal banking agencies have promulgated substantially similar regulations for this purpose. The following capital requirements currently apply to the Bank for purposes of Section 38.

Capital Category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 Capital Ratio	Leverage Ratio	Tangible Equity to Assets	Supplemental Leverage Ratio
Well Capitalized	10% or greater	8% or greater	6.5% or greater	5% or greater	n/a	n/a
Adequately Capitalized	8% or greater	6% or greater	4.5% or greater	4% or greater	n/a	3% or greater
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%	n/a	Less than 3%
Significantly Undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%	n/a	n/a
Critically Undercapitalized	n/a	n/a	n/a	n/a	Less than 2%	n/a

An institution generally must file a written capital restoration plan which meets specified requirements with the appropriate federal banking agency within 45 days of the date the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. The appropriate federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the applicable agency.

Immediately upon becoming undercapitalized, an institution shall become subject to the provisions of Section 38 of the FDIA, which (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the Deposit Insurance Fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: requiring the institution to raise additional capital; restricting transactions with affiliates; requiring divestiture of the institution or the sale of the institution to a willing purchaser; and any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

*Regulatory Enforcement Authority.* Federal banking law grants substantial enforcement powers to the federal banking agencies. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

*The Dodd-Frank Act.* The Dodd-Frank Act was signed into law on July 21, 2010. The Dodd-Frank Act significantly restructured the financial regulatory regime in the United States and has had a broad impact on the financial services industry as a result of the significant regulatory and compliance changes required under the act.

The EGRRCPA, which became effective May 24, 2018, amended the Dodd-Frank Act to provide regulatory relief for certain smaller and regional financial institutions, such as the Company and the Bank. The EGRRCPA, among other things, provides financial institutions with less than \$10 billion in total consolidated assets with relief from certain capital requirements and exempts banks with less than \$250 billion in total consolidated assets from the enhanced prudential standards and the company-run and supervisory stress tests required under the Dodd-Frank Act.

The Dodd-Frank Act has had, and may in the future have, a material impact on the Company's operations, particularly through increased compliance costs resulting from new and possible future consumer and fair lending regulations. The future changes resulting from the Dodd-Frank Act may affect the profitability of business activities, require changes to certain business practices, impose more stringent regulatory requirements, or otherwise adversely affect the business and financial condition of the Company and the Bank. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes to comply with new statutory and regulatory requirements.

*Consumer Financial Protection Bureau ("CFPB").* The Dodd-Frank Act created the CFPB, a new, independent federal agency with broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the consumer financial privacy provisions of the GLB Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with over \$10 billion in assets. Smaller institutions, including the Bank, are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking agencies for compliance with federal consumer protection laws and regulations. The CFPB also has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The changes resulting from the Dodd-Frank Act and CFPB rulemakings and enforcement policies may impact the profitability of our business activities, limit our ability to make, or the desirability of making, certain types of loans, including non-qualified mortgage loans, require us to change our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business or profitability. The changes may also

require us to dedicate significant management attention and resources to evaluate and make necessary changes to comply with the new statutory and regulatory requirements.

*Mortgage Banking Regulation.* The Bank is subject to rules and regulations related to mortgage loans that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. The Bank is also subject to rules and regulations that require the collection and reporting of significant amounts of information with respect to mortgage loans and borrowers. The Bank's mortgage origination activities are subject to the Federal Reserve's Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require creditors to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. To the extent that we make mortgage loans, we are required to comply with these rules, subject to available exceptions.

*Fair and Responsible Banking.* Banks and other financial institutions are subject to numerous laws and regulations intended to promote fair and responsible banking and prohibit unlawful discrimination and unfair, deceptive or abusive practices in banking. These laws include, among others, the Dodd-Frank Act, Section 5 of the Federal Trade Commission Act, the Equal Credit Opportunity Act, and the Fair Housing Act. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, and actions by the U.S. Department of Justice and state attorneys general.

*Financial Privacy.* Under the Federal Right to Privacy Act of 1978, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, financial institutions are required to disclose their policies for collecting and protecting confidential information. Consumers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

*Community Reinvestment Act ("CRA").* The CRA requires that, in connection with examinations of insured depository institutions within their respective jurisdictions, the federal banking agencies evaluate the record of each financial institution in meeting the needs of its local community, including low- and moderate-income neighborhoods. The Bank's record of performance under the CRA is publicly available. A bank's CRA performance is also considered in evaluating applications seeking approval for mergers, acquisitions, and new offices or facilities. Failure to adequately meet these criteria could result in additional requirements and limitations being imposed on the Bank. Additionally, we must publicly disclose the terms of certain CRA-related agreements.

In May 2022, the federal bank regulatory agencies jointly issued a proposed rule intended to strengthen and modernize the CRA regulatory framework. If implemented, the rule would, among other things, (i) expand access to credit, investment and basic banking services in low- and moderate-income communities, (ii) adapt to changes in the banking industry, including internet and mobile banking, (iii) provide greater clarity, consistency and transparency in the application of the regulations and (iv) tailor performance standards to account for differences in bank size, business model, and local conditions.

*Concentration and Risk Guidance.* The federal bank regulatory agencies have issued guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that institutions that have (i) total reported loans for construction, land development, and other land which represent 100% or more of an institution's total risk-based capital; or (ii) total reported commercial real estate loans, excluding loans secured by owner-occupied commercial real estate, representing 300% or more of the institution's total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. Institutions that are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. We have determined that we have a concentration in



commercial real estate lending, and while we believe we have implemented policies and procedures with respect to our commercial real estate lending consistent with the regulatory guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

*FDIC Insurance Premiums.* The deposits of the Bank are insured up to applicable limits by the FDIC's Deposit Insurance Fund and are subject to deposit insurance assessments to maintain the Deposit Insurance Fund. The deposit insurance assessment base is based on average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act. Deposit insurance pricing is a "financial ratios method" based on "CAMELS" composite ratings to determine assessment rates for small established institutions with less than \$10 billion in assets. The CAMELS rating system is a supervisory rating system designed to take into account and reflect all financial and operational risks that a bank may face, including capital adequacy, asset quality, management capability, earnings, liquidity, and sensitivity to market risk ("CAMELS"). CAMELS composite ratings set a maximum assessment for CAMELS 1 and 2 rated banks, and set minimum assessments for lower rated institutions. In 2022 and 2021, the Company recorded expense of \$620 thousand and \$770 thousand, respectively, for FDIC insurance premiums. In October 2022, the FDIC adopted a final rule to increase the assessment base rate schedules uniformly by two basis points beginning with the first quarterly assessment period of 2023. The assessment base rate may increase further as a result of the recent activity transpired in the banking industry.

*Limitations on Incentive Compensation.* The federal bank regulatory agencies have issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Interagency Guidance on Sound Incentive Compensation Policies, which covers all employees that have the ability to materially affect the risk profile of financial institutions, either individually or as part of a group, is based upon the key principles that a financial institution's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the financial institution's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as the Company and the Bank, that are not "large, complex banking organizations." These reviews will be tailored to each financial institution based on the scope and complexity of the institution's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the institution's safety and soundness, and the financial institution is not taking prompt and effective measures to correct the deficiencies. At December 31, 2022, the Company and the Bank have not been made aware of any instances of noncompliance with this guidance.

In October 2022, the SEC adopted a final rule directing national securities exchanges and associations, including The Nasdaq Stock Market, LLC, the exchange on which our common stock is listed, to implement listing standards that require listed companies to adopt policies mandating the recovery or "clawback" of excess incentive compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. In February 2023, The Nasdaq Stock Market, LLC posted its initial rule filing with the SEC to implement this directive. The final rule will require us to adopt a clawback policy that is compliant with the new listing standard within 60 days after such standard becomes effective.

*Cybersecurity.* In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. On November 18, 2021, the federal bank regulatory agencies issued a final rule, effective April 1, 2022, imposing new notification requirements for cybersecurity incidents. The rule requires financial institutions to notify their primary federal regulator as soon as possible and no later than 36 hours after

the institution determines that a cybersecurity incident has occurred that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the institution's: (i) ability to carry out banking operations, activities, or processes, or deliver banking products and services to a material portion of its customer base, in the ordinary course of business, (ii) business line(s), including associated operations, services, functions, and support, that upon failure would result in a material loss of revenue, profit, or franchise value, or (iii) operations, including associated services, functions and support, as applicable, the failure or discontinuance of which would pose a threat to the financial stability of the United States.

On March 9, 2022, the SEC issued a proposed rule intended to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and cybersecurity incident reporting by public companies, such as the Company, that are subject to the reporting requirements of the Securities Exchange Act of 1934. The proposed rule would require current reporting about material cybersecurity incidents and periodic disclosures about policies and procedures to identify and manage cybersecurity risks, management's role in implementing cybersecurity policies and procedures, and the board of directors' cybersecurity expertise and its oversight of cybersecurity risk.

To date, we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers.

***Coronavirus Aid, Relief, and Economic Security Act and Consolidated Appropriations Act, 2021.*** In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 and the Consolidated Appropriations Act, 2021 ("Appropriations Act") was signed into law on December 27, 2020. Among other things, the CARES Act and Appropriations Act include the following provisions impacting financial institutions:

- Small Business Administration Paycheck Protection Program. The CARES Act created the SBA's PPP and it was extended by the Appropriations Act. Under the PPP, money was authorized for small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans were provided through participating financial institutions, such as the Bank, that processed loan applications and service the loans.

## **Item 1A. RISK FACTORS**

*The material risks and uncertainties that management believes affect us are described below. Any of these risks, if they are realized, could materially adversely affect our business, financial condition and results of operations, and consequently, the market value of our common stock. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also materially and adversely affect us. This Form 10-K also contains forward-looking statements that involve risks and uncertainties. If any of the matters included in the following information about risk factors were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially and adversely affected.*

### **Market Risks**

***Our business and operations may be materially adversely affected by weak economic conditions.***

Our business and operations, which primarily consist of banking activities, including lending money to customers and borrowing money from customers in the form of deposits, are sensitive to general business and economic conditions in the U.S. generally, and in the Washington, D.C. metropolitan area in particular. The economic conditions in our local markets may be different from the economic conditions in the U.S. as a whole. If economic conditions in the U.S. or any of our markets weaken, our growth and profitability from our operations could be constrained. In addition, foreign economic and political conditions could affect the stability of global financial markets, which could hinder economic growth. The current economic environment is characterized by rising interest rates as a result of contractionary monetary policy which could impact our ability to attract deposits and to generate attractive earnings through our loan and investment portfolios. All these factors can individually or in the aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Unfavorable market conditions, including as a result of events such as the COVID-19 pandemic and related disruptions, can result in a deterioration in the credit quality of our borrowers and the demand for our

products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, a decline in the value of our collateral, and an overall material adverse effect on the quality of our loan portfolio.

Our business is significantly affected by monetary and related policies of the U.S. federal government and its agencies. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates are concerns for businesses, consumers and investors in the U.S. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial conditions and results of operations.

***We are subject to interest rate risk, which could adversely affect our profitability.***

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse impact on our business, financial condition and results of operations.

When short-term interest rates rise, the rate of interest we pay on our interest-bearing liabilities may rise more quickly than the rate of interest that we receive on our interest-earning assets, which may cause our net interest income to decrease. Additionally, a shrinking yield premium between short-term and long-term market interest rates, a pattern usually indicative of investors' waning expectations of future growth and inflation, commonly referred to as a flattening of the yield curve, typically reduces our profit margin as we borrow at shorter terms than the terms at which we lend and invest.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also reduce collateral values and necessitate further increases to the allowance for loan losses, which could have a material adverse effect on our business, financial condition and results of operations.

***Inflation can have an adverse impact on our business and on our customers.***

In 2022, the United States experienced the highest rates of inflation since the 1980s. In an effort to reduce inflation, the Federal Reserve increased the federal funds target rate seven times in 2022 from 0 - 0.25% at the beginning of the year to 4.25 – 4.50% as of December 31, 2022. Market interest rates increased in response over the course of the year. Inflation generally increases the cost of products and services we use in our business operations, as well as labor costs. We may find that we need to give higher than normal raises to employees and start new employees at a higher wage. Furthermore, our clients are also affected by inflation and the rising costs of products and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. As market interest rates rise, the value of our investment securities generally decreases, although this effect can be less pronounced for floating rate instruments. Higher interest rates reduce the demand for loans and increase the attractiveness of alternative investment and savings products, like U.S. Treasury securities and money market funds, which can make it difficult to attract and retain deposits.

***Transition away from the London Interbank Offered Rate (“LIBOR”) to another benchmark rate could adversely affect our operations.***

The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. Management cannot predict whether or when LIBOR will



actually cease to be available or what impact such a transition may have on our business, financial condition and results of operations.

The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace LIBOR with a benchmark rate based on the Secured Overnight Funding Rate (“SOFR”) for contracts governed by U.S. law that have no or ineffective fallbacks. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates, or the value of LIBOR-based securities will not be adversely affected. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of SOFR and other benchmark rates.

The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. To mitigate the risks associated with the expected discontinuation of LIBOR, we have ceased originating LIBOR-linked loans, implemented fallback language for LIBOR-linked commercial loans, adhered to the International Swaps and Derivatives Association 2020 Fallbacks Protocol for interest rate swap agreements, and have updated our systems to accommodate SOFR-linked loans. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

***The ongoing COVID-19 pandemic and measures intended to prevent its spread could adversely affect our business, financial condition and results of operations.***

The COVID-19 pandemic has negatively impacted economic and commercial activity and financial markets, both globally and within the United States. Measures to contain the virus, such as stay-at-home orders, travel restrictions, closure of non-essential businesses, occupancy limitations and social distancing requirements, resulted in significant business and operational disruptions, including business closures, supply chain disruptions, and mass layoffs and furloughs. Though consumer and business spending and unemployment levels have improved significantly, the economic recovery has been uneven, with industries such as travel, entertainment, hospitality, and food service lagging. Supply chain disruptions precipitated by the abrupt economic slowdown have contributed to increased costs, lost revenue, and inflationary pressures for many segments of the economy. Further, a significant number of workers left their jobs during the COVID-19 pandemic, leading to wage inflation in many industries as businesses attempt to fill vacant positions.

The continuation of the COVID-19 pandemic, or the emergence of another health emergency, could (i) reduce the demand for loans and other financial services, (ii) result in increases in loan delinquencies, problem assets, and foreclosures, (iii) cause the value of collateral for loans, especially real estate, to decline in value, (iv) reduce the availability and productivity of our employees, (v) cause our vendors and counterparties to be unable to meet existing obligations to us, (vi) negatively impact the business and operations of third-party service providers that perform critical services for our business, (vii) cause the value of our investment securities portfolio to decline, (viii) and cause the net worth and liquidity of loan guarantors to decline, impairing their ability to honor commitments to us. Any one of the combination of events described above could have a material, adverse effect on our business, financial condition, and results of operations.

## **Credit Risks**

***We are subject to credit risk, which could adversely affect our profitability.***

Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks with respect to the period of time over which the loan may be repaid, risks relating to loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual loans and borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions. If the overall economic climate in the U.S. generally, or in our market areas specifically, experiences material disruption, including as a result of the COVID-19 pandemic and related disruptions, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and our level of nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for loan losses.

Our risk management practices, such as monitoring the concentrations of our loans and our credit approval, review and administrative practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting related customers and the quality of the loan portfolio. Many of our loans are made to small businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. Consequently, we may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce, unemployment or death. A failure to effectively measure and limit the credit risk associated with our loan portfolio may result in loan defaults, foreclosures and additional charge-offs, and may necessitate that we significantly increase our allowance for loan losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and results of operations.

***A substantial portion of our loans are and will continue to be real estate related loans in the Washington, D.C. metropolitan area. Adverse changes in the real estate market or economy in this area could lead to higher levels of problem loans and charge-offs, adversely affecting our earnings and financial condition.***

We make loans primarily to borrowers in the Washington, D.C. and Baltimore metropolitan areas, focusing on the Virginia counties of Arlington, Fairfax, Loudoun and Prince William and the independent cities located within those counties, Washington D.C., and its Maryland suburbs, and have a substantial portion of our loans secured by real estate. These concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in such areas, or the continuation of such adverse developments, could increase the levels of nonperforming loans and charge-offs, and reduce loan demand and deposit growth. In that event, we would likely experience lower earnings or losses. Additionally, if economic conditions in the area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, our provision for loan losses may increase, the value of collateral may decline and loan demand may be reduced.

***Increases to our nonperforming assets or other problem assets will have an adverse effect on our earnings.***

As of December 31, 2022, we had nonperforming loans and loans 90 days or more past due of \$4.5 million, or 0.24% of total loans, net of deferred fees. At that date, we had two loans considered troubled debt restructurings ("TDRs") totaling \$830 thousand. If loans become 90 or more days past due and still accruing and move to nonaccrual loans, we will not record interest income on such loans, and may be required to reverse prior accruals, thereby adversely affecting our earnings. If the level of our nonperforming or other problem assets increases, we may be required to make additional provisions for loan losses, which will negatively impact our earnings. If we are required to foreclose on any collateral properties securing our loans, we will incur legal and other expenses in connection with the foreclosure and sale process and possible losses on the sale of other real estate owned ("OREO") or other collateral. Additionally, the resolution of nonperforming assets, TDRs and other problem assets requires the active involvement of management, which can distract management from its overall supervision of operations and other income producing activities.

***Our concentrations of loans may create a greater risk of loan defaults and losses.***

A substantial portion of our loans are secured by various types of real estate in the Washington, D.C. metropolitan area and substantially all of our loans are to borrowers in that area. At December 31, 2022, 86.3% of our total loans were secured by real estate; commercial real estate loans, excluding construction and land development, comprised the largest portion of these loans at 59.8% of our portfolio. This concentration exposes us to the risk that adverse developments in the real estate market, or the general economic conditions in our market, could increase our nonperforming loans and charge-offs, reduce the value of our collateral and adversely impact our results of operations and financial condition. Management believes that the commercial real estate concentration risk is mitigated by diversification among the types and characteristics of real estate collateral properties, sound underwriting practices, rigorous portfolio monitoring and ongoing market analysis. Construction and land development loans comprised 8.0% of total loans at December 31, 2022. Commercial and industrial loans, excluding PPP, comprised 13.2%, of total loans at December 31, 2022. These categories of loans have historically carried a higher risk of default than other types of loans, such as single family residential mortgage loans. The repayment of these loans often depends on the successful operation of a business or the sale or development of the underlying property, and, as a result, are more likely to be adversely affected by adverse conditions in the real estate market or the economy in general. While we believe that our loan portfolio is well diversified in terms of borrowers and industries, these concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in the Washington, D.C. metropolitan area, could increase the levels of nonperforming

loans and charge-offs, and reduce loan demand. In that event, we would likely experience lower earnings or losses. Additionally, if, for any reason, economic conditions in our market area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, our provision for loan losses may increase, the value of collateral may decline and loan demand may be reduced.

Commercial real estate loans tend to have larger balances than single family mortgage loans and other consumer loans. Because the loan portfolio contains a significant number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming assets. An increase in nonperforming loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have an adverse impact on our results of operations and financial condition.

***Our portfolio of loans to small and mid-sized community-based businesses may increase our credit risk.***

Many of our commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the market area in which we operate negatively impact this important customer sector, our results of operations and financial condition may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. The deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

***Our government contractor customers, and businesses in the Washington, D.C. metropolitan area in general, may be adversely impacted by the federal government and a budget impasse.***

At December 31, 2022, 13.2% of our total loans were outstanding to commercial and industrial customers. Of that, approximately 40.3% of outstanding commercial and industrial loans are to government contractors or their subcontractors specializing in the defense and homeland security and defense readiness sectors, and we have commitments of \$305.1 million to such borrowers. We are actively seeking to expand our exposure to this business segment. While we believe that our loans to government contractor customers are unlikely to experience more than a delay in payment as a result of government shutdowns, the current emphasis on defense readiness presents an opportunity for many of our customers. In the event of a government shutdown, this could cause these customers to have their government contracts reduced or terminated for convenience, or have payments delayed, causing a loss of anticipated revenues or reduced cash flow, resulting in an increase in credit risk, and potentially defaults by such customers on their respective loans.

Our government contractor customers could also withdraw their deposit balances during a shutdown to fund current operations, resulting in additional liquidity risk. Additionally, temporary layoffs, salary reductions or furloughs of government employees or government contractors could have adverse impacts on other businesses in our market and the general economy of the Washington, D.C. metropolitan area, and may indirectly lead to a loss of revenues by our customers. As a result, a government shutdown could lead to an increase in the levels of past due loans, nonperforming loans, loan loss reserves and charge-offs, and a decline in liquidity.

***We have extended off-balance sheet commitments to borrowers which expose us to credit and interest rate risk.***

We enter into off-balance sheet arrangements in the normal course of business to meet the financing needs of our customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit and guarantees which would impact our liquidity and capital resources to the extent customers accept or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and guarantees written is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.



***Our allowance for credit losses may be inadequate to absorb losses inherent in the loan portfolio, which could have a material adverse effect on our business, financial condition and results of operations.***

Experience in the banking industry indicates that a portion of our loans will become delinquent, and that some may only be partially repaid or may never be repaid at all. We may experience losses for reasons beyond our control, such as the impact of general economic conditions on customers and their businesses. In determining the size of our allowance for credit losses, we rely on an analysis of our loan portfolio considering historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Although we endeavor to maintain our allowance for credit losses at a level adequate to absorb any inherent losses in the loan portfolio, the determination of the appropriate level of the allowance for credit losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risk and future trends, and the accuracy of our judgments depends on the outcome of future events. Further, despite our underwriting criteria and historical experience, we may be particularly susceptible to losses due to: (i) the geographic concentration of our loans, (ii) the concentration of higher risk loans, such as commercial real estate, and commercial and industrial loans, and (iii) the relative lack of seasoning of certain of our loans.

Deterioration of economic conditions affecting borrowers, new information regarding existing loans, inaccurate management assumptions, identification of additional problem loans and other factors, both within and outside of our control, may result in our experiencing higher levels of nonperforming assets and charge-offs, and incurring credit losses in excess of our current allowance for credit losses, requiring us to make material additions to our allowance for credit losses, which could have a material adverse effect on our business, financial condition and results of operations.

Our federal and state banking regulators, as an integral part of their supervisory function, periodically review the allowance for credit losses. These regulatory agencies may require us to increase our provision for credit losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. If we need to make significant and unanticipated increases in the loss allowance in the future, or take additional charge-offs for which we have not established adequate reserves, our results of operations and financial condition could be materially adversely affected at that time.

***Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.***

As a result of our organic growth over the past several years, as of December 31, 2022, approximately \$1.05 billion, or 56.9%, of the loans in our loan portfolio (excluding PPP loans) were first originated during the past three years. The average age by loan type for loans originated in the past three years is: commercial real estate loans—1.30 years; commercial and industrial loans—1.46 years; commercial construction loans—0.89 years; consumer residential loans—1.14 years; and consumer nonresidential loans—1.48 years. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Therefore, the recent and current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge offs and the ratio of nonperforming assets in the future. Our limited experience with these loans may not provide us with a significant history with which to judge future collectability or performance. However, we believe that our stringent credit underwriting process, our ongoing credit review processes, and our history of successful management of our loan portfolio, mitigate these risks. Nevertheless, if delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have a material adverse effect on our business, financial condition and results of operations.

## **Strategic Risks**

***We operate in a highly competitive market and face increasing competition from a variety of traditional and new financial services providers, which could adversely impact our profitability.***

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions operating in the Washington, D.C. metropolitan area and elsewhere, as well as nontraditional competitors such as fintech companies and internet-based lenders, depositories and payment systems. Our profitability depends upon our continued ability to successfully compete with

traditional and new financial services providers, some of which maintain a physical presence in our market areas and others of which maintain only a virtual presence.

Our primary market area is a highly competitive, highly branched, banking market. Competition in the market area for loans to small and middle-market businesses and professionals, our target market, is intense and pricing is important. Several of our competitors have substantially greater resources and lending limits than us, and offer certain services, such as extensive and established branch networks and trust services, that we do not currently provide or currently expect to provide in the near future. Moreover, larger institutions operating in the Washington, D.C. metropolitan area may have access to borrowed funds at lower cost than will be available to us. Additionally, deposit competition among institutions in the market area is strong. Increased competition could require us to increase the rates we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have a material adverse effect on our business, financial condition and results of operations.

***The success of our growth strategy depends, in part, on our ability to identify and retain individuals with experience and relationships in our market.***

Our success depends, in large part, on our management team and key employees. The loss of any of our management team or our key employees could materially adversely affect our ability to execute our business strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able to retain the services of any members of our management team or other key employees. Failure to attract and retain a qualified management team and qualified key employees could have a material adverse effect on our business, financial condition and results of operations.

In order to continue to grow successfully, we must also identify and retain experienced loan officers with local expertise and relationships. We expect that competition for experienced loan officers will continue to be intense and that there will be a limited number of qualified loan officers with knowledge of, and experience in, the community banking industry in our market area. Even if we identify individuals that we believe could assist us in building our franchise, we may be unable to recruit these individuals away from their current banks. In addition, the process of identifying and recruiting loan officers with the combination of skills and attributes required to carry out our strategy is often lengthy. Our inability to identify, recruit and retain talented personnel could limit our growth and could adversely affect our business, financial condition and results of operations. The lack of acquisition opportunities in the future, or our inability to successfully bid for such opportunities as are available, could result in a slower pace of growth.

***We may not be able to successfully manage continued growth.***

As our capital base grows, so does our legal lending limit. We cannot be certain as to our ability to manage increased levels of assets and liabilities, or to successfully make and supervise higher balance loans. Further, we may not be able to maintain the relatively low number and level of nonperforming loans and charge-offs that we have experienced. We may be required to make additional investments in equipment, software, physical facilities and personnel to accumulate and manage higher asset levels and loan balances, which may adversely impact earnings, shareholder returns, and our efficiency ratio. Increases in operating expenses or nonperforming assets may have an adverse impact on the value of our common stock.

There can be no assurance that we will be able to continue to grow and to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent with our prior results of operations, or increase in the future. A downturn in economic conditions in our market, particularly in the real estate market, heightened competition from other financial services providers, an inability to retain or grow our core deposit base, regulatory and legislative considerations, a failure to maintain adequate internal controls and compliance processes, and failure to attract and retain high-performing talent, among other factors, could limit our ability to grow assets, or increase profitability, as rapidly as we have in the past. Sustainable growth requires that we manage our risks by following prudent loan underwriting standards, balancing loan and deposit growth without materially increasing interest rate risk or compressing our net interest margin, maintaining more than adequate capital at all times, hiring and retaining qualified employees and successfully implementing our strategic initiatives. Our failure to sustain our historical rate of growth or adequately manage the factors that have contributed to our growth could have a material adverse effect on our earnings and profitability and therefore on our business, financial condition and results of operations.

***Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.***

The federal banking agencies have issued guidance governing financial institutions that have concentrations in commercial real estate lending. The guidance provides that institutions which have (i) total reported loans for construction, land development, and other land loans which represent 100% or more of an institution's total risk-based capital; or (ii) total reported commercial real estate loans, excluding loans secured by owner-occupied commercial real estate, representing 300% or more of the institution's total risk-based capital, where the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. We have a concentration in commercial real estate loans, and we have experienced significant growth in our commercial real estate portfolio in recent years. As of December 31, 2022, commercial real estate loans, as defined for regulatory purposes, represented 405% of our total risk-based capital. Of those loans, commercial construction, development and land loans represented 57% of our total risk based capital. Owner-occupied commercial real estate loans represented an additional 81% of our total risk based capital. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened portfolio monitoring and reporting, and strong underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, we could be required to maintain higher levels of capital as a result of our commercial real estate concentration, which could limit our growth, require us to obtain additional capital, and have a material adverse effect on our business, financial condition and results of operations.

***We may face risks with respect to future expansion or acquisition activity.***

We selectively seek to expand our banking operations through limited *de novo* branching or opportunistic acquisition activities. We cannot be certain that any expansion activity, through *de novo* branching, acquisition of branches of another financial institution or a whole institution, or the establishment or acquisition of nonbanking financial service companies, will prove profitable or will increase shareholder value. The success of any acquisition will depend, in part, on our ability to realize the estimated cost savings and revenue enhancements from combining our business and that of the target company. Our ability to realize increases in revenue will depend, in part, on our ability to retain customers and employees, and to capitalize on existing relationships for the provision of additional products and services. If our estimates turn out to be incorrect or we are not able to successfully combine companies, the anticipated cost savings and increased revenues may not be realized fully or at all, or may take longer to realize than expected. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business, diversion of management attention, or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. As with any combination of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to withdraw their deposits. Customers may not readily accept changes to their banking arrangements that we make as part of or following an acquisition. Additionally, the value of an acquisition to us is dependent on our ability to successfully identify and estimate the magnitude of any asset quality issues of acquired companies.

We may not be successful in overcoming these risks or other problems encountered in connection with potential acquisitions or other expansion activity. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our business, financial condition or results of operations.

Additionally, at December 31, 2022, we had \$7.2 million of goodwill related to our acquisition of Colombo. Goodwill and other intangible assets are tested for impairment on an annual basis or when facts and circumstances indicate that impairment may have occurred. Our financial condition and results of operations may be adversely affected if that goodwill is determined to be impaired, which would require us to take an impairment charge.

***New lines of business, products, product enhancements or services may subject us to additional risk.***

From time to time, we may implement new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts. In developing, implementing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources. We may underestimate the appropriate level of resources or expertise necessary to make new lines of business or products successful or to realize their expected benefits. We may not achieve the



milestones set in initial timetables for the development and introduction of new lines of business, products, product enhancements or services, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. We may also decide to discontinue businesses or products, due to lack of customer acceptance or profitability. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition and results of operations.

## **Liquidity Risks**

***We may not be able to retain or grow our core deposit base, which could adversely impact our funding costs.***

Like many financial institutions we rely on customer deposits as our primary source of funding for our lending activities, and we continue to seek customer deposits to maintain this funding base. Our future growth will largely depend on our ability to retain and grow our diverse deposit base. As of December 31, 2022, we had \$1.83 billion in deposits. Our deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of our control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, customer perceptions of our financial health and general reputation, adverse developments in general economic conditions of an individual's business, and a loss of confidence by customers in us or the banking sector generally, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits. Any such loss of funds could result in lower loan originations, which could have a material adverse effect on our business, financial condition and results of operations.

***Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and failure to maintain sufficient liquidity could materially adversely affect our growth, business, profitability and financial condition.***

Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. We require sufficient liquidity to fund asset growth, meet customer loan requests, customer deposit maturities and withdrawals, payments on our debt obligations as they become due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. Liquidity risk can increase due to a number of factors, including an over-reliance on a particular source of funding or market-wide phenomena such as market dislocation and major disasters. Factors that could detrimentally impact access to liquidity sources include, but are not limited to, a decrease in the level of our business activity as a result of a slowdown in our market, adverse regulatory actions against us, or changes in the liquidity needs of our depositors. Market conditions or other events could also negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner, and without adverse consequences. Our inability to raise funds through deposits, borrowings, the sale of loans, other sources, and our ability to maintain sufficient deposits, could have a substantial negative effect on our business, and could result in the closure of the Bank. Our access to funding sources in amounts adequate to finance our activities or on acceptable terms could be impaired by factors that affect our organization specifically or the financial services industry or economy in general. Any substantial, unexpected, and/or prolonged change in the level or cost of liquidity could impair our ability to fund operations and meet our obligations as they become due and could have a material adverse effect on our business, financial condition and results of operations.

We rely on customer deposits, including brokered deposits, and to a lesser extent on advances from the FHLB and federal funds purchased to fund our operations. Although we have historically been able to replace customer deposit withdrawals, maturing deposits, and advances if desired, we may not be able to replace such funds in the future if our financial condition, the financial condition of the FHLB or market conditions were to change. FHLB borrowings and other current sources of liquidity may not be available or, if available, sufficient to provide adequate funding for operations.

## Operational Risks

***We depend on information technology and telecommunications systems of third parties, and any systems failures or interruptions could adversely affect our operations and financial condition.***

Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems. We outsource many of our major systems, such as data processing, deposit processing, loan origination, email and anti-money laundering monitoring systems. Of particular significance is our long-term contract for core data processing services with Fidelity National Information Services, Inc. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations, and we could experience difficulty in implementing replacement solutions. In many cases, our operations rely heavily on secured processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

***We are subject to cybersecurity risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents, and we may experience harm to our reputation and liability exposure from security breaches.***

Our business involves the storage and transmission of customers' proprietary information and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. While we have incurred no material cyber-attacks or security breaches to date, a number of other financial services and other companies have disclosed cyber-attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at us, our customers or both. Although we devote significant resources to maintain, regularly update and backup our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us or our customers, our security measures may not be effective against all potential cyber-attacks or security breaches. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate, or implement effective preventive measures against, all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our internet-based product offerings and expand our internal usage of web-based products and applications. If an actual or perceived security breach occurs, customer perception of the effectiveness of our security measures could be harmed and could result in the loss of customers.

***Failure to keep up with the rapid technological changes in the financial services industry could have a material adverse effect on our competitive position and profitability.***

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we have. We may not be able to implement new technology driven products and services effectively or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could harm our ability to compete effectively and could have a material adverse effect on our business, financial condition or results of operations. As these technologies are improved in the future, we may be required to make significant capital expenditures in order to

remain competitive, which may increase our overall expenses and have a material adverse effect on our business, financial condition and results of operations.

A successful penetration or circumvention of the security of our systems, including those of third party providers or other financial institutions, or the failure to meet regulatory requirements for security of our systems, could cause serious negative consequences, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or systems or those of our customers or counterparties, significant increases in compliance costs (such as repairing systems or adding new personnel or protection technologies), and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation and regulatory exposure, and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations.

***Our risk management framework may not be effective in mitigating risks and/or losses to us.***

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

***We may be adversely affected by the soundness of other financial institutions.***

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or other institutions. These losses could have a material adverse effect on our business, financial condition and results of operations.

***If we fail to design and maintain effective internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which could have a material adverse effect on us.***

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). Effective internal control over financial reporting is necessary for us to provide reliable reports and prevent fraud.

We believe that a control system, no matter how well designed and managed, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. We may not be able to identify all significant deficiencies and/or material weaknesses in our internal control system in the future, and our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act and FDIC regulations could have a material adverse effect on our business, financial condition and results of operations.

***Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.***

In the normal course of business, from time to time, we may be named as a defendant in various legal actions, arising in connection with our current and/or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. Further, we may in the future be subject to consent orders or other formal or informal enforcement agreements with our regulators. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our current and/or prior business activities. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our



reputation. Our involvement in any such matters, whether tangential or otherwise, and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order, other enforcement agreement or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could have a material adverse effect on our business, financial condition and results of operations.

***Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to environmental, social and governance (“ESG”) practices may impose additional costs on us or expose us to new or additional risks.***

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to ESG practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to climate risk, hiring practices, the diversity of the work force, and racial and social justice issues. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

### **Risks Related to Our Securities**

***We may need to raise additional capital in the future, and we may not be able to do so.***

Access to sufficient capital is critical in order to enable us to implement our business plan, support our business, expand our operations and meet applicable capital requirements. The inability to have sufficient capital, whether internally generated through earnings or raised in the capital markets, could adversely impact our ability to support and to grow our operations. If we grow our operations faster than we generate capital internally, we will need to access the capital markets. We may not be able to raise additional capital in the form of additional debt or equity on acceptable terms, or at all. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, our financial condition and our results of operations. Economic conditions and a loss of confidence in financial institutions may increase our cost of capital and limit access to some sources of capital. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse impact on our business, financial condition and results of operations.

***We have no current plans to pay cash dividends.***

Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. The Bank is our primary operating business and the source of substantially all of our earnings, and our ability to pay dividends will be subject to the earnings, capital levels, capital needs and limitations relating to the payment of dividends by the Bank to us. The amount of dividends that a bank may pay is limited by state and federal laws and regulations. While we have sufficient retained earnings and expect our future earnings to be sufficient to pay cash dividends, our board of directors currently intends to retain earnings for the purpose of financing growth. In addition, we are a bank holding company, and our ability to declare and pay dividends to our shareholders is dependent on federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition.

### **Risks Related to Our Industry**

***We operate in a highly regulated industry and the laws and regulations that govern our operations, corporate governance, executive compensation and financial accounting or reporting, including changes in them or our failure to comply with them, may adversely affect our results of operations.***

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business

activities, limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs.

We face increasing regulation and supervision of our industry. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations, or regulatory policies, or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such additional regulation and supervision has increased, and may continue to increase, our costs and limit our ability to pursue business opportunities. Further, our failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition.

***We may be required to act as a source of financial and managerial strength for our Bank in times of stress.***

Under federal law and long-standing Federal Reserve policy, we, as a bank holding company, are required to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank if necessary. We may be required to commit additional resources to the Bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our shareholders' or creditors', best interests to do so. A requirement to provide such support is more likely during times of financial stress for us and the Bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to the Bank are subordinate in right of repayment to deposit liabilities of the Bank.

***We are subject to an extensive body of accounting rules and best practices. Periodic changes to such rules may change the treatment and recognition of critical financial line items and affect our profitability.***

The nature of our business makes us sensitive to the large body of accounting rules in the U.S. From time to time, the governing bodies that oversee changes to accounting rules and reporting requirements may release new guidance for the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations. For example, we are required to adopt the CECL model on January 1, 2023, which will require us to calculate the allowance for credit losses on the basis of the current expected credit losses over the lifetime of our loans. The Company adopted Accounting Standards Update ("ASU") 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments. In some instances, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. These changes could adversely affect our capital, regulatory capital ratios, ability to make larger loans, earnings and performance metrics. Any such changes could have a material adverse effect on our business, financial condition and results of operations.

***Regulatory initiatives regarding bank capital requirements may require heightened capital.***

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and/or other regulatory requirements, our financial condition would be materially and adversely affected. The Basel III rules require bank holding companies and their subsidiaries to maintain significantly more capital as a result of higher required capital levels and more demanding regulatory capital risk weightings and calculations. The Bank must also comply with the capital requirements set forth in the "prompt corrective action" regulations pursuant to Section 38 of the FDIA. Satisfying capital requirements may require us to limit our banking operations, retain net income or reduce dividends to improve regulatory capital levels, which could negatively affect our business, financial condition and results of operations.

***Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention.***

We regularly use third party vendors in our business and we rely on some of these vendors for critical functions including, but not limited to, our core processing function. Third party relationships are subject to increasingly demanding

regulatory requirements and attention by bank regulators. We expect our regulators to hold us responsible for deficiencies in our oversight or control of our third party vendor relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or that such vendors have not performed adequately, we could be subject to administrative penalties or fines as well as requirements for consumer remediation, any of which could have a material adverse effect on our business, financial condition and results of operations.

## **General Risks**

*Severe weather, natural disasters, geopolitical conditions, acts of war or terrorism, public health issues, and other external events could significantly impact our business.*

Severe weather, natural disasters, geopolitical conditions, acts of war or terrorism, public health issues, and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause us to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

## **Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

Our executive offices and the main office of the Bank are located at 11325 Random Hills Road, Fairfax, Virginia, 22030. In addition to our main office, we also maintain nine additional branch offices in Arlington, Virginia; the independent city of Manassas, Virginia; Reston, Fairfax County, Virginia; Springfield, Fairfax County, Virginia; Montgomery County and Baltimore, Maryland; and Washington, D.C. We also maintain an operations center in Manassas. We lease all but one location; our branch located in Baltimore, Maryland. We also lease a loan production office in Towson, Maryland.

We are committed to being highly selective in our branching decisions, and we intend to continue to explore opportunities for establishing additional strategically located branches in the Washington and Baltimore MSAs based primarily on commercial deposit and loan potential and demographic support. We typically establish branches as necessary to provide support for established business development professionals with substantial books of business and customer relationships. We believe that upon expiration of each of our leases we will be able to extend the leases on satisfactory terms or relocate to another acceptable location.

## **Item 3. Legal Proceedings**

In the ordinary course of our operations, we become party to various legal proceedings. Currently, we are not party to any material legal proceedings, and no such proceedings are, to management's knowledge, threatened against us.

## **Item 4. Mine Safety Disclosures**

None.



## PART II

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

*Market Price for Common Stock and Dividends.* Our common stock is currently listed on the Nasdaq Capital Market under the symbol "FVCB." As of March 15, 2023, there were 455 holders of record of our common stock and approximately 1,667 total beneficial shareholders.

#### Dividends

To date, we have not paid, and we do not currently intend to pay, a cash dividend on our common stock. Holders of our common stock are only entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. As we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends on our common stock depends, in large part, upon our receipt of dividends from the Bank. Any future determination relating to our dividend policy will be made by our board of directors and will depend on a number of factors, including general and economic conditions, industry standards, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, our ability to service debt obligations senior to our common stock, banking regulations, contractual, legal, tax and regulatory restrictions, and limitations on the payment of dividends by us to our shareholders or by the Bank to us, and such other factors as our board of directors may deem relevant.

Regulations of the Federal Reserve and Virginia law place limits on the amount of dividends the Bank may pay to the Company without prior approval. Prior regulatory approval is required to pay dividends which exceed the Bank's net profits for the current year plus its retained net profits for the preceding two calendar years, less required transfers to surplus. Under Virginia law, dividends may only be paid out of retained earnings. State and federal bank regulatory agencies also have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice, and the Federal Reserve has the same authority over bank holding companies. Under Virginia law, the Company generally may not pay dividends or distributions to holders of common stock if it would be unable to pay its debts as they become due in the ordinary course of business or if its total assets would be less than the sum of its total liabilities plus the amount of the liquidation preference of any class of shares with superior rights than the common stock.

The Federal Reserve has established requirements with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. The Federal Reserve has issued guidance on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing. Under Federal Reserve guidance, as a general matter, the board of directors of a holding company should inform the Federal Reserve and should eliminate, defer, or significantly reduce the dividends if: (i) the holding company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the holding company's prospective rate of earnings retention is not consistent with the capital needs and overall current and prospective financial condition; or (iii) the holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. As a depository institution, the deposits of which are insured by the FDIC, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due the FDIC. The Bank currently is not in default under any of its obligations to the FDIC.

On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023.

#### Repurchases

On March 17, 2022, we publicly announced that the Board of Directors had adopted a program to repurchase up to 1,351,075 shares of our common stock, or approximately 8% of our outstanding shares of common stock at December 31, 2021, from April 1, 2022 to March 31, 2023. The timing and amount of repurchases, if any, will depend on market conditions, share price, trading volume, and other factors, and there is no assurance that we will purchase shares during any period. Shares may be repurchased in the open market or through privately negotiated transactions. For the year ended

December 31, 2022, 37,454 shares of our common stock were repurchased at a total cost of \$730 thousand under the program. All of these shares have been cancelled and returned to the status of authorized but unissued.

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share (\$)</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>(d) Maximum Number of Shares that May Yet Be Purchased Under the Program</b>
October 1 - October 31, 2022	—	—	—	—
November 1 - November 30, 2022	—	—	—	—
December 1 - December 31, 2022	37,454	14	37,454	1,313,621
<b>Total</b>	<b>37,454</b>	<b>14</b>	<b>37,454</b>	<b>1,313,621</b>

## Item 6. Reserved

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

The following presents management's discussion and analysis of our consolidated financial condition at December 31, 2022 and 2021 and the results of our operations for the years ended December 31, 2022 and 2021. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations.

### Overview

We are a bank holding company headquartered in Fairfax County, Virginia. Our sole subsidiary, FVCbank, was formed in November 2007 as a community-oriented, locally-owned and managed commercial bank under the laws of the Commonwealth of Virginia. The Bank offers a wide range of traditional bank loan and deposit products and services to both our commercial and retail customers. Our commercial relationship officers focus on attracting small and medium sized businesses, commercial real estate developers and builders, including government contractors, non-profit organizations, and professionals. Our approach to our market features competitive customized financial services offered to customers and prospects in a personal relationship context by seasoned professionals.

On October 12, 2018, we completed our acquisition of Colombo. Colombo, which was headquartered in Rockville, Maryland, merged into FVCbank effective October 12, 2018, adding five banking locations in Washington, D.C., and Montgomery County and the City of Baltimore in Maryland.

On August 31, 2021, we announced that the Bank made an investment in ACM for \$20.4 million to obtain a 28.7% ownership interest in ACM. This ownership interest is subject to an earnback option of up to 3.7% over the next three years, and our investment had decreased to 27.7% as of December 31, 2022. In addition, the Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify our held to investment loan portfolio.

On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected herein have been adjusted for the five-for-four split of the Company's common stock for comparative purposes.

Net interest income is our primary source of revenue. We define revenue as net interest income plus non-interest income. We manage our balance sheet and interest rate risk exposure to maximize, and concurrently stabilize, net interest income. We do this by monitoring our liquidity position and the spread between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities. We attempt to minimize our exposure to interest rate risk, but are unable to eliminate it entirely. In addition to managing interest rate risk, we also analyze our loan portfolio for exposure to credit risk. Loan defaults and foreclosures are inherent risks in the banking industry, and we attempt to limit

our exposure to these risks by carefully underwriting and then monitoring our extensions of credit. In addition to net interest income, non-interest income is a complementary source of revenue for us and includes, among other things, service charges on deposits and loans, income from minority membership interest in ACM, merchant services fee income, insurance commission income, income from bank owned life insurance ("BOLI"), and gains and losses on sales of investment securities available-for-sale.

## **Critical Accounting Policies**

### *General*

The accounting principles we apply under GAAP are complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions, judgments and estimates when applying these principles where precise measurements are not possible or practical. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such judgments, assumptions and estimates may have a significant impact on the consolidated financial statements. Actual results, in fact, could differ from initial estimates.

The accounting policies we view as critical are those relating to judgments, assumptions and estimates regarding the determination of the allowance for loan losses, accounting for purchase credit-impaired loans, and fair value measurements.

### *Allowance for Loan Losses*

We maintain the allowance for loan losses at a level that represents management's best estimate of known and inherent losses in our loan portfolio. We were not required to implement the provisions of the CECL until January 1, 2023, and are were accounting for the allowance for loan losses under an incurred loss model as of December 31, 2022. Both the amount of the provision expense and the level of the allowance for loan losses are impacted by many factors, including general and industry-specific economic conditions, actual and expected credit losses, historical trends and specific conditions of individual borrowers. Unusual and infrequently occurring events, such as weather-related disasters and health related events, such as the COVID-19 pandemic and associated efforts to restrict the spread of the disease, may impact our assessment of possible credit losses. As a part of our analysis, we use comparative peer group data and qualitative factors such as levels of and trends in delinquencies, nonaccrual loans, charged-off loans, changes in volume and terms of loans, effects of changes in lending policy, experience and ability and depth of management, national and local economic trends and conditions and concentrations of credit, competition, and loan review results to support estimates.

The allowance for loan losses is based first on a segmentation of the loan portfolio by general loan type, or portfolio segments. For originated loans, certain portfolio segments are further disaggregated and evaluated collectively for impairment based on loan segments, which are largely based on the type of collateral underlying each loan. For purposes of this analysis, we categorize loans into one of five categories: commercial and industrial, commercial real estate, commercial construction, consumer residential, and consumer nonresidential loans. Typically, financial institutions use their historical loss experience and trends in losses for each loan category which are then adjusted for portfolio trends and economic and environmental factors in determining their allowance for loan losses. Since the Bank's inception in 2007, we have experienced minimal loss history within our loan portfolio. Because of this, our allowance model uses the average loss rates of similar institutions (our custom peer group) as a baseline which is then adjusted based on our particular qualitative loan portfolio characteristics and environmental factors. The indicated loss factors resulting from this analysis are applied for each of the five categories of loans.

Our peer group is defined by selecting commercial banking institutions of similar size within Virginia, Maryland and the District of Columbia. This is known as our custom peer group. The commercial banking institutions comprising the custom peer group can change based on certain factors including but not limited to the characteristics, size, and geographic footprint of the institution. We have identified 16 banks for our custom peer group which are within \$1 billion to \$3 billion in total assets, the majority of whom are geographically concentrated in the Washington, D.C. metropolitan area in which we operate, as this area has experienced more stable economic conditions than many other areas of the country. These baseline peer group loss rates are then adjusted based on an analysis of our loan portfolio characteristics, trends, economic considerations and other conditions that should be considered in assessing our credit risk. Our peer loss rates are updated on a quarterly basis.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are determined to be impaired and, therefore, individually evaluated for impairment. We individually assign loss



factors to all loans that have been identified as having loss attributes, as indicated by deterioration in the financial condition of the borrower or a decline in underlying collateral value if the loan is collateral dependent. We evaluate the impairment of certain loans on a loan by loan basis for those loans that are adversely risk rated. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are discounted at the loan's effective interest rate, or measured on an observable market value, if one exists, or the fair value of the collateral underlying the loan, discounted to consider estimated costs to sell the collateral for collateral-dependent loans. If the net collateral value is less than the loan balance (including accrued interest and any unamortized premium or discount associated with the loan) we recognize an impairment and establish a specific reserve for the impaired loan.

Credit losses are an inherent part of our business and, although we believe the methodologies for determining the allowance for loan losses and the current level of the allowance are appropriate, it is possible that there may be unidentified losses in the portfolio at any particular time that may become evident at a future date pursuant to additional internal analysis or regulatory comment. Additional provisions for such losses, if necessary, would be recorded, and would negatively impact earnings.

#### *Fair Value Measurements*

We determine the fair values of financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Our investment securities available-for-sale are recorded at fair value using reliable and unbiased evaluations by an industry-wide valuation service. This service uses evaluated pricing models that vary based on asset class and include available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

#### **LIBOR and Other Benchmark Rates**

We have certain loans, interest rate swap agreements, investment securities, and debt obligations with interest rates indexed to LIBOR. The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. Central banks and regulators around the world have commissioned working groups to find suitable replacements for Interbank Offered Rates ("IBOR") and other benchmark rates and to implement financial benchmark reforms more generally. There continues to be uncertainty regarding the use of alternative reference rates ("ARRs"), which may cause disruptions in a variety of markets, as well as adversely impact our business, operations and financial results.

The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace LIBOR with a benchmark rate based on SOFR for contracts governed by U.S. law that have no or ineffective fallbacks. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates, or the value of LIBOR-based securities will not be adversely affected.

To facilitate an orderly transition from IBORs and other benchmark rates to ARRs, we have established an enterprise-wide initiative led by senior management. The objective of this initiative is to identify, assess and monitor risks associated with the expected discontinuation or unavailability of benchmarks, including LIBOR, achieve operational readiness and engage impacted clients in connection with the transition to ARRs. To mitigate the risks associated with the expected discontinuation of LIBOR, we have ceased originating LIBOR-linked loans, implemented fallback language for LIBOR-linked commercial loans, adhered to the International Swaps and Derivatives Association 2020 Fallbacks Protocol for interest rate swap agreements, and have updated our systems to accommodate loans linked to SOFR. In accordance with regulatory guidance, we ceased entering into new LIBOR transactions at the end of 2021 and have selected SOFR, as the rate that best represents an alternative to LIBOR. Uncertainty as to the adoption, market acceptance or availability of SOFR or other alternative reference rates may adversely affect the value of LIBOR-based loans and securities in our portfolio and may impact the availability and cost of hedging instruments and borrowings.

## Financial Overview

For the years ended December 31, 2022 and 2021, we expanded our market area through continued organic growth, capitalizing on new customer relationships we obtained through centers of influence and portfolio cultivation.

- Total assets increased to \$2.34 billion compared to \$2.20 billion at December 31, 2022 and 2021, respectively, an increase of \$141.4 million, or 6%. The increase in total assets is primarily attributable to our record loan growth during 2022.
- Total loans, net of deferred fees, increased \$336.6 million, or 22%, from December 31, 2021 to December 31, 2022. Excluding PPP loans, which decreased \$26.2 million as a result of loan forgiveness, net loan growth was \$362.8 million for the year ended December 31, 2022. Asset quality remains sound with nonperforming loans and loans past due 90 days or more as a percentage of total assets being 0.19% at December 31, 2022, compared to 0.16% at December 31, 2021.
- Total deposits decreased \$53.6 million, or 3%, from December 31, 2021 to December 31, 2022. Brokered time deposits increased \$213.0 million, which offset the year-over-year declines in all other categories of deposits.
- Net income was \$25.0 million for the year ended December 31, 2022 compared to \$21.9 million for 2021. Our 2022 and 2021 results were impacted by merger-related expenses totaling \$125 thousand and \$1.4 million, respectively, which were associated with our previously announced proposed merger with Blue Ridge Bankshares, Inc. ("Blue Ridge"), which was mutually terminated by us and Blue Ridge on January 20, 2022. Our 2021 results were also impacted by one-time accelerated debt issuance costs of \$380 thousand associated with the redemption of our 2016 subordinated debt issuance during the third quarter of 2021 and a gain on the sale of OREO of \$236 thousand during the fourth quarter of 2021. Excluding the merger-related expenses, accelerated debt issuance costs and gain on OREO, we would have recorded net income of \$25.1 million and \$23.2 million for the years ended December 31, 2022 and December 31, 2021, respectively. For a reconciliation of this non-GAAP information which excludes the effect of merger-related expenses, accelerated debt issuance costs, and the gain on sale of OREO, please refer to the table below.
- Net interest income increased \$7.3 million, or 13%, to \$65.2 million for the year ended December 31, 2022 compared to the year ended December 31, 2021. While loan growth resulted in interest income increasing \$12.3 million, despite the \$4.8 million reduction in PPP interest and fees, it was partially offset by the \$5.0 million increase in interest expense. Excluding PPP interest and fees, net interest income increased \$17.1 million or 27% for the current year compared to the prior year. The net interest margin for 2022 was 3.19% compared to 3.09% for 2021.
- The provision for loan losses for 2022 totaled \$2.6 million compared to a reversal of provision totaling \$500 thousand in 2021. The provision for loan losses for 2022 was a reflection of the growth in the loan portfolio. The credit to the provision for loan losses for the prior year was a reflection of improved credit quality in the loan portfolio during 2021 as economic activity improved due to the resumption of business activity previously stalled by the COVID-19 pandemic.
- Noninterest income for 2022 decreased to \$2.8 million compared to \$4.3 million for 2021. This decrease was primarily driven by the loss recorded for our portion of membership interest in ACM of \$659 thousand compared to income of \$1.5 million for the year ended December 31, 2021.
- Noninterest expense was \$34.5 million for each of the years ended December 31, 2022 and 2021. When excluding the aforementioned merger-related expenses, noninterest expense for the years ended December 31, 2022 and 2021 was \$34.3 million and \$33.1 million, respectively, an increase of \$1.2 million, or 4%.

# Reconciliation of Net Income (GAAP) to Operating Earnings (Non-GAAP)

Years Ended December 31, 2022 and 2021

(Dollars in thousands, except per share data)

	2022	2021
Net income (as reported)	\$ 24,984	\$ 21,933
Add: merger and acquisition expense	125	1,445
Add: Accelerated debt issuance costs	—	380
Subtract: Gains on sales of other real estate owned	—	(236)
Subtract: provision for income taxes associated with impairment and merger and acquisition expense	(28)	(358)
Non-GAAP Operating Earnings, excluding above items	\$ 25,081	\$ 23,164
Earnings per share - basic (GAAP net income)	\$ 1.43	\$ 1.29
Earnings per share - Non-GAAP expenses including provision for income taxes	\$ 0.01	\$ 0.07
Earnings per share - basic (non-GAAP operating earnings)	\$ 1.44	\$ 1.36
Earnings per share - diluted (GAAP net income)	\$ 1.35	\$ 1.20
Earnings per share - Non-GAAP expenses including provision for income taxes	\$ 0.01	\$ 0.07
Earnings per share - diluted (non-GAAP operating earnings)	\$ 1.36	\$ 1.27
Return on average assets (GAAP net income)	1.18 %	1.11 %
Non-GAAP expenses including provision for income taxes	— %	0.06 %
Return on average assets (non-GAAP operating earnings)	1.18 %	1.17 %
Return on average equity (GAAP net income)	12.34 %	10.92 %
Non-GAAP expenses including provision for income taxes	0.05 %	0.61 %
Return on average equity (non-GAAP operating earnings)	12.39 %	11.53 %



Below shows selected financial data for the periods ended December 31, 2022 and 2021.

**Selected Financial Data**  
(Dollars and shares in thousands, except per share data)

Income Statement Data:	Years Ended December 31,	
	2022	2021
Interest income	\$ 80,682	\$ 68,428
Interest expense	15,438	10,481
Net interest income	65,244	57,947
Provision for (reversal of) loan losses	2,629	(500)
Net interest income after provision for (reversal of) loan losses	62,615	58,447
Non-interest income	2,834	4,302
Non-interest expense	34,460	34,540
Net income before income taxes	30,989	28,209
Provision for income taxes	6,005	6,276
Net income	\$ 24,984	\$ 21,933
<b>Balance Sheet Data:</b>		
Total assets	\$ 2,344,322	\$ 2,202,924
Loans receivable, net of fees	1,840,434	1,503,849
Allowance for loan losses	(16,040)	(13,829)
Total investment securities	278,333	358,038
Total deposits	1,830,162	1,883,769
Other borrowed funds	284,565	44,510
Total shareholders' equity	202,382	209,796
Common shares outstanding	17,476	13,727
<b>Per Common Share Data<sup>(1)</sup>:</b>		
Basic net income	\$ 1.43	\$ 1.29
Fully diluted net income	1.35	1.20
Book value	11.58	12.23
Tangible book value <sup>(2)</sup>	11.14	11.76
<b>Performance Ratios:</b>		
Return on average assets	1.18 %	1.11 %
Return on average equity	12.34	10.92
Net interest margin <sup>(3)</sup>	3.19	3.09
Efficiency ratio <sup>(4)</sup>	50.62	55.49
Non-interest income to average assets	0.13	0.22
Non-interest expense to average assets	1.62	1.75
Loans receivable, net of fees to total deposits	100.56	79.83
<b>Asset Quality Ratios:</b>		
Net charge-offs (recoveries) to average loans receivable, net of fees	0.03 %	0.04 %
Nonperforming loans to loans receivable, net of fees	0.24	0.23
Nonperforming assets to total assets	0.19	0.16
Allowance for loan losses to nonperforming loans	357.00	394.21
Allowance for loan losses to loans receivable, net of fees	0.87	0.92
<b>Capital Ratios (Bank Only):</b>		
Tier 1 risk-based capital	13.28 %	13.54 %
Total risk-based capital	12.45	12.72
Common Equity Tier 1 capital	12.45	12.72
Leverage capital ratio	10.75	10.55
<b>Other:</b>		
Average shareholders' equity to average total assets	9.53 %	10.15 %
Average loans receivable, net of fees to average total deposits	86.77	86.80
<b>Average common shares outstanding<sup>(1)</sup>:</b>		
Basic	17,431	17,062
Diluted	18,484	18,227

- (1) Amounts for all periods reflect the effect of a 5-for-4 stock split declared on December 15, 2022.
- (2) Tangible book value is calculated as total stockholders' equity, less goodwill and other intangible assets, divided by common shares outstanding.
- (3) Net interest margin is calculated as net interest income divided by total average earning assets.
- (4) Efficiency ratio is calculated as total non-interest expense divided by the total of net interest income and non-interest income.

Non-GAAP Reconciliation (Dollars in thousands, except per share data)	Years Ended December 31,	
	2022	2021
Total stockholders' equity	\$ 202,382	\$ 209,796
Less: goodwill and intangibles, net	(7,790)	(8,052)
<b>Tangible Common Equity</b>	<b>\$ 194,592</b>	<b>\$ 201,744</b>
Book value per common share	\$ 11.58	\$ 12.23
Less: intangible book value per common share	(0.44)	(0.47)
<b>Tangible book value per common share</b>	<b>\$ 11.14</b>	<b>\$ 11.76</b>

## Results of Operations—Years Ended December 31, 2022 and December 31, 2021

### Overview

We recorded record net income of \$25.0 million, or \$1.35 per diluted common share, for the year ended December 31, 2022, compared to net income of \$21.9 million, or \$1.20 per diluted common share for the year ended December 31, 2021. Our 2022 results were impacted by merger-related expenses totaling \$125 thousand. Our 2021 results were impacted by merger-related expenses totaling \$1.4 million. We also recorded one-time accelerated debt issuance costs of \$380 thousand associated with our redemption of our 2016 subordinated debt issuance during the third quarter of 2021 and a gain on the sale of OREO of \$236 thousand. Excluding the merger-related expenses, accelerated debt issuance costs and gain on OREO and their related tax effects, we would have recorded net income of \$25.1 million, or \$1.36 per diluted common share, for the year ended December 31, 2022, and \$23.2 million, or \$1.27 per diluted common share, for the year ended December 31, 2021. See above table for a reconciliation of GAAP net income to operating earnings (non-GAAP).

Net interest income increased \$7.3 million to \$65.2 million for the year ended December 31, 2022, compared to \$57.9 million for the year ended December 31, 2021. For the year ended December 31, 2022, we recorded a provision for loan losses of \$2.6 million due to continued loan growth compared to a reversal of \$500 thousand during 2021 which was primarily driven by the improvement of economic conditions subsequent to the COVID-19 pandemic. Noninterest income for the year ended December 31, 2022 was \$2.8 million, compared to \$4.3 million for 2021, a decrease of \$1.5 million, which was primarily driven by the loss recorded from our membership interest in ACM of \$659 thousand for the year ended December 31, 2022, compared to income from our membership interest in ACM of \$1.5 million for the year ended December 31, 2021.

Noninterest expense was \$34.5 million for each of the years ended December 31, 2022 and 2021. For the years ended December 31, 2022 and 2021, noninterest expense included merger-related expenses totaling \$125 thousand and \$1.4 million, respectively, associated with the Company's proposed merger with Blue Ridge. When excluding merger-related expenses, noninterest expense for the years ended December 31, 2022 and 2021 was \$34.3 million and \$33.1 million, respectively, an increase of \$1.2 million, or 4%, which was primarily a result of increases in salaries and benefits expenses, offset by a year-over-year decrease in professional fees of \$279 thousand, which were attributable to the Company's membership interest purchase in ACM during 2021.

The return on average assets for the years ended December 31, 2022 and 2021 was 1.18% and 1.11%, respectively. The return on average equity for the years ended December 31, 2022 and 2021 was 12.34% and 10.92%, respectively. The return on average assets for the years ended December 31, 2022 and 2021 based on operating earnings (a non-GAAP metric) was 1.18% and 1.17%, respectively. The return on average equity for the years ended December 31, 2022 and 2021

based on operating earnings (a non-GAAP metric) was 12.39% and 11.53%, respectively. See the above table for a reconciliation of GAAP net income to operating earnings (non-GAAP).

### *Net Interest Income/Margin*

The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2022 and 2021.

### **Average Balance Sheets and Interest Rates on Interest-Earning Assets and Interest-Bearing Liabilities** Years Ended December 31, 2022 and 2021 (Dollars in thousands)

	2022			2021		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<b>Assets</b>						
Interest-earning assets:						
Loans(1):						
Commercial real estate	\$ 978,983	\$ 42,646	4.36 %	\$ 832,138	\$ 35,104	4.22 %
Commercial and industrial	199,957	10,317	5.16 %	135,017	6,127	4.54 %
Paycheck protection program	9,112	592	6.50 %	105,980	5,410	5.11 %
Commercial construction	165,088	8,762	5.31 %	209,957	9,790	4.66 %
Consumer residential	255,794	10,602	4.14 %	169,168	6,685	3.95 %
Consumer nonresidential	9,143	705	7.71 %	11,569	858	7.41 %
Total loans(1)	1,618,077	73,624	4.55 %	1,463,829	63,974	4.37 %
Investment securities(2)	344,725	5,974	1.73 %	204,952	3,878	1.89 %
Restricted stock	7,339	408	5.56 %	6,269	328	5.24 %
Deposits at other financial institutions	74,477	685	0.92 %	197,987	260	0.13 %
Total interest-earning assets and interest income	2,044,618	80,691	3.95 %	1,873,037	68,440	3.65 %
Noninterest-earning assets:						
Cash and due from banks	873			18,556		
Premises and equipment, net	1,410			1,578		
Accrued interest and other assets	92,761			99,562		
Allowance for loan losses	(14,596)			(14,513)		
Total assets	\$ 2,125,066			\$ 1,978,220		
<b>Liabilities and Stockholders' Equity</b>						
Interest - bearing liabilities:						
Interest - bearing deposits:						
Interest checking	\$ 724,881	\$ 5,966	0.82 %	\$ 587,151	\$ 3,224	0.55 %
Savings and money markets	315,653	2,662	0.84 %	303,317	1,421	0.47 %
Time deposits	203,719	2,908	1.43 %	230,668	2,783	1.21 %
Wholesale deposits	61,478	932	1.52 %	37,657	173	0.46 %
Total interest - bearing deposits	1,305,731	12,468	0.95 %	1,158,793	7,601	0.66 %
Other borrowed funds	89,834	2,970	3.31 %	62,878	2,880	4.58 %
Total interest-bearing liabilities and interest expense	1,395,565	15,438	1.11 %	1,221,671	10,481	0.86 %
Noninterest-bearing liabilities:						
Demand deposits	501,962			527,675		
Other liabilities	25,059			27,988		
Common stockholders' equity	202,480			200,886		
Total liabilities and stockholders' equity	\$ 2,125,066			\$ 1,978,220		
Net interest income and net interest margin		\$ 65,253	3.19 %		\$ 57,959	3.09 %

(1) Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.



- (2) The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 21% for 2022 and 2021.

The level of net interest income is affected primarily by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates. The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities.

**Rate and Volume Analysis**  
Years Ended December 31, 2022 and 2021  
(Dollars in thousands)

	2022 Compared to 2021		
	Average Volume <sup>(3)</sup>	Average Rate	Increase (Decrease)
<b>Interest income:</b>			
Loans(1):			
Commercial real estate	\$ 6,195	\$ 1,347	\$ 7,542
Commercial and industrial	2,947	1,243	4,190
Paycheck protection program	(4,944)	126	(4,818)
Commercial construction	(2,092)	1,064	(1,028)
Consumer residential	3,423	494	3,917
Consumer nonresidential	(180)	27	(153)
Total loans(1)	5,349	4,301	9,650
Investment securities(2)	2,645	(549)	2,096
Restricted stock	56	24	80
Deposits at other financial institutions	(162)	587	425
Total interest income	7,888	4,363	12,251
<b>Interest expense:</b>			
Interest - bearing deposits:			
Interest checking	756	1,986	2,742
Savings and money markets	58	1,183	1,241
Time deposits	(325)	450	125
Wholesale deposits	109	650	759
Total interest - bearing deposits	598	4,269	4,867
Other borrowed funds	1,235	(1,145)	90
Total interest expense	1,833	3,124	4,957
Net interest income	\$ 6,055	\$ 1,239	\$ 7,294

- (1) Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.
- (2) The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 21% for 2022 and 2021.

Net interest income, on a tax equivalent basis, is a financial measure that we believe provides a more accurate picture of the interest margin for comparative purposes. To derive our net interest margin on a tax equivalent basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before tax basis with a corresponding increase in income tax expense. For purposes of this calculation, we use our federal and state statutory tax rates for the periods presented. This measure ensures comparability of net interest income arising from taxable and tax-exempt sources.

The following table provides a reconciliation of our GAAP net interest income to our tax equivalent net interest income.

### Supplemental Financial Data and Reconciliations to GAAP Financial Measures

Years Ended December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
<b>GAAP Financial Measurements:</b>		
Interest income:		
Loans	\$ 73,624	\$ 63,974
Deposits at other financial institutions	685	260
Investment securities available-for-sale	5,959	3,860
Investment securities held-to-maturity	6	6
Restricted stock	408	328
Total interest income	80,682	68,428
Interest expense:		
Interest-bearing deposits	12,468	7,601
Other borrowed funds	2,970	2,880
Total interest expense	15,438	10,481
<b>Net interest income</b>	<b>\$ 65,244</b>	<b>\$ 57,947</b>
<b>Non-GAAP Financial Measurements:</b>		
Add: Tax benefit on tax-exempt interest income - securities	9	12
<b>Total tax benefit on interest income</b>	<b>\$ 9</b>	<b>\$ 12</b>
<b>Tax equivalent net interest income</b>	<b>\$ 65,253</b>	<b>\$ 57,959</b>
<b>Net interest margin on a tax-equivalent basis</b>	<b>3.19 %</b>	<b>3.09 %</b>

Net interest income for the year ended December 31, 2022 was \$65.3 million on a fully taxable-equivalent basis, compared to \$58.0 million for the year ended December 31, 2021, an increase of \$7.3 million, or 13%. The increase in net interest income was primarily a result of an increase in interest earned on earning assets that exceeded the increase in costs of interest-bearing liabilities. We have been disciplined in our approach to rising interest rates as the Federal Open Market Committee of the Federal Reserve has enacted a contractionary monetary policy, increasing its targeted fed funds rate 425 basis points during 2022 to combat inflation.

Our net interest margin, on a tax equivalent basis, for the years ended December 31, 2022 and 2021 was 3.19% and 3.09%, respectively. The increase in our net interest margin was primarily a result of the increased rate environment during 2022, as our variable rate loan portfolio repriced and we funded loans at higher interest rates, which increased yields on interest-earning assets. The yield on interest-earning assets increased 30 basis points to 3.95% for the year ended December 31, 2022, compared to 3.65% for the same period of 2021, a result of the increased rate environment during 2022. Offsetting the increase in yields on earning assets was a 25 basis point increase in the cost of interest-bearing liabilities, which reflects the increases in funding costs during 2022.

Average interest-earning assets increased by 9% to \$2.04 billion at December 31, 2022 compared to \$1.87 billion at December 31, 2021, which resulted in an increase in total interest income on a tax equivalent basis of \$12.3 million, to \$80.7 million for the year ended December 31, 2022 compared to \$68.4 million for the year ended December 31, 2021. Both average volume and rate significantly impacted interest income during 2022, with volume contributing an additional

\$7.9 million in interest income and rate contributing an additional \$4.4 million in interest income when compared to the prior year.

Average loans receivable increased \$154.2 million to \$1.62 billion for the year ended December 31, 2022, compared to \$1.46 billion for the year ended December 31, 2021. The yield on average loans increased 18 basis points to 4.55% for the year ended December 31, 2022. The increase in average volume of loans receivable contributed \$5.3 million to interest income while the increase in average rate of loans receivable contributed \$4.3 million to interest income. Average balances of nonperforming loans, which consist of nonaccrual loans, are included in the net interest margin calculation and did not have a material impact on our net interest margin in 2022 and 2021.

Average investment securities increased \$139.8 million to \$344.7 million for the year ended December 31, 2022, compared to \$205.0 million for the year ended December 31, 2021. The significant increase in average investment securities was primarily a result of the increase in liquidity at the Bank as a result of PPP loan forgiveness and payoffs, along with increases in deposit activity that was in excess of loan originations during 2021. This liquidity was invested in fixed income securities which increased interest income by \$2.1 million on a tax equivalent basis for the year ended December 31, 2022. The yield on average investment securities decreased 16 basis points to 1.73% for the year ended December 31, 2022, primarily as a result of purchasing securities at lower interest rates relative to the average yield of the securities portfolio.

Average interest-earning deposits at other financial institutions, consisting primarily of excess cash reserves maintained at the Federal Reserve, decreased \$123.5 million to \$74.5 million for the year ended December 31, 2022, compared to \$198.0 million for the year ended December 31, 2021. The significant decrease in average interest-earning deposits at other financial institutions was primarily a result of our deployment of excess liquidity during 2022 to fund loan growth. The yield on average interest-earning deposits increased 79 basis points to 0.92% for the year ended December 31, 2022.

Total average interest-bearing deposits increased \$146.9 million to \$1.31 billion at December 31, 2022 compared to \$1.16 billion at December 31, 2021. Average noninterest-bearing deposits decreased \$25.7 million, or 5%, to \$502.0 million at December 31, 2022, compared to \$527.7 million at December 31, 2021. The largest increase in average interest-bearing deposit balances was in our interest checking accounts, which increased \$137.7 million compared to 2021. Average time deposits decreased \$26.9 million to \$203.7 million as of December 31, 2022 compared to \$230.7 million at December 31, 2021, as customers continue to prefer short-term deposit options for liquidity purposes. Average wholesale deposits increased \$23.8 million to \$61.5 million as of December 31, 2022 compared to \$37.7 million as of December 31, 2021, to assist in funding our record loan growth during 2022.

The cost of other borrowed funds, which include federal funds purchased, FHLB advances, and our subordinated notes, decreased 127 basis points to 3.31% for the year ended December 31, 2022, from 4.58% for the same period in 2021, a result of a reduction in subordinated debt outstanding during 2022 and the recognition of accelerated debt issuance costs of \$380 thousand recorded during 2021.

#### *Provision Expense and Allowance for Loan Losses*

Our policy is to maintain the allowance for loan losses at a level that represents our best estimate of inherent losses in the loan portfolio. Both the amount of the provision and the level of the allowance for loan losses are impacted by many factors, including general and industry-specific economic conditions, actual credit losses, historical trends and specific conditions of individual borrowers. We were not required to implement the provisions of CECL until January 1, 2023, and were accounting for the allowance for losses under the incurred loss model.

The Company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments.

We recorded a provision for loan losses of \$2.6 million for the year ended December 31, 2022 compared to a release of provision of \$500 thousand for the year ended December 31, 2021. The allowance for loan losses at December 31, 2022 was \$16.0 million compared to \$13.8 million at December 31, 2021. Our allowance for loan loss ratio as a percent of total loans, net of deferred fees and costs, for December 31, 2022 and 2021 was 0.87% and 0.92%, respectively. The increase in



the allowance for loan losses for the year ended December 31, 2022 was primarily related to supporting the growth recorded in the our loan portfolio during the year.

The Company continues to maintain its disciplined credit guidelines adding support during the current rising rate environment. The Company proactively monitors the impact of rising interest rates on its adjustable loans as the industry navigates through this economic cycle of increased inflation and higher interest rates. Credit quality metrics remained strong for 2022 with specific reserves on the loan portfolio totaling \$86 thousand. Net charge-offs for the year ended December 31, 2022 were \$418 thousand compared to \$629 thousand for the year ended December 31, 2021, consistent with our track record of low historical charge-offs. The allowance coverage to nonperforming loans decreased to 357% at December 31, 2022, compared to 394% for the year ended December 31, 2021. See "Asset Quality" section below for additional information on the credit quality of the loan portfolio.

#### *Noninterest Income*

The following table provides detail for non-interest income for the years ended December 31, 2022 and 2021.

**Non-Interest Income**  
Years Ended December 31, 2022 and 2021  
(Dollars in thousands)

	2022	2021	Change from Prior Year	
			Amount	Percent
Service charges on deposit accounts	\$ 954	\$ 1,028	\$ (74)	(7.2)%
Fees on loans	232	110	122	110.9 %
BOLI income	1,200	994	206	20.7 %
(Loss) income from minority membership interest	(33)	1,464	(1,497)	(102.3)%
Other fee income	481	706	(225)	(31.9)%
<b>Total non-interest income</b>	<b>\$ 2,834</b>	<b>\$ 4,302</b>	<b>\$ (1,468)</b>	<b>(34.1)%</b>

Noninterest income includes service charges on deposits and loans, loan swap fee income, income from our membership interest in ACM and other investments, income from our BOLI policies, and other fee income, and continues to supplement our operating results.

Noninterest income for the years ended December 31, 2022 and 2021 was \$2.8 million and \$4.3 million, respectively, a decrease of \$1.5 million, which was primarily driven by the loss recorded from our membership interest in ACM of \$659 thousand for the year ended December 31, 2022, compared to income from ACM of \$1.5 million for the year ended December 31, 2021.

During the last several months of 2022, ACM made strategic investments through hiring top tier mortgage originators and additional support infrastructure, including new branches, to position itself for the current and future mortgage environment. This investment, which has significantly increased ACM's overhead expenses ahead of future earnings, coupled with historically low origination volumes and tighter margins, have caused short-term losses that were not previously forecasted or budgeted. However, ACM has significant cash reserves to draw from and it is expected that these strategic investments will buoy ACM as a top mortgage originator in our region within the next several years. We continue to benefit from synergies created by our ACM investment, including warehouse line activity, loan purchases and customer referrals.

Fee income from service charges on deposits and other fee income was \$1.4 million for the year ended December 31, 2022 as compared \$1.7 million for the same period of 2021. The decrease in other fee income is a result of decreases in both insurance commission income of \$88 thousand and rental income on OREO of \$120 thousand, during 2022 when compared to 2021. There were no loan swap fees for the years ended December 31, 2022 and December 31, 2021. Income from BOLI increased 21% to \$1.2 million for the year ended December 31, 2022 as compared to \$994 thousand for the year ended December 31, 2021 as we purchased \$15 million in BOLI during the second quarter of 2022.

## Noninterest Expense

The following table reflects the components of non-interest expense for the years ended December 31, 2022 and 2021.

### Non-Interest Expense Years Ended December 31, 2022 and 2021 (Dollars in thousands)

	2022	2021	Change from Prior Year	
			Amount	Percent
Salaries and employee benefits	\$ 20,316	\$ 18,980	\$ 1,336	7.0 %
Occupancy and equipment expense	3,252	3,290	(38)	(1.2)%
Data processing and network administration	2,303	2,203	100	4.5 %
State franchise taxes	2,036	1,983	53	2.7 %
Audit, legal and consulting fees	1,210	1,489	(279)	(18.7)%
Merger and acquisition expense	125	1,445	(1,320)	(91.3)%
Loan related expenses	555	1,247	(692)	(55.5)%
FDIC insurance	620	770	(150)	(19.5)%
Marketing, business development and advertising	483	220	263	119.5 %
Director fees	668	651	17	2.6 %
Postage, courier and telephone	181	190	(9)	(4.7)%
Internet banking	645	542	103	19.0 %
Dues, memberships & publications	194	174	20	11.5 %
Bank insurance	453	411	42	10.2 %
Printing and supplies	147	104	43	41.3 %
Bank charges	90	118	(28)	(23.7)%
State assessments	161	167	(6)	(3.6)%
Core deposit intangible amortization	262	305	(43)	(14.1)%
Gain on sale of other real estate owned	—	(236)	236	(100.0)%
Tax credit amortization	126	—	126	100.0 %
Other operating expenses	633	487	146	30.0 %
Total non-interest expense	<u>\$ 34,460</u>	<u>\$ 34,540</u>	<u>\$ (80)</u>	<u>(0.2)%</u>

Noninterest expense includes, among other things, salaries and benefits, occupancy and equipment costs, professional fees, data processing, insurance and miscellaneous expenses. Noninterest expense was \$34.5 million for each of the years ended December 31, 2022 and December 31, 2021.

Salaries and benefits expense increased \$1.3 million to \$20.3 million for the year ended December 31, 2022 compared to \$19.0 million for the same period in 2021, which was primarily related to business development staff expansion in addition to market rate adjustments to employee compensation during 2022. Merger-related expenses associated with our proposed merger with Blue Ridge totaled \$125 thousand and \$1.4 million for the years ended December 31, 2022 and December 31, 2021, respectively. Audit, legal and consulting fees decreased \$279 thousand to \$1.2 million for the year ended December 31, 2022 as compared to the same period of 2021, primarily as a result of expenses incurred in 2021 for our membership interest purchase of ACM in 2021. Loan related expenses decreased \$692 thousand to \$555 thousand for the year ended December 31, 2022 compared to the prior year, as loan workout expense decreased during 2022.

During 2021, we sold our OREO property which resulted in a gain of \$236 thousand. No such gain or loss was recorded during 2022.

We recorded a provision for income tax expense of \$6.0 million for the year ended December 31, 2022, a decrease of \$276 thousand compared to \$6.3 million for the year ended December 31, 2021. Our effective tax rate for December 31, 2022 was 19.4%, compared to 22.2% for 2021. Our effective tax rates for 2022 and 2021 are less than our combined federal and state statutory rate of 22.5% because of discrete tax benefits recorded as a result of nonqualified option exercises during the aforementioned periods.

## **Discussion and Analysis of Financial Condition**

### *Overview*

At December 31, 2022, total assets were \$2.34 billion, an increase of 6%, or \$141.4 million, from \$2.20 billion at December 31, 2021. Total loans receivable, net of deferred fees and costs, increased 22%, or \$336.6 million, to \$1.84 billion at December 31, 2022, from \$1.50 billion at December 31, 2021. Total investment securities decreased by \$79.7 million, or 22%, to \$278.3 million at December 31, 2022, from \$358.0 million at December 31, 2021. Total deposits decreased 3%, or \$53.6 million, to \$1.83 billion at December 31, 2022, from \$1.88 billion at December 31, 2021. From time to time, we may utilize other borrowed funds such as federal funds purchased and FHLB advances as an additional funding source for the Bank. For December 31, 2022 and 2021, we had \$30.0 million and \$0 federal funds purchased, respectively. The Bank had FHLB advances outstanding of \$235.0 million and \$25.0 million for the years ended December 31, 2022 and 2021. Subordinated debt, net of unamortized issuance costs, totaled \$19.6 million and \$19.5 million at December 31, 2022 and 2021, respectively.

We review our balance sheet and interest rate sensitivity on an ongoing basis as part of our asset/liability risk management process. During February 2023, with the expectation that short-term interest rates would continue to increase during 2023, we modeled various scenarios to improve balance sheet efficiency, reduce our cost of funds, improve margin and our capital ratios. As a result, we executed a de-lever strategy through the sale of a portion of U.S. government agency low-yielding mortgage-backed investment securities available-for-sale at a one-time loss. The proceeds of this strategy were used to paydown high cost short-term FHLB advances and assist in the funding of higher yielding newly originated commercial loans. During late February, we sold \$40.3 million in investment securities available-for-sale, or 12% of the portfolio, for an after-tax loss of \$3.6 million, which will be recorded in our March 31, 2023 quarterly results. This transaction was neutral to shareholders' equity and tangible book value, as the loss recorded was already reflected in our accumulated other comprehensive loss. Tangible common equity to total assets is expected to improve approximately 7 basis points as a result of the reduction in total assets. From an earnings perspective, the balance sheet re-positioning is expected to be accretive to net interest income, net interest margin and return on average assets in future periods. Our model results indicate that net interest margin is expected to improve 9 basis points as a result of this de-leverage strategy.

Additionally, during the first quarter, we fixed \$150 million of our wholesale funding through the execution of pay-fixed/receive-floating interest rate swaps. The interest rate swaps have a weighted average rate of 3.50%, have a maturity of five years, and are designated against a mix of FHLB advances and brokered certificates of deposits. Classified as cash flow hedges, the market value fluctuations will not impact future earnings, but will impact accumulated other comprehensive income.

### *Loans Receivable, Net*

Total loans receivable, net of deferred fees and costs, were \$1.84 billion at December 31, 2022, an increase of \$336.6 million, or 22%, compared to \$1.50 billion at December 31, 2021. Excluding PPP loans, which decreased \$26.2 million as a result of loan forgiveness, net loan growth was \$362.8 million for the year ended December 31, 2022. Loans outstanding under our warehouse facility with ACM totaled \$42.7 million at December 31, 2022, a decrease of \$29.3 million, or 41%, from \$72 million at December 31, 2021, which is consistent with the slowdown of residential mortgage loan demand in our market.

PPP loans, net of deferred fees and costs, totaled \$2.0 million at December 31, 2022, a decrease from \$28.1 million at December 31, 2021. Net deferred fees associated with PPP loans totaled \$37 thousand at December 31, 2022.

Commercial real estate loans totaled \$1.10 billion at December 31, 2021, or 60% of total loan receivable, compared to \$906.1 million at December 31, 2021, an increase of \$194.1 million, or 21%. Owner-occupied commercial real estate loans were \$206.8 million at December 31, 2022 compared to \$191.8 million at December 31, 2021. Nonowner-occupied



commercial real estate loans were \$893.2 million at December 31, 2022 compared to \$714.3 million at December 31, 2021. Commercial construction loans totaled \$147.9 million at December 31, 2022, or 8% of total loans receivable. Of the \$147.9 million in construction loans, \$43.8 million are collateralized by land, and lot acquisition and development loans (which have a higher degree of credit risk than the remaining portion of the construction portfolio) totaled \$6.4 million at December 31, 2022. Our commercial real estate portfolio, including construction loans, is diversified by asset type and geographic concentration. We plan to manage this portion of our portfolio in a disciplined manner. We have comprehensive policies to monitor, measure, and mitigate our loan concentrations within this portfolio segment, including rigorous credit approval, monitoring and administrative practices.

Commercial and industrial loans, excluding PPP loans, increased \$69.2 million to \$243.2 million at December 31, 2022, from \$174.1 million at December 31, 2021. Consumer residential loans increased \$139.0 million to \$339.6 million at December 31, 2022, from \$200.6 million at December 31, 2021. The increase in residential loans was primarily a result of purchasing ACM originated mortgages, which were portfolio product offered by the Bank and which met our underwriting criteria.

The following table sets forth the repricing characteristics and sensitivity to interest rate changes of our loan portfolio at December 31, 2022.

### Loan Maturities and Interest Rate Sensitivity

At December 31, 2022

(Dollars in thousands)

	One Year or Less	Between One and Five Years	Between Five and Fifteen Years	After Fifteen Years	Total
Commercial real estate	\$ 55,428	\$ 522,217	\$ 519,116	\$ 3,500	\$ 1,100,261
Commercial and industrial	41,670	120,783	26,815	53,964	243,232
Paycheck protection program	—	1,988	—	—	1,988
Commercial construction	68,003	64,615	15,321	—	147,939
Consumer residential	25,920	56,536	71,659	185,476	339,591
Consumer nonresidential	3,581	2,162	858	1,084	7,685
<b>Total loans receivable</b>	<b>\$ 194,602</b>	<b>\$ 768,301</b>	<b>\$ 633,769</b>	<b>\$244,024</b>	<b>\$ 1,840,696</b>
Fixed—rate loans	\$ 99,530	\$ 517,069	\$ 379,594	\$150,321	\$ 1,146,514
Floating—rate loans	95,072	251,232	254,175	93,703	694,182
<b>Total loans receivable</b>	<b>\$ 194,602</b>	<b>\$ 768,301</b>	<b>\$ 633,769</b>	<b>\$244,024</b>	<b>\$ 1,840,696</b>

\* Payments due by period are based on the repricing characteristics and not contractual maturities.

### Asset Quality

Nonperforming assets, defined as nonaccrual loans, loans contractually past due 90 days or more as to principal or interest and still accruing, and OREO at December 31, 2022 were \$4.5 million compared to \$3.5 million at December 31, 2021. Our ratio of nonperforming assets to total assets was 0.19% at December 31, 2022 compared to 0.16% at December 31, 2021. TDRs, as of December 31, 2022 and 2021, totaled \$830 thousand and \$92 thousand, respectively.

Nonperforming loans, which are primarily commercial real estate and commercial and industrial loans, increased \$1.0 million during 2022 as compared to 2021. Loans that we have classified as nonperforming are a result of customer specific deterioration, mostly financial in nature, and not a result of economic, industry, or environmental causes that we might see as a pattern for possible future losses within our loan portfolio. For each of our criticized assets, we conduct an impairment analysis to determine the level of additional or specific reserves required for any portion of the loan that may result in a loss. As a result of the analysis completed, we had specific reserves totaling \$86 thousand and \$186 thousand at December 31, 2022 and 2021, respectively. Because these loans are individually evaluated for impairment, no general reserve was assessed for valuation purposes.

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. This analysis includes, larger non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At December 31, 2022, we had \$10.4 million in loans identified as special mention within the originated loan portfolio, an increase from \$3.0 million as of December 31, 2021. Special mention rated loans are loans that have a potential weakness that deserves management's close attention; however, the borrower continues to pay in accordance with their contract. These loans do not have a specific reserve and are considered well-secured.

At December 31, 2022, we had \$4.1 million in loans identified as substandard within the originated loan portfolio, a decrease from \$19.0 million as of December 31, 2021 due to a combination of loan payoffs and risk rating improvements during the current year. Substandard rated loans are loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. For each of these substandard loans, a liquidation analysis is completed. At December 31, 2022, specific reserves on originated and acquired loans totaling \$86 thousand, have been allocated within the allowance for loan losses to supplement any shortfall of collateral.

We recorded annualized net charge-offs of 0.03% and 0.04% for the years ended December 31, 2022 and 2021, respectively. The following tables provide additional information on our asset quality for the periods presented.

**Nonperforming Assets**  
At December 31, 2022 and 2021  
(Dollars in thousands)

	2022	2021
<b>Nonperforming assets:</b>		
Nonaccrual loans	\$ 3,150	\$ 3,485
Loans contractually past-due 90 days or more	1,343	23
Total nonperforming loans (NPLs)	\$ 4,493	\$ 3,508
Other real estate owned (OREO)	—	—
Total nonperforming assets (NPAs)	\$ 4,493	\$ 3,508
Performing troubled debt restructurings (TDRs)	\$ 830	\$ 92
NPLs/Total Assets	0.19 %	0.16 %
NPAs/Total Assets	0.19 %	0.16 %
NPAs and TDRs/Total Assets	0.23 %	0.16 %
Allowance for loan losses/NPLs	357.00 %	394.21 %

At December 31, 2022 and 2021, there were no performing loans considered a potential problem loan. Potential problem loans are defined as loans that are not included in the 90 day past due, nonaccrual or adversely classified or restructured categories, but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosure in the past due, nonaccrual or restructured loan categories. We take a conservative approach with respect to risk rating loans in our portfolio. Based upon the status as a potential problem loan, these loans receive heightened scrutiny and ongoing intensive risk management. Additionally, our loan loss allowance methodology incorporates increased reserve factors for certain loans that are adversely rated but not impaired as compared to the general portfolio.

We have evaluated our exposure to credit risks directly related to the COVID-19 pandemic. During 2020, as a result of the COVID-19 pandemic, we implemented loan payment deferral programs to allow customers who were required to close or reduce business operations to defer loan principal and interest payments primarily for 90 days. During the first and second quarters of 2020, we modified 277 loans for a total outstanding principal balance of \$360.2 million, or 24% of the total loan portfolio. As of December 31, 2022, there were no remaining loans on payment deferral related to the pandemic.

At December 31, 2022 and December 31, 2021, we had no OREO.

While our loan growth has continued to be strong, unexpected changes in economic growth could adversely affect our loan portfolio, including causing increases in delinquencies and default rates, which would adversely impact our charge-offs and provision for loan losses. Deterioration in real estate values, employment data and household incomes may also result in higher loan losses for us. Also, in the ordinary course of business, we may also be subject to a concentration of credit risk to a particular industry, counterparty, borrower or issuer. At December 31, 2022, our commercial real estate portfolio, net of fees (including construction lending) was 68% of our total loan portfolio. A deterioration in the financial condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities could negatively impact our business, perhaps materially, and the systems by which we set limits and monitor the level of our credit exposure to individual entities and industries, may not function as we have anticipated.

See "Critical Accounting Policies" above for more information on our allowance for loan losses methodology.

The following tables present additional information pertaining to the activity in and allocation of the allowance for loan losses by loan type and the percentage of the loan type to the total loan portfolio. The allocation of the allowance for loan losses to a category of loans is not necessarily indicative of future losses or charge-offs, and does not restrict the use of the allowance to any specific category of loans.

**Allowance for Loan Losses**  
Years Ended December 31, 2022 and 2021  
(Dollars in thousands)

	2022		2021	
	Net (charge-offs) recoveries	Percentage of net charge-offs (annualized) to average loans outstanding during the year	Net (charge-offs) recoveries	Percentage of net charge-offs (annualized) to average loans outstanding during the year
Commercial real estate	\$ —	— %	\$ (453)	(0.03)%
Commercial and industrial	(396)	(0.02)%	(117)	(0.01)%
Consumer residential	1	— %	35	— %
Consumer nonresidential	(23)	— %	(94)	(0.01)%
Total	<u>\$ (418)</u>	<u>(0.03)%</u>	<u>\$ (629)</u>	<u>(0.04)%</u>
Average loans outstanding during the period	\$ 1,618,077		\$ 1,463,829	
Allowance for loan losses to loans receivable, net of fees	0.87 %		0.92 %	
Allowance for loan losses to loans receivable, net of fees, excluding PPP	0.87 %		0.94 %	



### Allocation of the Allowance for Loan Losses

At December 31, 2022 and 2021  
(Dollars in thousands)

	2022		2021	
	Allocation	% of Total*	Allocation	% of Total*
Commercial real estate	\$ 10,777	59.77 %	\$ 8,995	60.11 %
Commercial and industrial	2,623	13.21 %	1,827	11.55 %
Paycheck protection program	—	0.11 %	—	1.90 %
Commercial construction	1,499	8.04 %	2,009	12.45 %
Consumer residential	1,044	18.45 %	781	13.31 %
Consumer nonresidential	97	0.42 %	217	0.68 %
Total allowance for loan losses	<u>\$ 16,040</u>	<u>100.00 %</u>	<u>\$ 13,829</u>	<u>100.00 %</u>

\* Percentage of loan type to the total loan portfolio.

#### *Investment Securities*

Our investment securities portfolio is used as a source of income and liquidity. The investment portfolio consists of investment securities available-for-sale and investment securities held-to-maturity. Investment securities available-for-sale are those securities that we intend to hold for an indefinite period of time, but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability strategy, liquidity management or regulatory capital management. Investment securities held-to-maturity were \$264 thousand at each of December 31, 2022 and 2021, and are those securities that we have the intent and ability to hold to maturity and are carried at amortized cost. Our investment securities portfolio was \$278.3 million at December 31, 2022 compared to \$358.0 million at December 31, 2021. Investment securities decreased \$79.7 million during the year ended December 31, 2022, primarily as a result of principal paydowns of \$37.1 million and a \$49.0 million decrease in the market value of the available-for-sale portfolio during 2022. The decrease in market value is due to the current increasing rate environment and not a result of any credit deterioration of the portfolio. These purchases were primarily funded through our increase in deposits and PPP loan forgiveness to deploy excess liquidity and optimize net interest margin.

As of December 31, 2022 and 2021, the majority of the investment securities portfolio consisted of securities rated AAA by a leading rating agency. Investment securities that carry a AAA rating are judged to be of the best quality and carry the smallest degree of investment risk. All of our mortgage-backed securities are guaranteed by either the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. Investment securities that were pledged to secure public deposits totaled \$108.7 million and \$85.6 million at December 31, 2022 and December 31, 2021, respectively.

We complete reviews for other-than-temporary impairment at least quarterly. Investment securities with unrealized losses are a result of pricing changes due to recent rising rate conditions in the current market environment and not as a result of permanent credit impairment. Contractual cash flows for the agency mortgage-backed securities are guaranteed and/or funded by the U.S. government. Municipal securities have third party protective elements and there are no negative indications that the contractual cash flows will not be received when due. We do not intend to sell nor do we believe we will be required to sell any of our temporarily impaired securities prior to the recovery of the amortized cost.

No other-than-temporary impairment has been recognized for the securities in our investment portfolio as of December 31, 2022 and December 31, 2021.

We hold restricted investments in equities of the FRB and FHLB. At December 31, 2022, we owned \$11.1 million in FHLB stock and \$4.4 million in FRB stock. At December 31, 2021, we owned \$1.8 million in FHLB stock and \$4.4 million in FRB stock.

The following table presents the weighted average yields of our investment portfolio for each of the maturity ranges at December 31, 2022 and 2021.

**Investment Securities by Stated Maturity**  
At December 31, 2022 and 2021  
(Dollars in thousands)

	2022				
	Within One Year	One to Five Years	Five to Ten Years	Over Ten Years	Total
	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield
<b>Held-to-maturity</b>					
Securities of state and local municipalities tax exempt	—	2.32 %	—	—	2.32 %
Total held-to-maturity securities	—	2.32 %	—	—	2.32 %
<b>Available-for-sale</b>					
Securities of U.S. government and federal agencies	—	—	1.49 %	—	1.49 %
Securities of state and local municipalities	—	2.25 %	—	2.92 %	2.43 %
Corporate bonds	—	6.02 %	4.09 %	—	4.27 %
Mortgaged-backed securities	—	2.09 %	2.48 %	1.57 %	1.62 %
Total available-for-sale securities	—	3.73 %	2.84 %	1.57 %	1.79 %
Total investment securities	—	3.65 %	2.51 %	1.57 %	1.79 %

	2021				
	Within One Year	One to Five Years	Five to Ten Years	Over Ten Years	Total
	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield	Weighted Average Yield
<b>Held-to-maturity</b>					
Securities of state and local municipalities tax exempt	—	—	2.32 %	—	2.32 %
Total held-to-maturity securities	—	—	2.32 %	—	2.32 %
<b>Available-for-sale</b>					
Securities of U.S. government and federal agencies	—	—	1.49 %	—	1.49 %
Securities of state and local municipalities	—	2.25 %	—	2.92 %	2.45 %
Corporate bonds	—	3.98 %	4.15 %	—	4.12 %
Mortgaged-backed securities	—	—	2.21 %	1.53 %	1.57 %
Total available-for-sale securities	—	3.27 %	2.51 %	1.53 %	1.68 %
Total investment securities	—	3.27 %	2.51 %	1.53 %	1.68 %

*Deposits and Other Borrowed Funds*

The following table sets forth the average balances of deposits and the percentage of each category to total average deposits for the years ended December 31, 2022 and 2021:

(Dollars in thousands)	Average Balance			
	2022		2021	
Noninterest-bearing demand	\$ 501,962	27.77 %	\$ 527,675	31.29 %
Interest-bearing deposits				
Interest checking	724,881	40.10 %	587,151	34.82 %
Savings and money markets	315,653	17.46 %	303,317	17.99 %
Certificate of deposits, \$100,000 to \$249,999	51,490	2.85 %	58,453	3.47 %
Certificate of deposits, \$250,000 or more	152,229	8.42 %	172,215	10.21 %
Other time deposits	61,478	3.39 %	37,657	2.22 %
Total	<u>\$ 1,807,693</u>	<u>100.00 %</u>	<u>\$ 1,686,468</u>	<u>100.00 %</u>

Total deposits were \$1.83 billion at December 31, 2022, a decrease of \$53.6 million, or 3%, from \$1.88 billion at December 31, 2021. Noninterest-bearing deposits totaled \$438.3 million at December 31, 2022, comprising 24% of total deposits. Wholesale deposits increased to \$248.0 million at December 31, 2022 from \$35.0 million at December 31, 2021, which offset the year-over-year declines in all other deposit categories, which was a result of customers using their excess liquidity to fund their business activity, and decreases in escrow funds from title and real estate companies due to the slowdown in real estate activity in the market.

We are a member of the IntraFi Network ("IntraFi"), which gives us the ability to offer Certificates of Deposit Account Registry Service ("CDARS"), and Insured Cash Sweep ("ICS"), products to our customers who seek to maximize FDIC insurance protection. When a customer places a large deposit with us for IntraFi, funds are placed into certificates of deposit or other deposit products with other banks in the CDARS and ICS networks in increments of less than \$250 thousand so that principal and interest are eligible for FDIC insurance protection. These deposits are part of our core deposit base. At December 31, 2022 and December 31, 2021, we had \$117.6 million and \$186.0 million, respectively, in either CDARS reciprocal or ICS reciprocal products. The decrease from December 31, 2021 is a result of certain customers utilizing excess liquidity for their day-to-day operations.

As of December 31, 2022 and 2021, the estimated amount of total uninsured deposits were \$727.3 million and \$901.1 million, respectively. The estimate of uninsured deposits generally represents the portion of deposit accounts that exceed the FDIC insurance limit of \$250 thousand and is calculated based on the same methodologies and assumptions used for purposes of the Bank's regulatory reporting requirements. The following table reports maturities of the estimated amount of uninsured certificates of deposit at December 31, 2022.

#### **Certificates of Deposit Greater than \$250,000**

At December 31, 2022

(Dollars in thousands)

	<b>2022</b>
Three months or less	\$ 38,589
Over three months through six months	45,366
Over six months through twelve months	51,820
Over twelve months	23,747
	<u><u>\$ 159,522</u></u>

Other borrowed funds, which include federal funds purchased, FHLB advances, and our subordinated notes, were \$284.6 million at December 31, 2022, and \$44.5 million at December 31, 2021. For December 31, 2022 and 2021, we had \$235.0 million and \$25.0 million, respectively, in FHLB advances. The increase in FHLB advances was a result of the aforementioned decrease in customer deposits and to assist in funding loan origination activity. Subordinated debt, net of unamortized issuance costs, totaled \$19.6 million and \$19.5 million at December 31, 2022 and 2021, respectively. For December 31, 2022 and 2021, we had \$30.0 million and \$0 federal funds purchased, respectively.

### **Capital Resources**

Capital adequacy is an important measure of financial stability and performance. Our objectives are to maintain a level of capitalization that is sufficient to sustain asset growth and promote depositor and investor confidence.

Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profile of the financial institution. The minimum capital requirements are: (i) CET1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total risk based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. Additionally, a capital conservation buffer requirement of 2.5% of risk-weighted assets is designed to absorb losses during periods of economic stress and is applicable to our CET1 capital, Tier 1 capital and total capital ratios. Including the conservation buffer, we currently consider our minimum capital ratios to be as follows: 7.00% for CET1; 8.50% for Tier 1 capital; and 10.50% for Total capital. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the minimum plus the conservation buffer will face constraints on dividends, equity repurchases, and compensation.



On January 1, 2020, the federal banking agencies adopted a CBLR, which is calculated by dividing tangible equity capital by average consolidated total assets. If a "qualified community bank," generally a depository institution or depository institution holding company with consolidated assets of less than \$10 billion, opts into the CBLR framework and has a leverage ratio that exceeds the CBLR threshold, which was initially set at 9%, then such bank will be considered to have met all generally applicable leverage and risk based capital requirements under Basel III, the capital ratio requirements for "well capitalized" status under Section 38 of the FDIA, and any other leverage or capital requirements to which it is subject. A bank or holding company may be excluded from qualifying community bank status base on its risk profile, including consideration of its off-balance sheet exposures; trading assets and liabilities; total notional derivatives exposures and such other facts as the appropriate federal banking agencies determine to be appropriate. At January 1, 2020, we qualified for and adopted this simplified capital structure. Effective September 30, 2022, we opted out of the CBLR framework. A banking organization that opts out of the CBLR framework can subsequently opt back into the CBLR framework if it meets the criteria listed above. We believe that the Bank met all capital adequacy requirements to which it was subject as of December 31, 2022 and December 31, 2021.

Stockholders' equity at December 31, 2022 was \$202.4 million, a decrease of \$7.4 million, compared to \$209.8 million at December 31, 2021. The decrease in shareholders' equity was attributable to a decrease in accumulated other comprehensive income of \$34.5 million, which was primarily related to the decrease in the market value of the Company's available-for-sale investment securities portfolio, offset by net income recorded for the year ended December 31, 2022 totaling \$25.0 million.

Total stockholders' equity to total assets for December 31, 2022 was 8.6% and for December 31, 2021 was 9.5%. Tangible book value per share (a non-GAAP financial measure which is defined in the table below) at December 31, 2022 and December 31, 2021 was \$11.14 and \$11.76, respectively.

As noted below, regulatory capital levels for the bank meets those established for "well capitalized" institutions. While we are currently considered "well capitalized," we may from time to time find it necessary to access the capital markets to meet our growth objectives or capitalize on specific business opportunities.

As the Company is a bank holding company with less than \$3 billion in assets, and which does not (i) conduct significant off balance sheet activities, (ii) engage in significant non-banking activities, and (iii) have a material amount of securities registered under the Securities Exchange Act of 1934 (the "Exchange Act"), it is not currently subject to risk-based capital requirements adopted by the Federal Reserve, pursuant to the small bank holding company policy statement. The Federal Reserve has not historically deemed a bank holding company ineligible for application of the small bank holding company policy statement solely because its common stock is registered under the Exchange Act. There can be no assurance that the Federal Reserve will continue this practice.

The following tables shows the minimum capital requirement and our capital position at December 31, 2022 and December 31, 2021 for the Bank.

### Capital Components

At December 31, 2022 and 2021

(Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio <sup>(1)</sup>	Amount	Ratio
<b>At December 31, 2022</b>						
Total risk-based capital	\$ 256,898	13.28%	\$ 203,113	≥ 10.50%	\$ 193,441	≥ 10.00%
Tier 1 risk-based capital	240,858	12.45%	164,425	≥ 8.50%	154,753	≥ 8.00%
Common equity tier 1 capital	240,858	12.45%	135,409	≥ 7.00%	125,737	≥ 6.50%
Leverage capital ratio	240,858	10.75%	87,894	≥ 4.00%	109,867	≥ 5.00%
<b>At December 31, 2021</b>						
Total risk-based capital	\$ 222,871	13.54%	\$ 177,069	≥ 10.50%	\$ 168,638	≥ 10.00%
Tier 1 risk-based capital	214,442	12.72%	143,342	≥ 8.50%	134,910	≥ 8.00%
Common equity tier 1 capital	214,442	12.72%	118,046	≥ 7.00%	109,614	≥ 6.50%
Leverage capital ratio	214,442	10.55%	81,712	≥ 4.00%	102,140	≥ 5.00%

(1) Ratios include capital conservation buffer.

### Reconciliation of Book Value (GAAP) to Tangible Book Value (non-GAAP)

At December 31, 2022 and 2021

(Dollars in thousands, except per share data)

	2022	2021
Total stockholders' equity (GAAP)	\$ 202,382	\$ 209,796
Less: goodwill and intangibles, net	(7,790)	(8,052)
<b>Tangible Common Equity (non-GAAP)</b>	<b>\$ 194,592</b>	<b>\$ 201,744</b>
Book value per common share (GAAP)	\$ 11.58	\$ 12.23
Less: intangible book value per common share	(0.44)	(0.47)
<b>Tangible book value per common share (non-GAAP)</b>	<b>\$ 11.14</b>	<b>\$ 11.76</b>

### Liquidity

Liquidity in the banking industry is defined as the ability to meet the demand for funds of both depositors and borrowers. We must be able to meet these needs by obtaining funding from depositors or other lenders or by converting non-cash items into cash. The objective of our liquidity management program is to ensure that we always have sufficient resources to meet the demands of our depositors and borrowers. Stable core deposits and a strong capital position provide the base for our liquidity position. We believe we have demonstrated our ability to attract deposits because of our convenient branch locations, personal service, technology and pricing.

In addition to deposits, we have access to the different wholesale funding markets. These markets include the brokered certificate of deposit market and the federal funds market. We are a member of the IntraFi Network, which allows banking customers to access FDIC insurance protection on deposits through our Bank which exceed FDIC insurance limits. We also have one-way authority with IntraFi for both their CDARs and ICS products which provides the Bank the ability to access additional wholesale funding as needed. We also maintain secured lines of credit with the FRB and the FHLB for which we can borrow up to the allowable amount for the collateral pledged. Having diverse funding alternatives reduces our reliance on any one source for funding.

Cash flow from amortizing assets or maturing assets also provides funding to meet the needs of depositors and borrowers.

We have established a formal liquidity contingency plan which establishes a liquidity management team and provides guidelines for liquidity management. For our liquidity management program, we first determine our current liquidity position and then forecast liquidity based on anticipated changes in the balance sheet. In this forecast, we expect to maintain a liquidity cushion. We also stress test our liquidity position under several different stress scenarios, from moderate to severe. Guidelines for the forecasted liquidity cushion and for liquidity cushions for each stress scenario have been established. We believe that we have sufficient resources to meet our liquidity needs.

Our primary and secondary sources of liquidity remain strong. Liquid assets, which include cash and due from banks, federal funds sold and investment securities available for sale, totaled \$359.6 million at December 31, 2022, or 15% of total assets, a decrease from \$598.7 million, or 27%, at December 31, 2021. To maintain ready access to the Bank's secured lines of credit, the Bank has pledged a portion of its commercial real estate and residential real estate loan portfolios to the FHLB and FRB. Additional borrowing capacity at the FHLB at December 31, 2022 was approximately \$138.5 million. Borrowing capacity with the FRB was approximately \$94.2 million at December 31, 2022. These facilities are subject to the FHLB and the FRB approving disbursement to us. We also have unsecured federal funds purchased lines of approximately \$265.0 million available to us of which \$30.0 million was advanced as of December 31, 2022. We anticipate maintaining liquidity at a level sufficient to protect depositors as we endure through this pandemic, provide for reasonable growth, and fully comply with all regulatory requirements.

Liquidity is essential to our business. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash, including deposits. This situation may arise due to circumstances that we may be unable to control, such as general market disruption, negative views about the financial services industry generally, or an operational problem that affects a third party or us. Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events. While we believe we have a healthy liquidity position and do not anticipate the loss of deposits of any of the significant deposit customers, any of the factors discussed above could materially impact our liquidity position in the future.

#### **Financial Instruments with Off-Balance-Sheet Risk and Credit Risk**

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. We evaluate each customer's credit worthiness on a case-by-case basis and require collateral to support financial instruments when deemed necessary. The amount of collateral obtained upon extension of credit is based on management's evaluation of the counterparty. Collateral held varies but may include deposits held by us, marketable securities, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates up to one year or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. These instruments represent obligations to extend credit or guarantee borrowings and are not recorded on the consolidated statements of financial condition. The rates and terms of these instruments are competitive with others in the market in which we do business.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which we have committed.

Standby letters of credit are conditional commitments we issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as



that involved in extending loan facilities to customers. We hold certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

With the exception of these off-balance sheet arrangements, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, changes in financial condition, revenue, expenses, capital expenditures, or capital resources, that is material to the business of the Company.

At December 31, 2022 and December 31, 2021, unused commitments to fund loans and lines of credit totaled \$235.6 million and \$183.1 million, respectively. Commercial and standby letters of credit totaled \$6.5 million and \$8.9 million at December 31, 2022 and December 31, 2021, respectively.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

**Item 8. Financial Statements and Supplementary Data**

**FVCBankcorp, Inc. and Subsidiary**

**Fairfax, Virginia**

**CONSOLIDATED FINANCIAL REPORT**

**December 31, 2022**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors  
FVCBankcorp, Inc.  
Fairfax, Virginia

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of condition of FVCBankcorp, Inc. and its subsidiary (the Company) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), cash flows and changes in stockholders' equity for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ YOUNT, HYDE & BARBOUR, P.C.

We have served as the Company's auditor since 2007.

Winchester, Virginia  
March 24, 2023



**FVCBankcorp, Inc. and Subsidiary**  
**Consolidated Statements of Condition**

December 31, 2022 and 2021

(In thousands, except share data)

	2022	2021
<b>Assets</b>		
Cash and due from banks	\$ 7,253	\$ 24,613
Interest-bearing deposits at other financial institutions	74,300	216,345
Securities held-to-maturity (fair value of \$0.3 million for both December 31, 2022 and 2021, respectively), at amortized cost	264	264
Securities available-for-sale, at fair value	278,069	357,612
Restricted stock, at cost	15,612	6,372
Loans, net of allowance for loan losses of \$16.0 million and \$13.8 million at December 31, 2022 and 2021, respectively	1,824,394	1,490,020
Premises and equipment, net	1,220	1,584
Accrued interest receivable	9,435	8,074
Prepaid expenses	3,273	1,393
Deferred tax assets, net	18,533	8,629
Goodwill and intangibles, net	7,790	8,052
Bank owned life insurance (BOLI)	55,371	39,171
Operating lease right-of-use assets	9,680	10,167
Other assets	39,128	30,628
Total assets	<u>\$ 2,344,322</u>	<u>\$ 2,202,924</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 438,269	\$ 581,293
Interest-bearing checking, savings and money market	883,480	1,071,059
Time deposits	508,413	231,417
Total deposits	<u>\$ 1,830,162</u>	<u>\$ 1,883,769</u>
Federal funds purchased	\$ 30,000	\$ —
FHLB advances	235,000	25,000
Subordinated notes, net of issuance costs	19,565	19,510
Accrued interest payable	1,269	1,034
Operating lease liabilities	10,394	11,111
Accrued expenses and other liabilities	15,550	52,704
Total liabilities	<u>\$ 2,141,940</u>	<u>\$ 1,993,128</u>
<b>Commitments and Contingent Liabilities</b>		
<b>Stockholders' Equity</b>		
	2022	2021
Preferred stock, \$0.01 par value		
Shares authorized	1,000,000	1,000,000
Shares issued and outstanding	—	—
Common stock, \$0.01 par value		
Shares authorized	20,000,000	20,000,000
Shares issued and outstanding	17,475,109	13,727,045
Additional paid-in capital	123,886	121,798
Retained earnings	114,888	89,904
Accumulated other comprehensive (loss) income, net	(36,567)	(2,043)
Total stockholders' equity	<u>\$ 202,382</u>	<u>\$ 209,796</u>
Total liabilities and stockholders' equity	<u>\$ 2,344,322</u>	<u>\$ 2,202,924</u>

See Notes to Consolidated Financial Statements.

**FVCBankcorp, Inc. and Subsidiary**

**Consolidated Statements of Income**

For the years ended December 31, 2022 and 2021

(In thousands, except per share data)

	2022	2021
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 73,624	\$ 63,974
Interest and dividends on securities held-to-maturity	6	6
Interest and dividends on securities available-for-sale	5,959	3,860
Dividends on restricted stock	408	328
Interest on deposits at other financial institutions	685	260
Total interest and dividend income	\$ 80,682	\$ 68,428
<b>Interest Expense</b>		
Interest on deposits	\$ 12,468	\$ 7,601
Interest on federal funds purchased	688	—
Interest on short-term debt	1,251	346
Interest on subordinated notes	1,031	2,534
Total interest expense	\$ 15,438	\$ 10,481
<b>Net Interest Income</b>	\$ 65,244	\$ 57,947
Provision for (reversal of) loan losses	2,629	(500)
Net interest income after provision for (reversal of) loan losses	\$ 62,615	\$ 58,447
<b>Noninterest Income</b>		
Service charges on deposit accounts	\$ 954	\$ 1,028
BOLI income	1,200	994
(Loss) income from minority membership interest	(33)	1,464
Other income	713	816
Total noninterest income	\$ 2,834	\$ 4,302
<b>Noninterest Expenses</b>		
Salaries and employee benefits	\$ 20,316	\$ 18,980
Occupancy and equipment expense	3,252	3,290
Data processing and network administration	2,303	2,203
State franchise taxes	2,036	1,983
Audit, legal and consulting fees	1,210	1,489
Merger and acquisition expense	125	1,445
Loan related expenses	555	1,247
FDIC insurance	620	770
Director fees	668	651
Core deposit intangible amortization	262	305
Gain on sale of other real estate owned	—	(236)
Tax credit amortization	126	—
Other operating expenses	2,987	2,413
Total noninterest expenses	\$ 34,460	\$ 34,540
Net income before income tax expense	\$ 30,989	\$ 28,209
Income tax expense	6,005	6,276
Net income	\$ 24,984	\$ 21,933
Earnings per share, basic	\$ 1.43	\$ 1.29
Earnings per share, diluted	\$ 1.35	\$ 1.20

See Notes to Consolidated Financial Statements.

**FVCBankcorp, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**For the years ended December 31, 2022 and 2021**  
**(In thousands)**

	<u>2022</u>	<u>2021</u>
<b>Net income</b>	\$ 24,984	\$ 21,933
Other comprehensive (loss) income:		
Unrealized loss on securities available for sale, net of tax benefit of \$11,015 and \$1,226 in 2022 and 2021, respectively.	(37,943)	(4,404)
Unrealized gain on interest rate swaps, net of tax expense of \$909 and \$142 in 2022 and 2021, respectively.	3,419	535
Total other comprehensive loss	\$ (34,524)	\$ (3,869)
<b>Total comprehensive (loss) income</b>	<u>\$ (9,540)</u>	<u>\$ 18,064</u>

See Notes to Consolidated Financial Statements.



**FVCBankcorp, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2022 and 2021**  
**(In thousands)**

	2022	2021
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 24,984	\$ 21,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	424	555
Provision for (reversal of) loan losses	2,629	(500)
Net amortization of premium of securities	607	528
Net accretion of deferred loan fees, costs, and purchase premiums	(2,255)	(5,830)
Net accretion of acquisition accounting adjustments	(315)	(442)
Gain on sale of other real estate owned	—	(236)
Amortization of subordinated debt issuance costs	55	488
Core deposits intangible amortization	262	305
Amortization of tax credits	126	—
Equity-based compensation expense	1,183	1,011
BOLI income	(1,200)	(994)
Loss (income) from minority membership interest	33	(1,464)
Deferred income tax expense	395	1,007
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable, prepaid expenses and other assets	(9,094)	9,480
Increase (decrease) in accrued interest payable, accrued expenses and other liabilities	4,558	(6,396)
Net cash provided by operating activities	<u>\$ 22,392</u>	<u>\$ 19,445</u>
<b>Cash Flows From Investing Activities</b>		
Decrease (increase) in interest-bearing deposits at other financial institutions	\$ 142,045	\$ (96,117)
Purchases of securities available-for-sale	(47,160)	(245,731)
Proceeds from maturities and calls of securities available-for-sale	—	6,996
Proceeds from paydowns of securities available-for-sale	37,076	41,016
(Increase) decrease in restricted stock	(9,240)	191
Net increase in loans	(334,426)	(32,110)
Purchase of bank-owned life insurance	(15,000)	—
Distribution received from minority owned investment	1,040	—
Proceeds from sale of OREO	—	4,102
Purchase of minority membership interest	—	(22,200)
Purchases of premises and equipment, net	(166)	(485)
Net cash used in investing activities	<u>\$ (225,831)</u>	<u>\$ (344,338)</u>
<b>Cash Flows From Financing Activities</b>		
Net (decrease) increase in noninterest-bearing, interest-bearing checking, savings, and money market deposits	\$ (330,603)	\$ 432,912
Net increase (decrease) in time deposits	276,989	(81,649)
Redemption of subordinated debt, net	(1,250)	(23,813)
Increase in federal funds purchased	30,000	—
Net increase in FHLB advances	210,000	—
Repurchase of shares of common stock	(730)	—
Common stock issuance	1,673	1,221
Net cash provided by financing activities	<u>\$ 186,079</u>	<u>\$ 328,671</u>
Net (decrease) increase in cash and cash equivalents	<u>\$ (17,360)</u>	<u>\$ 3,778</u>
Cash and cash equivalents, beginning of year	24,613	20,835
Cash and cash equivalents, end of year	<u><u>\$ 7,253</u></u>	<u><u>\$ 24,613</u></u>

See Notes to Consolidated Financial Statements.

**FVCBankcorp, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2022 and 2021**  
**(In thousands)**

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at December 31, 2020</b>	13,511	\$ 135	\$ 119,568	\$ 67,971	\$ 1,826	\$ 189,500
Net income	—	—	—	21,933	—	21,933
Other comprehensive income	—	—	—	—	(3,869)	(3,869)
Common stock issuance for options exercised	182	2	1,219	—	—	1,221
Vesting of restricted stock grants	34	—	—	—	—	—
Stock-based compensation expense	—	—	1,011	—	—	1,011
<b>Balance at December 31, 2021</b>	<u>13,727</u>	<u>\$ 137</u>	<u>\$ 121,798</u>	<u>\$ 89,904</u>	<u>\$ (2,043)</u>	<u>\$ 209,796</u>
Net income	—	—	—	24,984	—	24,984
Other comprehensive loss	—	—	—	—	(34,524)	(34,524)
Repurchase of common stock	(37)	—	(730)	—	—	(730)
Common stock issuance for options exercised	242	3	1,670	—	—	1,673
Vesting of restricted stock grants	48	—	—	—	—	—
5-for-4 stock split	3,495	35	(35)	—	—	—
Stock-based compensation expense	—	—	1,183	—	—	1,183
<b>Balance at December 31, 2022</b>	<u>17,475</u>	<u>\$ 175</u>	<u>\$ 123,886</u>	<u>\$ 114,888</u>	<u>\$ (36,567)</u>	<u>\$ 202,382</u>

See Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements**  
**(Dollars in thousands, except per share data)**

**Note 1. Organization and Summary of Significant Accounting Policies**

**Organization**

FVCBankcorp, Inc. (the "Company"), a Virginia corporation, was formed in 2015 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Fairfax, Virginia. The Company conducts its business activities through the branch offices of its wholly owned subsidiary bank, FVCbank (the "Bank"). The Company exists primarily for the purposes of holding the stock of its subsidiary, the Bank.

The Bank was organized under the laws of the Commonwealth of Virginia to engage in a general banking business serving the Washington, D.C. metropolitan area. The Bank commenced regular operations on November 27, 2007 and is a member of the Federal Reserve System. It is subject to the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the State Corporation Commission of Virginia. Consequently, it undergoes periodic examinations by these regulatory authorities.

On August 31, 2021, the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for \$20.4 million to obtain a 28.7% ownership interest in ACM. This ownership interest is subject to an earnback option of up to 3.7% over the next three years. As of December 31, 2022, our percentage ownership had decreased to 27.7%. In addition, the Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify the Bank's held to investment loan portfolio. The investment is accounted for using the equity method of accounting.

On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected in the Company's consolidated financial statements have been adjusted for the five-for-four split of the Company's common stock for comparative purposes.

In February 2023 as part of the Company's asset/liability management process, the Bank sold \$40.3 million of investment securities available-for-sale at an after-tax loss of \$3.6 million to de-leverage its balance sheet and invest funds in higher-yielding assets. Also during the first quarter of 2023 as part of the Bank's asset/liability management process, the Bank fixed \$150 million of wholesale funding through the execution of pay-fixed/receive-floating interest rate swaps with a weighted-average rate of 3.50% and maturity of five years. For a full discussion of these transactions, please see Item 7. **Management's Discussion and Analysis of Financial Condition and Results of Operations, "Discussion of Analysis of Financial Condition, Overview,"** above.

**Note 2. Summary of Significant Accounting Policies**

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry.

*(a) Principles of Consolidation*

The consolidated financial statements include the accounts of the Company. All material intercompany balances and transactions have been eliminated in consolidation.

*(b) Use of Estimates*

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities, at of the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to accounting for impairment testing of goodwill, the allowance for loan losses, the valuation of deferred tax assets, and other-than-temporary impairment.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

*(c) Accounting for Business Combinations*

Business combinations are accounted for under the acquisition method. The acquisition method requires that the assets acquired and liabilities assumed be recorded, based on their estimated fair values at the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed, including identifiable intangibles, is recorded as goodwill.

*(d) Cash and Cash Equivalents*

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one day periods.

*(e) Investment Securities*

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive (loss) income, net of tax. Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Gains and losses on the sale of securities are determined using the specific identification method.

The Company regularly evaluates its securities whose values have declined below their amortized cost to assess whether the decline in fair value is other-than-temporary. The Company considers various factors in determining whether a decline in fair value is other-than-temporary including the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, the expected recovery period and other quantitative and qualitative information. The valuation of securities for impairment is a process subject to estimation, judgment and uncertainty and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors. It is expected that such factors will change in the future, which may result in future other-than-temporary impairments. For impairments of debt securities that are deemed to be other-than-temporary, the credit portion of an other-than-temporary impairment loss is recognized in earnings and the non-credit portion is recognized in accumulated other comprehensive (loss) income in those situations where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery.

Interest income and dividends on securities are recognized in interest income on an accrual basis. Premiums and discounts are recognized in interest income using the effective interest method. Prepayments of the mortgages securing mortgage-backed securities may affect the yield to maturity. The Company uses actual principal prepayment experience and estimates of future principal prepayments in calculating the yield necessary to apply the effective interest method.

*(f) Loans and Allowance for Loan Losses*

Loans receivable that management has the intent and ability to hold for the foreseeable future or until loan maturity or pay-off are reported at their outstanding principal balance adjusted for any charge-offs, and net of the allowance for loan losses and deferred fees and costs. Loan origination fees and certain direct origination costs are deferred and amortized as an adjustment of the yield using the payment terms required by the loan contract.

During 2020, as a result of the Company's acquisition of Colombo Bank ("Colombo"), the loan portfolio was segregated between loans initially accounted for under the amortized cost method (referred to as "originated" loans) and loans acquired (referred to as "acquired" loans). The loans segregated to the acquired loan portfolio were initially measured at fair value and subsequently accounted for under either Accounting Standards Codification ("ASC") Topic 310-30 or ASC Topic 310-20.

Purchased credit-impaired ("PCI") loans, which are the non-performing loans acquired in the Company's acquisition of Colombo, are loans acquired at a discount (that is due, in part, to credit quality). These loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. The Company

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

accounts for interest income on all loans acquired at a discount (that is due, in part, to credit quality) based on the acquired loans' expected cash flows. The acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flow. The difference between the cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each pool. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through adjustment to any previously recognized allowance for loan loss for that pool of loans and then through an increase in the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Therefore, the allowance for loan losses on these impaired pools reflect only losses incurred after the acquisition (representing the present value of all cash flows that were expected at acquisition but currently are not expected to be received).

The Company periodically evaluates the remaining contractual required payments due and estimates of cash flows expected to be collected for PCI loans. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Changes in the contractual required payments due and estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications between accretable yield and the non-accretable difference. On an aggregate basis, if the acquired pools of PCI loans perform better than originally expected, the Company would expect to receive more future cash flows than originally modeled at the acquisition date. For the pools with better than expected cash flows, the forecasted increase would be recorded as an additional accretable yield that is recognized as a prospective increase to the Company's interest income on loans.

Loans are generally placed into nonaccrual status when they are past-due 90 days as to either principal or interest or when, in the opinion of management, the collection of principal and/or interest is in doubt. A loan remains in nonaccrual status until the loan is current as to payment of both principal and interest or past-due less than 90 days and the borrower demonstrates the ability to pay and remain current. Loans are charged-off when a loan or a portion thereof is considered uncollectible. When cash payments are received, they are applied to principal first, then to accrued interest. It is the Company's policy not to record interest income on nonaccrual loans until principal has become current. In certain instances, accruing loans that are past due 90 days or more as to principal or interest may not go on nonaccrual status if the Company determines that the loans are well secured and are in the process of collection.

Nonperforming assets include nonaccrual loans, loans past-due 90 days or more and other real estate owned ("OREO").

The allowance for loan losses is increased or decreased by provisions for or reversals of loan losses, increased by recoveries of previously charged-off loans, and decreased by loan charge-offs.

The Company maintains the allowance for loan losses at a level that represents management's best estimate of probable and inherent losses in the loan portfolio. Both the amount of the provision expense and the level of the allowance for loan losses are impacted by many factors, including general and industry-specific economic conditions, actual and expected loan losses, historical trends and specific conditions of the individual borrowers. Unusual and infrequently occurring events, such as weather-related disasters or disease epidemics or pandemics, may impact management's assessment of possible loan losses. As a part of the analysis, the Company uses comparative peer group data and qualitative factors such as levels of and trends in delinquencies, nonaccrual loans, charged-off loans, changes in volume and terms of loans, effects of changes in lending policy, experience and ability and depth of management, national and local economic trends and conditions and concentrations of credit, competition, and loan review results to support estimates.

For purposes of monitoring the performance of the loan portfolio and estimating the allowance for loan losses, the Company's loans receivable portfolio is segmented as follows: commercial real estate, commercial and industrial, commercial construction, consumer residential, and consumer nonresidential.

*Commercial Real Estate Loans.* Commercial real estate loans are secured by both owner occupied and investor owned commercial properties, including multi-family residential real estate. Collateral for this loan type includes various types of commercial real estate, including office, retail, warehouse, industrial and other non-residential types of properties.

These loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the repayment of loans secured by income-producing properties is typically dependent upon the successful

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

operation of a business or real estate project and thus may be subject to adverse conditions in the commercial real estate market or in the general economy. The Company generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for real estate-commercial loans generally do not exceed 80%.

*Commercial and Industrial Loans.* The Company makes commercial loans to qualified businesses within its market area. The commercial lending portfolio consists primarily of commercial and industrial loans for a variety of business purposes, including working capital and the financing of accounts receivable, property, plant and equipment. The Company has a government contract lending group which provides secured lending to government contracting firms and businesses based primarily on receivables from the federal government.

Commercial and industrial loans generally have a higher degree of risk than other certain types of loans. Commercial loans typically are made on the basis of the borrower's ability to repay the loan from the cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory, the values of which may fluctuate over time and generally cannot be appraised with as much precision as residential real estate. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent upon the commercial success of the business itself. To manage these risks, the Company's policy is to secure commercial loans originated with both the assets of the business, which are subject to the risks described above, and other additional collateral and guarantees that may be available.

*Commercial Construction Loans.* The Company's commercial construction loan portfolio consists of acquisition, development, and construction of commercial real estate, including multi-family properties. Our typical commercial construction loan involves property that will ultimately be leased to a non-owner occupant. Construction lending entails significant additional risks as they often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Construction loans also involve additional risks since funds are advanced while the property is under construction, which property has uncertain value prior to the completion of construction. Thus, it is more difficult to accurately evaluate the total loan funds required to complete a project and related loan-to-value ratios. To reduce the risks associated with construction lending, the Company generally limits loan-to-value ratios to 80% of when-completed appraised values for owner-occupied residential or commercial properties and for investor-owned residential or commercial properties. Construction loan agreements may include provisions which allow for the payment of contractual interest from an interest reserve. Amounts drawn from an interest reserve increase the amount of the outstanding balance of the construction loan. This is an industry standard practice.

*Consumer Residential.* This portfolio consists primarily of home equity lines of credit ("HELOCs") that we originate in our market areas. Our HELOCs generally have a maximum loan to value of up to 85%, however, actual loan to values are typically lower than the maximum. We have also purchased portfolios of 1-4 family residential first mortgage loans on properties located in our market area for yield and diversification.

*Consumer Nonresidential.* The Company's consumer nonresidential loans consist primarily of installment loans made to individuals for personal, family and household purposes. In addition, we have purchased pools of unsecured consumer loans and student loans from a third party for yield and diversification.

Consumer loans may entail greater risk than certain other types of loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciable assets, such as automobiles.

The Company's policy for consumer loans is to accept moderate risk while minimizing losses, primarily through a careful credit and financial analysis of the borrower. In evaluating consumer loans, the Company requires its lending officers to review the borrower's collateral and stability of income, past credit history, amount of debt currently outstanding and the impact of these factors on the ability of the borrower to repay the loan in a timely manner.

The Company's allowance for loan losses is based first on a segmentation of its loan portfolio by general loan type, or portfolio segments. For originated loans, certain portfolio segments are further disaggregated and evaluated collectively for impairment based on loan segments, which are largely based on the type of collateral underlying each loan. For purposes of this analysis, the Company categorizes loans into one of five categories: commercial and industrial, commercial real estate, commercial construction, consumer residential, and consumer nonresidential loans. Typically, financial institutions use their historical loss experience and trends in losses for each loan category which are then adjusted for portfolio trends and economic and environmental factors in determining their allowance for loan losses. Since the Bank's inception in 2007, the Bank has experienced minimal loss history within its loan portfolio. Because of this, the allowance model uses the average



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

loss rates of similar institutions (a custom peer group) as a baseline which is then adjusted based on the Company's particular qualitative loan portfolio characteristics and environmental factors. The indicated loss factors resulting from this analysis are applied for each of the five categories of loans.

The Company also maintains an allowance for loan losses for acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition, and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining discount recorded at the time of acquisition.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are determined to be impaired and, therefore, individually evaluated for impairment. The Company determines and recognizes impairment of certain loans when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the loan agreement. A loan is not considered impaired during a period of delay in payment if the Company expects to collect all amounts due, including past-due interest. The Company individually assigns loss factors to all loans that have been identified as having loss attributes, as indicated by deterioration in the financial condition of the borrower or a decline in underlying collateral value if the loan is collateral dependent. The Company evaluates the impairment of certain loans on a loan by loan basis for those loans that are adversely risk rated. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are discounted at the loan's effective interest rate, or measured on an observable market value, if one exists, or the fair value of the collateral underlying the loan, discounted to consider estimated costs to sell the collateral for collateral-dependent loans. If the net collateral value is less than the loan balance (including accrued interest and any unamortized premium or discount associated with the loan) an impairment is recognized and a specific reserve is established for the impaired loan. Loans classified as loss loans are fully reserved or charged-off.

In addition, various regulatory agencies, as part of their examination process, periodically review the Company's allowance for loan losses. These agencies may require the Company to recognize additions to the allowance based on their risk evaluation and credit judgment. Management believes that the allowance for loan losses at December 31, 2022 and 2021 is a reasonable estimate of probable and inherent losses in the loan portfolio at those dates.

Loans considered to be troubled debt restructuring ("TDRs") are loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief to a borrower experiencing financial difficulty. All restructured loans are considered impaired loans and may either be in accruing status or nonaccruing status. Nonaccruing restructured loans may return to accruing status provided doubt has been removed concerning the collectability of principal and interest as evidenced by a sufficient period of payment performance in accordance with the restructured terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if their revised loan terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk and if they meet certain performance criteria.

The Company adopted Accounting Standards Update ("ASU") 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments. Subsequent to adoption, the Company will record adjustments to its allowances for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income.

*(g) Premises, Equipment, and Leases*

Land is carried at cost. Premises, furniture, equipment, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation of premises, furniture and equipment is computed using the straight-line method over estimated useful lives from three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the useful lives of the improvements or the lease term, whichever is shorter. Purchased computer software which is capitalized is amortized over estimated useful lives of one to three years.

The Company follows ASU 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. Contracts are evaluated to determine whether they are or contain a lease in accordance with Topic 842. Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred. Payments for leases with terms longer than twelve months are included in the determination of the lease liability. Payments may be fixed for the term of the lease or variable. If the lease agreement provides a known escalator, such as a specified percentage increase per year or a stated increase at a specified time, the variable payment is included in the cash flows used to determine the lease liability. If the variable payment is based upon an unknown escalator, such as the consumer price index at a future date, the increase is not included in the cash flows used to determine the lease liability. The Company's leases provide known escalators that are included in the determination of the lease liability, with the exception of three lease agreements.

The Company's leases offer the option to extend the lease term. For each of the leases, the Company is reasonably certain it will exercise the options and has included the additional time and lease payments in the calculation of the lease liability. None of the Company's leases provide for residual value guarantees and none provide restrictions or covenants that would impact dividends or require incurring additional financial obligations.

*(h) Goodwill and Intangible Assets*

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is not amortized but is evaluated at least annually for impairment by comparing its fair value with its carrying amount. Impairment is indicated when the carrying amount of a reporting unit exceeds its estimated fair value.

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist; that indicate that a goodwill impairment test should be performed. The Company performs the impairment test annually during the fourth quarter. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

No impairment was recorded for 2022 and 2021.

*(i) Other Real Estate Owned*

Assets acquired through, or in lieu of, loan foreclosure are held for sale. At the time of acquisition, these properties are recorded at fair value less estimated selling costs, with any write down charged to the allowance for loan losses and any gain on foreclosure recorded in net income, establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management, and these assets are subsequently accounted for at lower of cost or fair value less estimated selling costs. Adjustments are made for subsequent decline in the fair value of the assets less selling costs. Revenue and expenses from operations and valuation changes are charged to operating income in the year of the transaction.

*(j) Bank Owned Life Insurance*

The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance date, which is the cash surrender value. The increase in the cash surrender value over time is recorded as other non-interest income. The Company monitors the financial strength and condition of the counterparties.

*(k) Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Company – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

*(l) Income Taxes*

Deferred taxes are provided on a liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Company had no such liability recorded as of December 31, 2022 and 2021. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

*(m) Comprehensive Income (Loss)*

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available-for-sale and interest rate swaps for 2022 and 2021, which are also recognized as separate components of equity.

*(n) Fair Value of Financial Instruments*

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

*(o) Equity-based Compensation*

The Company recognizes in the income statement the grant date fair value of stock options and other equity-based compensation. The Company classifies stock awards as either an equity award or a liability award. Equity classified awards are valued as of the grant date using either an observable market price or a valuation methodology. Liability classified awards are valued at fair value at each reporting date. For the years presented, all of the Company's stock options are classified as equity awards.

The fair value related to forfeitures of stock options and other equity-based compensation are recorded to the income statement as they occur, reducing equity-based compensation expense in that period. During 2018, the Company began granting restricted stock units which are granted at the fair market value of the Company's common stock on the grant date. Most restricted stock units vest in one-quarter increments on the anniversary date of the grant. The Company did not grant stock options in the years ended December 31, 2022 and 2021.

*(p) 401(k) Plan*

Employee 401(k) plan expense is the amount of matching contributions paid by the Company. 401(k) plan expense was \$424 thousand and \$377 thousand for the years ended December 31, 2022 and 2021, respectively.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

*(q) Earnings Per Share*

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Common stock equivalents that may be issued by the Company consist primarily of outstanding stock options and restricted stock units, and the dilutive potential common shares resulting from outstanding stock options and restricted stock units are determined using the treasury method. The effects of anti-dilutive common stock equivalents are excluded from the calculation of diluted earnings per share.

*(r) Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year's method of presentation. None of these reclassifications were significant.

*(s) Recent Accounting Pronouncements*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" that introduced the current expected credit losses ("CECL") model. The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied previously will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASUs 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASUs have provided for various minor technical corrections and improvements to the codification as well as other transition matters. The Company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments. Subsequent to adoption, the Company will record adjustments to its allowances for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income.

The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a discounted cash flow ("DCF") methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics which included loan type. The Company primarily utilizes national unemployment for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already within the quantitative component of the calculation, the Company may consider qualitative factors as prescribed in ASC 326. The Company's CECL implementation process was overseen by the Allowance for Credit Losses Committee and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, and assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience.

In March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the FASB issued ASU 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU 2021-01 on contract modifications that change the interest

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020.

We have certain loans, interest rate swap agreements, investment securities, and debt obligations with interest rates indexed to LIBOR. The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. Central banks and regulators around the world have commissioned working groups to find suitable replacements for IBOR and other benchmark rates and to implement financial benchmark reforms more generally. There continues to be uncertainty regarding the use of alternative reference rates ("ARRs"), which may cause disruptions in a variety of markets, as well as adversely impact our business, operations and financial results.

The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace LIBOR with a benchmark rate based on Secured Overnight Funding Rate ("SOFR") for contracts governed by U.S. law that have no or ineffective fallbacks. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates, or the value of LIBOR-based securities will not be adversely affected.

To facilitate an orderly transition from interbank offered rates and other benchmark rates to alternative reference rates ARRs, the Company has established an enterprise-wide initiative led by senior management. The objective of this initiative is to identify, assess and monitor risks associated with the expected discontinuation or unavailability of benchmarks, including LIBOR, achieve operational readiness and engage impacted clients in connection with the transition to ARRs. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

In August 2020, the FASB issued ASU 2020-06 "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity." The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU also simplifies the diluted earnings per share calculation in certain areas. In addition, the amendment updates the disclosure requirements for convertible instruments to increase the information transparency. For public business entities, excluding smaller reporting companies, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, including the Company, the standard will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2020-06 to have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." The ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. Entities should apply the amendments prospectively and early adoption is permitted. The Company does not expect the adoption of ASU 2021-08 to have a material impact on its consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for TDRs by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company does not expect the adoption of ASU 2022-02 to have a material impact on its consolidated financial statements.

In March 2022, the FASB issued ASU 2022-01, "Derivatives and Hedging (Topic 815), Fair Value Hedging-Portfolio Layer Method." ASU 2022-01 clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios of financial assets and is intended to better align hedge accounting with an organization's risk management strategies. In 2017, FASB issued ASU 2017-12 to better align the economic results of risk management activities with hedge accounting. One of the major provisions of that standard was the addition of the last-of-layer hedging method. For a closed portfolio of fixed-rate prepayable financial assets or one of more beneficial interests secured by a portfolio of prepayable financial instruments, such as mortgages or mortgage-backed securities, the last-of-layer method allows an entity to hedge its exposure to fair value changes due to changes in interest rates for a portion of the portfolio that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows. ASU 2022-01 renames that method the portfolio layer method. For public business entities, ASC 2022-01 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company does not expect the adoption of ASU 2022-01 to have a material impact on its consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

In December 2022, the FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848". ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the LIBOR would cease being published. In 2021, the administrator of LIBOR delayed the intended cessation date of certain tenors of LIBOR to June 30, 2023. To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The ASU is effective for all entities upon issuance. The Company is assessing ASU 2022-06 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

*(t) Recently Adopted Accounting Developments*

In May 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity - Classified Written Call Options (a consensus of FASB Emerging Issues Task Force)." The ASU addresses how an issuer should account for modifications or an exchange of freestanding written call options classified as equity that is not within the scope of another Topic. Early adoption is permitted. ASU 2021-04 was effective for the Company on January 1, 2022 and resulted in no material impact.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 3. Investment Securities and Other Investments**

Amortized cost and fair values of securities held-to-maturity and securities available-for-sale as of December 31, 2022 and 2021, are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>Held-to-maturity</b>				
Securities of state and local municipalities tax exempt	\$ 264	\$ —	\$ (12)	\$ 252
Total Held-to-maturity Securities	<u>\$ 264</u>	<u>\$ —</u>	<u>\$ (12)</u>	<u>\$ 252</u>
<b>Available-for-sale</b>				
Securities of U.S. government and federal agencies	\$ 13,559	\$ —	\$ (2,555)	\$ 11,004
Securities of state and local municipalities tax exempt	1,385	—	(9)	1,376
Securities of state and local municipalities taxable	506	—	(62)	444
Corporate bonds	21,212	—	(2,154)	19,058
SBA pass-through securities	74	—	(7)	67
Mortgage-backed securities	282,858	—	(45,424)	237,434
Collateralized mortgage obligations	9,998	—	(1,312)	8,686
Total Available-for-sale Securities	<u>\$ 329,592</u>	<u>\$ —</u>	<u>\$ (51,523)</u>	<u>\$ 278,069</u>
	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>Held-to-maturity</b>				
Securities of state and local municipalities tax exempt	\$ 264	\$ 6	\$ —	\$ 270
Total Held-to-maturity Securities	<u>\$ 264</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 270</u>
<b>Available-for-sale</b>				
Securities of U.S. government and federal agencies	\$ 13,557	\$ —	\$ (283)	\$ 13,274
Securities of state and local municipalities tax exempt	1,393	58	—	1,451
Securities of state and local municipalities taxable	607	—	(11)	596
Corporate bonds	13,970	259	(78)	14,151
SBA pass-through securities	107	1	—	108
Mortgage-backed securities	316,313	1,352	(3,827)	313,838
Collateralized mortgage obligations	14,230	113	(149)	14,194
Total Available-for-sale Securities	<u>\$ 360,177</u>	<u>\$ 1,783</u>	<u>\$ (4,348)</u>	<u>\$ 357,612</u>

The Company had securities with a market value of \$4.1 million and \$5.8 million pledged with the Federal Reserve Bank of Richmond (the "FRB") for the years ended December 31, 2022 and 2021, respectively.

The Company had securities with a market value of \$104.6 million and \$79.7 million pledged with the Treasury Board of Virginia at the Community Bankers' Bank for the years ended December 31, 2022 and 2021, respectively.

The following table shows fair value and gross unrealized losses for available-for-sale and held-to-maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

position, at December 31, 2022 and 2021, respectively. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the prior twelve-month period. Securities that have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>At December 31, 2022</b>						
Securities of U.S. government and federal agencies	\$ —	\$ —	\$ 11,004	\$ (2,555)	\$ 11,004	\$ (2,555)
Securities of state and local municipalities tax exempt	1,628	(21)	—	—	1,628	(21)
Securities of state and local municipalities taxable	—	—	444	(62)	444	(62)
Corporate bonds	12,344	(1,119)	5,964	(1,035)	18,308	(2,154)
SBA pass-through securities	—	—	67	(7)	67	(7)
Mortgage-backed securities	26,486	(1,831)	210,948	(43,593)	237,434	(45,424)
Collateralized mortgage obligations	2,601	(238)	6,085	(1,074)	8,686	(1,312)
Total	<u>\$ 43,059</u>	<u>\$ (3,209)</u>	<u>\$ 234,512</u>	<u>\$ (48,326)</u>	<u>\$ 277,571</u>	<u>\$ (51,535)</u>

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>At December 31, 2021</b>						
Securities of U.S. government and federal agencies	\$ 13,275	\$ (283)	\$ —	\$ —	\$ 13,275	\$ (283)
Securities of state and local municipalities taxable	595	(11)	—	—	595	(11)
Corporate bonds	3,922	(78)	—	—	3,922	(78)
Mortgage-backed securities	216,278	(3,175)	19,225	(652)	235,503	(3,827)
Collateralized mortgage obligations	3,362	(82)	1,814	(67)	5,176	(149)
Total	<u>\$ 237,432</u>	<u>\$ (3,629)</u>	<u>\$ 21,039</u>	<u>\$ (719)</u>	<u>\$ 258,471</u>	<u>\$ (4,348)</u>

*Securities of U.S. government and federal agencies:* The unrealized losses on three available-for-sale securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.

*Securities of state and local municipalities tax-exempt:* The unrealized losses on three of the investments in securities of state and local municipalities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. These investments carry an S&P investment grade rating of AA+ and AA.

*Securities of state and local municipalities taxable:* The unrealized loss on one of the investment in securities of state and local municipalities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The investment carries an S&P investment grade rating of AAA.

*Corporate bonds:* The unrealized losses on the Company's investments on fifteen corporate bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Two of these investments carry an S&P investment grade rating of BBB and BBB+. The remaining thirteen investments do not carry a rating.

*SBA pass-through securities:* The unrealized losses on one available-for-sale security was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

*Mortgage-backed securities:* The unrealized losses on the Company's investment in one hundred and six mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

*Collateralized mortgage obligations ("CMOs"):* The unrealized loss associated with twenty-nine CMOs was caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

The amortized cost and fair value of securities held-to-maturity and available-for-sale as of December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2022			
	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
After 1 year through 5 years	\$ 264	\$ 252	\$ 4,935	\$ 4,776
After 5 years through 10 years	—	—	48,978	43,396
After 10 years	—	—	275,679	229,897
Total	<u>\$ 264</u>	<u>\$ 252</u>	<u>\$ 329,592</u>	<u>\$ 278,069</u>

For the years ended December 31, 2022 and 2021, proceeds from principal repayments of securities were \$37.1 million and \$48.0 million, respectively. No securities were sold during 2022 and 2021. There were no realized gains or losses in 2022 and 2021, respectively.

The Company has other investments in the form of restricted stock totaling \$15.6 million and \$6.4 million at December 31, 2022 and 2021, respectively. The following table discloses the types of investments included in other investments:

	2022	2021
Federal Reserve stock	\$ 4,378	\$ 4,378
FHLB stock	11,087	1,847
Community Bankers' Bank stock	122	122
Atlantic Bankers' Bank stock	25	25
Total	<u>\$ 15,612</u>	<u>\$ 6,372</u>

As a member of the FRB and the FHLB, the Bank is required to hold stock in these entities. Stock membership in Community Bankers' Bank allows the Company to secure overnight funding and participate in other services offered by this institution. These investments are carried at cost since no active trading markets exist.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 4. Loans and Allowance for Loan Losses**

A summary of loan balances by type follows:

	2022			2021		
	Originated	Acquired	Total	Originated	Acquired	Total
Commercial real estate	\$ 1,085,513	\$ 14,748	\$1,100,261	\$ 887,310	\$ 18,802	\$ 906,112
Commercial and industrial	242,307	2,913	245,220	199,040	3,710	202,750
Commercial construction	147,436	503	147,939	186,572	1,043	187,615
Consumer real estate	322,579	17,012	339,591	176,682	23,922	200,604
Consumer nonresidential	7,661	24	7,685	10,277	27	10,304
	<u>\$ 1,805,496</u>	<u>\$ 35,200</u>	<u>\$1,840,696</u>	<u>\$ 1,459,881</u>	<u>\$ 47,504</u>	<u>\$ 1,507,385</u>
Less:						
Allowance for loan losses	16,040	—	16,040	13,829	—	13,829
Unearned income and (unamortized premiums), net	262	—	262	3,536	—	3,536
Loans, net	<u>\$ 1,789,194</u>	<u>\$ 35,200</u>	<u>\$1,824,394</u>	<u>\$ 1,442,516</u>	<u>\$ 47,504</u>	<u>\$ 1,490,020</u>

During 2018, as a result of the Company's acquisition of Colombo, the loan portfolio was segregated between loans initially accounted for under the amortized cost method (referred to as "originated" loans) and loans acquired (referred to as "acquired" loans).

The loans segregated to the acquired loan portfolio were initially measured at fair value and subsequently accounted for under either ASC Topic 310-30 or ASC 310-20. The outstanding principal balance and related carrying amount of acquired loans included in the consolidated statement of condition as of December 31, 2022 and 2021 are as follows:

	2022
<b>Purchased credit impaired acquired loans evaluated individually for future credit losses</b>	
Outstanding principal balance	\$ 24
Carrying amount	—
<b>Other acquired loans</b>	
Outstanding principal balance	35,604
Carrying amount	35,200
<b>Total acquired loans</b>	
Outstanding principal balance	35,628
Carrying amount	35,200
	2021
<b>Purchased credit impaired acquired loans evaluated individually for future credit losses</b>	
Outstanding principal balance	\$ 207
Carrying amount	—
<b>Other acquired loans</b>	
Outstanding principal balance	48,049
Carrying amount	47,504
<b>Total acquired loans</b>	
Outstanding principal balance	48,256
Carrying amount	47,504

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following table presents changes for the year ended December 31, 2022 and 2021 in the accretable yield on purchased credit impaired loans for which the Company applies ASC 310-30.

Balance at January 1, 2022	\$ 3
Accretion	(197)
Reclassification of nonaccretable difference due to improvement in expected cash flows	33
Other changes, net	161
Balance at December 31, 2022	<u>\$ —</u>
Balance at January 1, 2021	\$ 216
Accretion	(217)
Reclassification of nonaccretable difference due to improvement in expected cash flows	54
Other changes, net	(50)
Balance at December 31, 2021	<u>\$ 3</u>

An analysis of the allowance for loan losses for the years ended December 31, 2022 and 2021 follows:

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
<b>2022</b>						
<b>Allowance for loan losses:</b>						
Beginning Balance	\$ 8,995	\$ 1,827	\$ 2,009	\$ 781	\$ 217	\$ 13,829
Charge-offs	—	(396)	—	—	(101)	(497)
Recoveries	—	—	—	1	78	79
Provision (reversal)	1,782	1,192	(510)	262	(97)	2,629
Ending Balance	<u>\$ 10,777</u>	<u>\$ 2,623</u>	<u>\$ 1,499</u>	<u>\$ 1,044</u>	<u>\$ 97</u>	<u>\$ 16,040</u>
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
<b>2021</b>						
<b>Allowance for loan losses:</b>						
Beginning Balance	\$ 9,291	\$ 2,546	\$ 1,960	\$ 690	\$ 471	\$ 14,958
Charge-offs	(477)	(117)	—	—	(255)	(849)
Recoveries	24	—	—	35	161	220
Provision (reversal)	157	(602)	49	56	(160)	(500)
Ending Balance	<u>\$ 8,995</u>	<u>\$ 1,827</u>	<u>\$ 2,009</u>	<u>\$ 781</u>	<u>\$ 217</u>	<u>\$ 13,829</u>

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following table presents the recorded investment in loans and impairment method as of December 31, 2022 and 2021, by portfolio segment:

	Allowance for Loan Losses						
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential		Total
<b>2022</b>							
<b>Allowance for loan losses:</b>							
Ending Balance:							
Individually evaluated for impairment	\$ —	\$ 86	\$ —	\$ —	\$ —	\$ —	\$ 86
Purchased credit impaired	—	—	—	—	—	—	—
Collectively evaluated for impairment	10,777	2,537	1,499	1,044	97		15,954
	<u>\$ 10,777</u>	<u>\$ 2,623</u>	<u>\$ 1,499</u>	<u>\$ 1,044</u>	<u>\$ 97</u>		<u>\$ 16,040</u>

	Loans Receivable						
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential		Total
<b>2022</b>							
<b>Financing receivables:</b>							
Ending Balance							
Individually evaluated for impairment	\$ 1,703	\$ 1,319	\$ —	\$ 1,041	\$ —	\$ —	\$ 4,063
Purchased credit impaired loans	—	—	—	—	—	—	—
Collectively evaluated for impairment	1,098,558	243,901	147,939	338,550	7,685		1,836,633
	<u>\$ 1,100,261</u>	<u>\$ 245,220</u>	<u>\$ 147,939</u>	<u>\$ 339,591</u>	<u>\$ 7,685</u>		<u>\$ 1,840,696</u>



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

	Allowance for Loan Losses						
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential		Total
<b>2021</b>							
<b>Allowance for loan losses:</b>							
Ending Balance:							
Individually evaluated for impairment	\$ —	\$ 181	\$ —	\$ 5	\$ —		\$ 186
Purchased credit impaired loans	—	—	—	—	—		—
Collectively evaluated for impairment	8,995	1,646	2,009	776	217		13,643
	<u>\$ 8,995</u>	<u>\$ 1,827</u>	<u>\$ 2,009</u>	<u>\$ 781</u>	<u>\$ 217</u>		<u>\$ 13,829</u>

	Loans Receivable						
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential		Total
<b>2021</b>							
<b>Financing receivables:</b>							
Ending Balance							
Individually evaluated for impairment	\$ 11,915	\$ 5,214	\$ 1,557	\$ 343	\$ —		\$ 19,029
Purchased credit impaired loans	—	—	—	—	—		—
Collectively evaluated for impairment	894,197	197,536	186,058	200,261	10,304		1,488,356
	<u>\$ 906,112</u>	<u>\$ 202,750</u>	<u>\$ 187,615</u>	<u>\$ 200,604</u>	<u>\$ 10,304</u>		<u>\$ 1,507,385</u>

Impaired loans by class excluding purchased credit impaired, as of December 31, 2022 and 2021 are summarized as follows:

**Impaired Loans – Originated Loan Portfolio**

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>2022</b>					
<b>With an allowance recorded:</b>					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial	1,319	1,329	86	1,604	107
Commercial construction	—	—	—	—	—
Consumer real estate	—	—	—	—	—
Consumer nonresidential	—	—	—	—	—
	<u>\$ 1,319</u>	<u>\$ 1,329</u>	<u>\$ 86</u>	<u>\$ 1,604</u>	<u>\$ 107</u>
<b>2022</b>					
<b>With no related allowance:</b>					
Commercial real estate	\$ 1,703	\$ 1,703	\$ —	\$ 1,704	\$ 135
Commercial and industrial	—	—	—	—	—
Commercial construction	—	—	—	—	—
Consumer real estate	1,041	1,044	—	1,048	34
Consumer nonresidential	—	—	—	—	—
	<u>\$ 2,744</u>	<u>\$ 2,747</u>	<u>\$ —</u>	<u>\$ 2,752</u>	<u>\$ 169</u>

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Impaired Loans – Originated Loan Portfolio**

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>2021</b>					
<b>With an allowance recorded:</b>					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial	1,678	1,688	181	1,711	95
Commercial construction	—	—	—	—	—
Consumer real estate	93	93	5	95	7
Consumer nonresidential	—	—	—	—	—
	<u>\$ 1,771</u>	<u>\$ 1,781</u>	<u>\$ 186</u>	<u>\$ 1,806</u>	<u>\$ 102</u>
<b>2021</b>					
<b>With no related allowance:</b>					
Commercial real estate	\$ 11,915	\$ 11,915	\$ —	\$ 11,947	\$ 581
Commercial and industrial	3,536	3,536	—	3,660	238
Commercial construction	1,557	1,596	—	1,597	174
Consumer real estate	250	250	—	250	28
Consumer nonresidential	—	—	—	—	—
	<u>\$ 17,258</u>	<u>\$ 17,297</u>	<u>\$ —</u>	<u>\$ 17,454</u>	<u>\$ 1,021</u>

There were no impaired loans in the acquired loan portfolio as of December 31, 2022 and 2021, respectively.

No additional funds are committed to be advanced in connection with the impaired loans. There were no nonaccrual loans excluded from the impaired loan disclosure.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

**Pass** – Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.

**Special Mention** – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard** – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the enhanced possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** – Loans classified as doubtful include those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, improbable.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Loss** – Loans classified as loss include those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be achieved in the future, it is neither practical nor desirable to defer writing off these loans.

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2022 and 2021:

**2022 – Originated Loan Portfolio**

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
Grade:						
Pass	\$ 1,077,526	\$ 237,638	\$ 147,436	\$ 320,735	\$ 7,661	\$ 1,790,996
Special mention	6,284	3,350	—	803	—	10,437
Substandard	1,703	1,319	—	1,041	—	4,063
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	<u>\$ 1,085,513</u>	<u>\$ 242,307</u>	<u>\$ 147,436</u>	<u>\$ 322,579</u>	<u>\$ 7,661</u>	<u>\$ 1,805,496</u>

**2022 – Acquired Loan Portfolio**

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
Grade:						
Pass	\$ 14,748	\$ 2,913	\$ 503	\$ 17,012	\$ 24	\$ 35,200
Special mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	<u>\$ 14,748</u>	<u>\$ 2,913</u>	<u>\$ 503</u>	<u>\$ 17,012</u>	<u>\$ 24</u>	<u>\$ 35,200</u>

**2021 – Originated Loan Portfolio**

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
Grade:						
Pass	\$ 875,395	\$ 193,426	\$ 182,497	\$ 176,271	\$ 10,277	\$ 1,437,866
Special mention	—	400	2,518	68	—	2,986
Substandard	11,915	5,214	1,557	343	—	19,029
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	<u>\$ 887,310</u>	<u>\$ 199,040</u>	<u>\$ 186,572</u>	<u>\$ 176,682</u>	<u>\$ 10,277</u>	<u>\$ 1,459,881</u>

**2021 – Acquired Loan Portfolio**

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Consumer Nonresidential	Total
Grade:						
Pass	\$ 18,802	\$ 3,710	\$ 1,043	\$ 23,922	\$ 27	\$ 47,504
Special mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	<u>\$ 18,802</u>	<u>\$ 3,710</u>	<u>\$ 1,043</u>	<u>\$ 23,922</u>	<u>\$ 27</u>	<u>\$ 47,504</u>

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

There were no impaired loans in the acquired loan portfolio at both December 31, 2022 and December 31, 2021. No additional funds are committed to be advanced in connection with the impaired loans. There were no nonaccrual loans excluded from the impairment loan disclosure.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At December 31, 2022, the Company had \$10.4 million in loans identified as special mention within the originated loan portfolio, an increase of \$7.5 million from December 31, 2021. Special mention rated loans are loans that have a potential weakness that deserves management's close attention; however, the borrower continues to pay in accordance with their contract. These loans do not have a specific reserve and are considered well-secured.

At December 31, 2022, the Company had \$4.1 million in loans identified as substandard within the originated loan portfolio, a decrease of \$15.0 million from December 31, 2021. Substandard rated loans are loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. For each of these substandard loans, a liquidation analysis is completed. As of December 31, 2022, specific reserves on originated and acquired loans totaling \$0.1 million, has been allocated within the allowance for loan losses to supplement any shortfall of collateral.

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2022 and 2021:

**2022 – Originated Loan Portfolio**

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days past due and still accruing	Nonaccruals
Commercial real estate	\$ 546	\$ —	\$ 2,096	\$ 2,642	\$ 1,082,871	\$ 1,085,513	\$ 393	\$ 1,703
Commercial and industrial	512	—	1,319	1,831	240,476	242,307	—	1,319
Commercial construction	—	—	125	125	147,311	147,436	125	—
Consumer real estate	805	—	953	1,758	320,821	322,579	825	128
Consumer nonresidential	—	63	—	63	7,598	7,661	—	—
Total	<u>\$ 1,863</u>	<u>\$ 63</u>	<u>\$ 4,493</u>	<u>\$ 6,419</u>	<u>\$ 1,799,077</u>	<u>\$ 1,805,496</u>	<u>\$ 1,343</u>	<u>\$ 3,150</u>

**2022 – Acquired Loan Portfolio**

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days past due and still accruing	Nonaccruals
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 14,748	\$ 14,748	\$ —	\$ —
Commercial and industrial	—	—	—	—	2,913	2,913	—	—
Commercial construction	—	—	—	—	503	503	—	—
Consumer real estate	—	—	—	—	17,012	17,012	—	—
Consumer nonresidential	—	—	—	—	24	24	—	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,200</u>	<u>\$ 35,200</u>	<u>\$ —</u>	<u>\$ —</u>



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**2021 – Originated Loan Portfolio**

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days past due and still accruing	Nonaccruals
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 887,310	\$ 887,310	\$ —	\$ —
Commercial and industrial	—	—	1,678	1,678	197,362	199,040	—	1,678
Commercial construction	—	—	1,557	1,557	185,015	186,572	—	1,557
Consumer real estate	—	—	250	250	176,432	176,682	—	250
Consumer nonresidential	14	21	18	53	10,224	10,277	18	—
Total	<u>\$ 14</u>	<u>\$ 21</u>	<u>\$ 3,503</u>	<u>\$ 3,538</u>	<u>\$ 1,456,343</u>	<u>\$ 1,459,881</u>	<u>\$ 18</u>	<u>\$ 3,485</u>

**2021 – Acquired Loan Portfolio**

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days past due and still accruing	Nonaccruals
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 18,802	\$ 18,802	\$ —	\$ —
Commercial and industrial	—	—	—	—	3,710	3,710	—	—
Commercial construction	—	—	—	—	1,043	1,043	—	—
Consumer real estate	234	—	5	239	23,683	23,922	5	—
Consumer nonresidential	2	—	—	2	25	27	—	—
Total	<u>\$ 236</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ 241</u>	<u>\$ 47,263</u>	<u>\$ 47,504</u>	<u>\$ 5</u>	<u>\$ —</u>

There were overdrafts of \$1.3 million and \$58 thousand at December 31, 2022 and 2021, respectively, which have been reclassified from deposits to loans. At December 31, 2022 and 2021, loans with a carrying value of \$458.7 million and \$290.3 million were pledged to the FHLB.

There were no defaults of TDRs where the default occurred within twelve months of the restructuring during the years ended December 31, 2022 and December 31, 2021.

The following table presents the TDRs originated during the year ended December 31, 2022:

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate	1	\$ 742	\$ 742
Total	<u>1</u>	<u>\$ 742</u>	<u>\$ 742</u>

No TDRs were originated during the year ended December 31, 2021.

For each of December 31, 2022 and 2021, the Company had a recorded investment in TDRs of \$830 thousand and \$92 thousand, respectively.

The concessions made in TDRs were extensions of the maturity dates or reductions in the stated interest rate for the remaining life of the debt.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 5. Other Real Estate Owned**

The Company had no OREO property at December 31, 2022 and December 31, 2021. There was no OREO activity during 2022 and \$3.9 million was sold during 2021 where the Company recognized a gain on sale of OREO of \$236 thousand. There were no foreclosed residential real estate properties recorded in OREO as a result of obtaining physical possession of the property at December 31, 2022 and 2021. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process as of December 31, 2022 and 2021. The Company recorded no impairment charges during 2022 and 2021.

**Note 6. Goodwill and Intangibles**

As a result of the Company's past acquisitions, the Company recognized goodwill and core deposit intangibles.

Information concerning amortizable intangibles follows:

	Acquisition of 1st Commonwealth		Acquisition of Colombo Bank		Total	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Balance at December 31, 2020	\$ 204	\$ 165	\$ 1,950	\$ 789	\$ 2,154	\$ 954
2021 activity:						
1st Commonwealth amortization	—	20	—	—	—	20
Colombo Bank amortization	—	—	—	285	—	285
Balance at December 31, 2021	\$ 204	\$ 185	\$ 1,950	\$ 1,074	\$ 2,154	\$ 1,259
2022 activity:						
1st Commonwealth amortization	—	19	—	—	—	19
Colombo Bank amortization	—	—	—	243	—	243
Balance at December 31, 2022	\$ 204	\$ 204	\$ 1,950	\$ 1,317	\$ 2,154	\$ 1,521

The aggregate amortization expense was \$262 thousand for 2022 and \$305 thousand for 2021. As of December 31, 2022, the estimated amortization expense for the next five years and thereafter is as follows:

2023	\$ 205
2024	165
2025	125
2026	85
2027	45
Thereafter	8
	<u>\$ 633</u>

The carrying amount of goodwill for the years ended December 31, 2022 and 2021 is as follows:

Balance at December 31, 2022 and 2021	<u>\$ 7,157</u>
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**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 7. Premises, Equipment, and Leases**

The following table summarizes the cost and accumulated depreciation of premises and equipment as of December 31, 2022 and 2021:

	2022	2021
Leasehold improvements	\$ 3,068	\$ 3,039
Furniture, fixtures and equipment	4,310	4,163
Computer software	1,169	1,275
Land	61	61
Buildings	196	196
Vehicles	47	47
Premises and equipment, gross	\$ 8,851	\$ 8,781
Less: accumulated depreciation	7,631	7,197
Premises and equipment, net	<u>\$ 1,220</u>	<u>\$ 1,584</u>

For the years ended December 31, 2022 and 2021, depreciation expense was \$424 thousand and \$555 thousand, respectively.

The Company has entered into operating leases for office space over various terms. The leases cover an agreed upon period of time and generally have options to renew and are subject to annual increases as well as allocations for real estate taxes and certain operating expenses.

The following tables present information about leases as of and for the years ended December 31, 2022 and 2021:

	2022	2021
Right-of-Use-Asset	\$ 9,680	\$ 10,167
Lease Liability	\$ 10,394	\$ 11,111
Weighted Average Remaining Lease Term (Years)	7.9	8.9
Weighted Average discount rate	3.21 %	3.20 %

	Years Ended December 31,	
	2022	2021
Operating Lease Expense	<u>\$ 1,504</u>	<u>\$ 1,626</u>
Cash paid for amounts included in lease liabilities	\$ 1,541	\$ 1,559
Modification of right-of-use assets and lease liability	283	—
Right-of-use assets obtained in exchange for operating lease liabilities	522	207

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following table presents a maturity schedule of undiscounted cash flows that contribute to the lease liability as of December 31, 2022:

2023	\$ 1,780
2024	1,734
2025	1,581
2026	1,486
2027	1,355
Thereafter	3,860
Total	<u>\$ 11,796</u>
Less: discount	<u>(1,402)</u>
	<u>\$ 10,394</u>

**Note 8. Deposits**

Remaining maturities on certificates of deposit are as follows as of December 31, 2022:

2023	\$ 413,617
2024	18,107
2025	48,284
2026	11,086
2027	17,315
Thereafter	4
	<u>\$ 508,413</u>

Total time deposits greater than \$250,000 were \$159.5 million and \$89.7 million at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company had one customer relationship whose related balance on deposit exceeded 5% of outstanding deposits. This customer relationship comprises 9% of outstanding deposits at December 31, 2022 and 17% of outstanding deposits at December 31, 2021.

Brokered deposits totaled \$248.0 million and \$35.0 million at December 31, 2022 and 2021, respectively.

**Note 9. Other Borrowed Funds**

Other borrowed funds at December 31, 2022 and 2021 consist of the following:

	Federal Funds Purchased		FHLB Advances		Subordinated Debt, net	
	2022	2021	2022	2021	2022	2021
Balance Outstanding at December 31,	\$30,000	\$ —	\$235,000	\$25,000	\$19,565	\$19,510
Maximum balance at any month end during the year	\$115,000	\$ —	\$235,000	\$25,000	\$19,565	\$44,167
Average balance for the year	\$22,164	\$ 22	\$48,134	\$25,000	\$19,535	\$37,856
Weighted average rate on borrowings for the year ended	3.11 %	0.20 %	2.60 %	1.39 %	5.28 %	6.69 %



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The Company had \$235.0 million and \$25.0 million of FHLB advances at each of December 31, 2022 and December 31, 2021 respectively. \$200.0 million of FHLB advances outstanding at December 31, 2022 mature during the first quarter of 2023 while the remaining \$35.0 million represents a daily rate borrowing that matures in December 2023. At December 31, 2022, 1-4 family residential loans with a lendable value of \$168.8 million, multi-family residential loans with a lendable value of \$43.0 million, home equity lines of credit with a lendable value of \$6.1 million and commercial real estate loans with a lendable value of \$155.7 million were pledged against an available line of credit with the FHLB totaling \$584.7 million as of December 31, 2022. The lendable collateral value excess at December 31, 2022 totaled \$138.5 million.

The Company has unsecured lines of credit with correspondent banks totaling \$265.0 million at December 31, 2022 and \$265.0 million at December 31, 2021, available for overnight borrowing. At December 31, 2022, the Company had an advance of \$30 million with one of the correspondent banks and none in 2021.

On June 20, 2016, the Company issued \$25.0 million in fixed-to-floating rate subordinated notes due June 30, 2026 in a private placement transaction. Interest was payable at 6.00% per annum, from and including June 20, 2016 to, but excluding June 30, 2021, payable semi-annually in arrears. From and including June 30, 2021 to the early redemption date, the interest rate was to reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 487 basis points, payable quarterly in arrears.

The Company had the option, on any scheduled interest payment date on or after June 30, 2021, to redeem the subordinated notes, in whole or in part, upon not fewer than 30 nor greater than 60 days' notice to holders, at a redemption price equal to 100% of the principal amount of the subordinated notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption. In August 2021, the Company provided a redemption notice to each holder of the subordinated notes that the notes would be redeemed in full on September 30, 2021 or such later date as the holder returned its note to the Company. \$23.8 million of principal was redeemed and paid during the year ended December 31, 2021. The remaining principal balance of \$1.2 million as of December 31, 2021 is included in other liabilities. The remaining note holders redeemed their notes in February 2022. The notes stopped accruing interest effective as of September 30, 2021 redemption date.

On October 13, 2020, the Company completed its private placement of \$20 million of its 4.875% fixed-to-floating subordinated notes due 2030 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes have a maturity date of October 15, 2030 and carry a fixed rate of interest of 4.875% for the first five years. Thereafter, the Notes will pay interest at the then current three-month Secured Overnight Financing Rate plus 471 basis points, resetting quarterly. The Notes include a right of prepayment without penalty on or after October 15, 2025. The Company used the proceeds from the placement of the Notes for general corporate purposes, including to support capital ratios at the Bank, and the repayment of the \$25.0 million outstanding subordinated debt called in August 2021. The Notes qualify as Tier 2 capital for the Company to the fullest extent permitted under the Basel III capital rules. When contributed to the capital of the Bank, the proceeds of the subordinated notes may be included in Tier 1 capital for the Bank.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 10. Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below:

	2022	2021
<b>Deferred Tax Assets:</b>		
Allowance for loan losses	\$ 3,698	\$ 3,131
Net operating loss carryforward – federal and state	2,466	2,785
Bank premises and equipment	265	184
Nonqualified stock options and restricted stock	658	611
Organizational and start-up expenses	10	22
Acquisition accounting adjustments	257	258
Non-accrual loan interest	59	24
Deferred loan costs	60	801
Lease liability	2,396	2,516
Unrealized loss on securities available for sale	11,876	582
Unrealized loss on interest rate swap	—	17
	<u>\$ 21,745</u>	<u>\$ 10,931</u>
<b>Deferred Tax Liabilities:</b>		
Right-of-use assets	\$ (2,232)	\$ (2,302)
Unrealized gain on interest rate swap	(980)	—
	<u>\$ (3,212)</u>	<u>\$ (2,302)</u>
Net Deferred Tax Assets	<u>\$ 18,533</u>	<u>\$ 8,629</u>

The income tax expense charged to operations for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Current tax expense	\$ 5,610	\$ 5,269
Deferred tax expense	395	1,007
	<u>\$ 6,005</u>	<u>\$ 6,276</u>

Income tax expense differed from amounts computed by applying the U.S. federal income tax rate to income, before income tax expense as a result of the following:

	2022	2021
Computed "expected" tax expense	\$ 6,313	\$ 5,924
Increase (decrease) in income taxes resulting from:		
State income tax expense	503	472
Non-deductible expense	138	231
Tax free income	(259)	(217)
Tax benefits from exercise of stock options	(364)	(163)
Other	(326)	29
	<u>\$ 6,005</u>	<u>\$ 6,276</u>

The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal examination by tax authorities for years prior to 2019.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

Under the provisions of the Internal Revenue Code, the Company has \$10.1 million of net operating loss carryforwards acquired from Colombo which can be offset against future taxable income. The carryforwards expire through December 31, 2037. The full realization of tax benefits associated with carryforwards depends predominately upon the recognition of ordinary income during the carryforward period. The federal portion of net operating loss carryforwards available to offset taxable income is limited to \$762 thousand annually under Internal Revenue Code section 382. The Company believes it will generate sufficient future taxable income to fully utilize the remaining deferred tax assets.

**Note 11. Derivative Financial Instruments**

The Company enters into interest rate swap agreements ("swap agreements") to facilitate the risk management strategies needed in order to accommodate the needs of its banking customers. The Company mitigates the risk of entering into these loan agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. These back-to-back swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities) as of December 31, 2022. The Company is party to master netting arrangements with its financial institution counterparty; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. These payments, commonly referred to as variation margin, are recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures, which effectively results in any centrally cleared derivative having a Level 2 fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table in the Fair Value Measurement section. As of December 31, 2022, the Company entered into 15 interest rate swap agreements which were collateralized by \$30 thousand in cash. As of December 31, 2021, the Company entered into 19 interest rate swap agreements which were collateralized by \$6.7 million in cash.

The notional amount and fair value of the Company's derivative financial instruments as of December 31, 2022 and 2021 were as follows:

	December 31, 2022	
	Notional Amount	Fair Value
Interest Rate Swap Agreements		
Receive Fixed/Pay Variable Swaps	\$ 74,178	\$ 4,260
Pay Fixed/Receive Variable Swaps	74,178	(4,260)

	December 31, 2021	
	Notional Amount	Fair Value
Interest Rate Swap Agreements		
Receive Fixed/Pay Variable Swaps	\$ 80,643	\$ 6,052
Pay Fixed/Receive Variable Swaps	80,643	(6,052)

*Interest Rate Risk Management—Cash Flow Hedging Instruments*

The Company uses FHLB advances and other wholesale funding from time to time as a source of funds for use in the Company's lending and investment activities and other general business purposes. This wholesale funding exposes the Company to increased interest rate risk as a result of the variability in cash flows (future interest payments). The Company believes it is prudent to reduce this interest rate risk. To meet this objective, the Company entered into interest rate swap agreements whereby the Company reduces the interest rate risk associated with the Company's variable rate advances (or other wholesale funding) from the designation date and going through the maturity date.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

At December 31, 2022 and 2021, the information pertaining to outstanding interest rate swap agreements used to hedge variability in cash flows is as follows:

(Dollars in thousands)	2022	2021
Notional amount	\$ 145,000	\$ 60,000
Weighted average pay rate	2.12 %	0.87 %
Weighted average receive rate	4.74 %	0.21 %
Weighted average maturity in years	3.49	1.1
Unrealized gain/(loss) relating to interest rate swaps	\$ 4,251	\$ (77)

These agreements provided for the Company to receive payments determined by a specific index in exchange for making payments at a fixed rate. At December 31, 2022 and 2021, the unrealized loss or gain relating to interest rate swaps designated as hedging instruments of the variability of cash flows associated with wholesale funds are reported in other comprehensive income (loss). These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the advance affects earnings. The Company measures cash flow hedging relationships for effectiveness on a monthly basis, and at December 31, 2022 and 2021, the hedges were highly effective and the amount of ineffectiveness reflected in earnings was de minimus.

**Note 12. Financial Instruments with Off-Balance Sheet Risk**

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 customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2022 and 2021, the following financial instruments were outstanding which contract amounts represent credit risk:

	2022	2021
Commitments to grant loans	\$ 135,441	\$ 90,591
Unused commitments to fund loans and lines of credit	235,617	183,145
Commercial and standby letters of credit	6,503	8,930

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit 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 customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer 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 customers. The Company generally holds collateral supporting those commitments, if deemed necessary.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The Company maintains its cash accounts with the FRB and correspondent banks. The total amount of cash on deposit in correspondent banks exceeding the federally insured limits was \$1.4 million and \$32.8 million at December 31, 2022 and 2021, respectively.

**Note 13. Minimum Regulatory Capital Requirements**

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. A financial institution's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In August, 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (the "Statement"), in compliance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA"). The Statement, among other things, exempts bank holding companies that have assets below a specified asset threshold from the consolidated regulatory capital requirements. The rule expanded the exemption to bank holding companies with consolidated total assets of less than \$3 billion. Prior to August 2018, the statement exempted bank holding companies with consolidated total assets of less than \$1 billion. As a result of the rule, the Company qualifies as a small bank holding company and is no longer subject to regulatory capital requirements on a consolidated basis.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III") became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being fully phased in January 1, 2019. As a part of the requirements, the Common Equity Tier 1 Capital ratio is calculated and utilized in the assessment of capital for all institutions. Under the Basel III rules, institutions must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios.

Prompt corrective action regulations, which also apply to 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.

Pursuant to the EGRRCPA, federal banking agencies have provided for an optional, simplified measure of capital adequacy, the community bank leverage ratio ("CBLR") framework, for qualifying community bank organizations with less than \$10 billion in consolidated total assets. Organizations that qualify could opt in to the CBLR framework beginning January 1, 2020 or any time thereafter. An institution that maintains a leverage ratio that exceeds the CBLR is considered to have met all generally applicable leverage and risk based capital requirements (including the Basel III rules), the capital ratio requirements for "well capitalized" status under the prompt corrective action regulations, and any other leverage or capital requirements to which it is subject. On January 1, 2020, the Company opted in to the CBLR framework.

Effective September 30, 2022, we opted out of the CBLR framework. A banking organization that opts out of the CBLR framework can subsequently opt back into the CBLR framework if it meets the criteria proscribed. As of December 31, 2022 and 2021, the Bank meets all capital adequacy requirements to which it is subject and is considered well capitalized under the prompt corrective action regulations.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The capital ratios for the Bank as of December 31, 2022 and 2021 are shown in the following table.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio <sup>(1)</sup>	Amount	Ratio
<b>At December 31, 2022</b>						
Total risk-based capital	\$ 256,898	13.28%	\$ 203,113	10.50%	\$ 193,441	10.00%
Tier 1 risk-based capital	240,858	12.45%	164,425	8.50%	154,753	8.00%
Common equity tier 1 capital	240,858	12.45%	135,409	7.00%	125,737	6.50%
Leverage capital ratio	240,858	10.75%	87,894	4.00%	109,867	5.00%
<b>At December 31, 2021</b>						
Total risk-based capital	\$ 222,871	13.54%	\$ 177,069	10.50%	\$ 168,638	10.00%
Tier 1 risk-based capital	214,442	12.72%	143,342	8.50%	134,910	8.00%
Common equity tier 1 capital	214,442	12.72%	118,046	7.00%	109,614	6.50%
Leverage capital ratio	214,442	10.55%	81,712	4.00%	102,140	5.00%

(1) Ratios include capital conservation buffer.

Dividend Restrictions – The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amounts of dividends that may be paid without approval of regulatory agencies. As of December 31, 2022, \$44.7 million of retained earnings is available to pay dividends.

**Note 14. Related Party Transactions**

Officers, directors and their affiliates had borrowings of \$37.9 million and \$19.5 million at December 31, 2022 and 2021, respectively, with the Company. During the years ended December 31, 2022 and 2021, total principal additions were \$19.9 million and \$9.0 million, respectively, and total principal payments were \$1.5 million and \$3.8 million, respectively.

Related party deposits amounted to \$38.4 million and \$31.7 million at December 31, 2022 and 2021, respectively.

**Note 15. Stock-Based Compensation Plan**

The Company's Amended and Restated 2008 Stock Plan (the "Plan"), which is shareholder-approved, was adopted to advance the interests of the Company by providing selected key employees of the Company, their affiliates, and directors with the opportunity to acquire shares of common stock. In May 2022, the shareholders approved an amendment to the Plan to extend the term of the plan and increase the number of shares authorized for issuance under the Plan by 200,000 shares.

The maximum number of shares with respect to which awards may be made is 2,929,296 shares of common stock, subject to adjustment for certain corporate events. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant, generally vest annually over four years of continuous service and have ten years contractual terms. At December 31, 2022, 157,263 shares were available to grant under the Plan.

No options were granted during 2022 and 2021. For the year ended December 31, 2022, 4,772 shares were withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant. For the year ended December 31, 2021, there were no shares withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

A summary of option activity under the Plan as of December 31, 2022, and changes during the year then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding at January 1, 2022	1,931,059	\$ 6.65	2.46	—
Granted	—	—		
Exercised	(309,018)	5.74		
Forfeited or expired	(121)	6.85		
Outstanding and Exercisable at December 31, 2022	<u>1,621,920</u>	<u>\$ 6.82</u>	1.81	<u>\$ 13,681,905</u>

- (1) The aggregate intrinsic value of stock options represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2022. This amount changes based on changes in the market value of the Company's stock.

As of December 31, 2022, all outstanding shares of the Plan are fully vested and amortized. Tax benefits recognized for qualified and non-qualified stock option exercises during 2022 and 2021 totaled \$364 thousand and \$163 thousand, respectively.

A summary of the Company's restricted stock grant activity as of December 31, 2022 is shown below.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2022	189,240	\$ 14.34
Granted	155,399	14.95
Vested	(58,401)	14.53
Forfeited	(7,993)	14.59
Balance at December 31, 2022	<u>278,245</u>	<u>\$ 14.63</u>

The compensation cost that has been charged to income for the plan was \$1.2 million and \$1.0 million for 2022 and 2021, respectively. As of December 31, 2022, there was \$3.2 million of total unrecognized compensation cost related to nonvested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 36 months.

## **Note 16. Fair Value Measurements**

### ***Determination of Fair Value***

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

***Fair Value Hierarchy***

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

Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 — Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model - based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 — Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

Derivatives assets and liabilities:

Cash flow hedges: The Company has loan interest rate swap derivatives and interest rate swap derivatives on certain time deposits and borrowings, which the latter are designated as cash flow hedges. These derivatives are recorded at fair value using published yield curve rates from a national valuation service. These observable rates and inputs are applied to a third party industry-wide valuation model, and therefore, the valuations fall into a Level 2 category.



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

Description	Balance as of December 31, 2022	Fair Value Measurements at December 31, 2022 Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Available-for-sale				
Securities of U.S. government and federal agencies	\$ 11,004	\$ —	\$ 11,004	\$ —
Securities of state and local municipalities tax exempt	1,376	—	1,376	—
Securities of state and local municipalities taxable	444	—	444	—
Corporate bonds	19,058	—	19,058	—
SBA pass-through securities	67	—	67	—
Mortgage-backed securities	237,434	—	237,434	—
Collateralized mortgage obligations	8,686	—	8,686	—
Total Available-for-Sale Securities	\$ 278,069	\$ —	\$ 278,069	\$ —
Derivative assets - interest rate swaps	\$ 4,260	\$ —	\$ 4,260	\$ —
Derivative assets - cash flow hedge	4,251	—	4,251	—
Liabilities				
Derivative liabilities - interest rate swaps	\$ 4,260	\$ —	\$ 4,260	\$ —

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

Description	Balance as of December 31, 2021	Fair Value Measurements at December 31, 2021 Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Available-for-sale				
Securities of U.S. government and federal agencies	\$ 13,436	\$ —	\$ 13,436	\$ —
Securities of state and local municipalities tax exempt	1,451	—	1,451	\$ —
Securities of state and local municipalities taxable	596	—	596	—
Corporate bonds	14,151	—	14,151	—
SBA pass-through securities	108	—	108	—
Mortgage-backed securities	313,838	—	313,838	—
Collateralized mortgage obligations	14,194	—	14,194	—
Total Available-for-Sale Securities	\$ 357,774	\$ —	\$ 357,774	\$ —
Derivative assets - interest rate swaps	\$ 6,052	\$ —	\$ 6,052	\$ —
Liabilities				
Derivative liabilities - interest rate swaps	\$ 6,052	\$ —	\$ 6,052	\$ —
Derivative liabilities - cash flow hedge	77	—	77	—

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower of cost or market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

**Impaired Loans:** Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction, has the value derived by discounting comparable sales due to lack of similar properties, or is discounted by the Company due to marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income.

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis at December 31, 2022 and December 31, 2021:

Description	Balance as of December 31, 2022	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Impaired loans				
Commercial and industrial	\$ 1,233	\$ —	\$ —	\$ 1,233
Total Impaired loans	\$ 1,233	\$ —	\$ —	\$ 1,233

Description	Balance as of December 31, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Impaired loans				
Commercial and industrial	\$ 1,497	\$ —	\$ —	\$ 1,497
Consumer residential	88	—	—	88
Total Impaired loans	\$ 1,585	\$ —	\$ —	\$ 1,585

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2022 and 2021:

Quantitative information about Level 3 Fair Value Measurements for December 31, 2022					
Assets	Fair Value	Valuation Technique(s)	Unobservable input	Range	(Avg.)
Impaired loans					
Commercial and industrial	\$ 1,233	Discounted appraised value	Marketability/Selling costs	8% - 8%	8.00 %

Quantitative information about Level 3 Fair Value Measurements for December 31, 2021					
Assets	Fair Value	Valuation Technique(s)	Unobservable input	Range	(Avg.)
Impaired loans					
Commercial and industrial	\$ 1,497	Discounted appraised value	Marketability/Selling costs	8% - 8 %	8.00 %
Consumer residential	\$ 88	Discounted appraised value	Marketability/Selling costs	8% - 8%	8.00 %
Total Impaired loans	\$ 1,585	Discounted appraised value	Marketability/Selling costs	8% - 8%	8.00 %

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2022 and 2021. Fair values for December 31, 2022 and 2021 are estimated under the exit price notion in accordance with the prospective adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

		Fair Value Measurements as of December 31, 2022 using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets	Significant Unobservable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 7,253	\$ 7,253	\$ —	\$ —	
Interest-bearing deposits at other institutions	74,300	74,300	—	—	
Securities held-to-maturity	264	—	252	—	
Securities available-for-sale	278,069	—	278,069	—	
Restricted stock	15,612	—	15,612	—	
Loans, net	1,824,394	—	—	1,756,984	
Bank owned life insurance	55,371	—	55,371	—	
Accrued interest receivable	9,435	—	9,435	—	
Derivative assets - interest rate swaps	4,260	—	4,260	—	
Derivative assets - cash flow hedge	4,251	—	4,251	—	
Financial liabilities:					
Checking, savings and money market accounts	\$ 1,321,749	\$ —	\$ 1,321,749	\$ —	
Time deposits	508,413	—	510,754	—	
Fed Funds Purchased	30,000	—	30,000	—	
FHLB advances	235,000	—	235,000	—	
Subordinated notes	19,565	—	18,856	—	
Accrued interest payable	1,269	—	1,269	—	
Derivative liabilities - interest rate swaps	4,260	—	4,260	—	



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

	Carrying Amount	Fair Value Measurements as of December 31, 2021 using			
		Quoted Prices in Active Markets for Identical Assets	Significant Unobservable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 24,613	\$ 24,613	\$ —	\$ —	
Interest-bearing deposits at other institutions	216,345	216,345	—		
Securities held-to-maturity	264	—	270		
Securities available-for-sale	357,774	—	357,774		
Restricted stock	6,372	—	6,372		
Loans, net	1,490,020	—	—	1,493,185	
Bank owned life insurance	39,171	—	39,171		
Accrued interest receivable	8,074	—	8,074		
Derivative assets - interest rate swaps	6,052	—	6,052		
Financial liabilities:					
Checking, savings and money market accounts	\$ 1,652,352	\$ —	\$ 1,652,352	\$ —	
Time deposits	231,417	—	232,837		
FHLB advances	25,000	—	25,000		
Subordinated notes	19,510	—	18,133		
Accrued interest payable	1,034	—	1,034		
Derivative liabilities - interest rate swaps	6,052	—	6,052		
Derivative liabilities - cash flow hedge	77	—	77		

**Note 17. Earnings Per Share**

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of stock which then shared in the earnings of the Company. Weighted average shares – diluted includes only the potential dilution of stock options and unvested restricted stock units as of as of December 31, 2022 and 2021, respectively.

The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares of dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders. There were no anti-dilutive shares for each of the years ended December 31, 2022 and 2021.

The holders of restricted stock do not share in dividends and do not have voting rights during the vesting period.

	For the Years Ended December 31,	
	2022	2021
Net income	\$ 24,984	\$ 21,933
Weighted average shares - basic	17,431	17,062
Effect of dilutive securities	1,053	1,165
Weighted average shares - diluted	18,484	18,227
Basic EPS	\$ 1.43	\$ 1.29
Diluted EPS	\$ 1.35	\$ 1.20

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**Note 18. Supplemental Cash Flow Information**

	For the Years Ended December 31,	
	2022	2021
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest on deposits and borrowed funds	\$ 15,140	\$ 9,361
Income taxes	6,070	4,735
Noncash investing and financing activities:		
Unrealized loss on securities available-for-sale	(48,958)	(5,630)
Unrealized gain on interest rate swaps	4,328	677
Right-of-use assets obtained in the exchange for lease liabilities during the current period	522	207
Modification of right-of-use assets and lease liability	283	—

**Note 19. Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income (loss) ("AOCI") for the years ended December 31, 2022 and 2021 are shown in the following table. The Company has two components of AOCI, which are available-for-sale securities and cash flow hedges, for each of the years ended December 31, 2022 and 2021.

	2022		
	Available-for-Sale Securities	Cash Flow Hedges	Total
Balance, beginning of period	\$ (1,983)	\$ (60)	\$ (2,043)
Net unrealized (losses) gains during the period	(37,943)	3,419	(34,524)
Other comprehensive (loss) income, net of tax	(37,943)	3,419	(34,524)
Balance, end of period	<u>\$ (39,926)</u>	<u>\$ 3,359</u>	<u>\$ (36,567)</u>

	2021		
	Available-for-Sale Securities	Cash Flow Hedges	Total
Balance, beginning of period	\$ 2,421	\$ (595)	\$ 1,826
Net unrealized gains (losses) during the period	(4,404)	535	(3,869)
Other comprehensive income (loss), net of tax	(4,404)	535	(3,869)
Balance, end of period	<u>\$ (1,983)</u>	<u>\$ (60)</u>	<u>\$ (2,043)</u>

There were no reclassifications from accumulated other comprehensive income (loss) related to realized gains or losses for both of the years ended December 31, 2022, and 2021, respectively.

**Note 20. Revenue Recognition**

The Company recognizes revenue in accordance with ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606 in recognizing revenue.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gain on sale of securities, bank owned life insurance income, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and insurance commissions. However, the

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

**Service Charges on Deposit Accounts**

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and personal checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

**Fees, Exchange and Other Service Charges**

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges and are included in other income on our consolidated statements of income. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. This income is reflected in other income on the Company's consolidated statements of income.

**Other Income**

Other noninterest income consists of loan swap fees, insurance commissions, and other miscellaneous revenue streams not meeting the criteria above. When the Company enters into an interest rate swap agreement, the Company may receive an additional one-time payment fee which is recognized as income when received. The Company receives monthly recurring commissions based on a percentage of premiums issued and revenue is recognized when received. Any residual miscellaneous fees are recognized as they occur, and therefore, the Company determined this consistent practice satisfies the obligation for performance.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2022 and 2021:

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Noninterest Income		
In-scope of Topic 606		
Service Charges on Deposit Accounts	\$ 954	\$ 1,028
Fees, Exchange, and Other Service Charges	374	369
Other income	104	191
Noninterest Income (in-scope of Topic 606)	1,432	1,588
Noninterest Income (out-scope of Topic 606)	1,402	2,714
Total Noninterest Income	<u>\$ 2,834</u>	<u>\$ 4,302</u>

**Contract Balances**

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability

**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2022 and 2021, the Company did not have any significant contract balances.

**Contract Acquisition Costs**

Under Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company did not capitalize any contract acquisition cost during the years ended December 31, 2022 or 2021.

**Gain on sale of other real estate owned**

The Company records a gain/loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of the property to a buyer, the Company assesses whether the buyer is committed to perform the obligations under the contract and whether collectability of the transaction price is probable. In determining the gain (loss) on the sale, the Company adjusts the transaction price and the related gain or loss on sale if a significant financing component is present. The Company recorded a gain on sale of other real estate owned of \$0 in 2022 and \$236 thousand in 2021. Gain on sale of other real estate owned is reflected in the consolidated statements of income under Noninterest Expense and is not reflected in the table above.

**Note 21. Parent Company Only Financial Statements**

The FVCBankcorp, Inc. (Parent Company only) condensed financial statements are as follows:

**PARENT COMPANY ONLY CONDENSED STATEMENTS OF CONDITION**  
**December 31, 2022 and 2021**

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 531	\$ 1,882
Securities available-for-sale	991	1,005
Investment in subsidiary	214,382	223,043
Other assets	6,404	3,903
Total assets	<u>\$ 222,308</u>	<u>\$ 229,833</u>
<b>Liabilities and Stockholders' Equity</b>		
Subordinated notes	\$ 19,565	\$ 19,510
Other liabilities	361	527
Total liabilities	<u>\$ 19,926</u>	<u>\$ 20,037</u>
Total stockholders' equity	<u>\$ 202,382</u>	<u>\$ 209,796</u>
Total liabilities and stockholders' equity	<u>\$ 222,308</u>	<u>\$ 229,833</u>



**Notes to Consolidated Financial Statements (Continued)**  
**(Dollars in thousands, except per share data)**

**PARENT COMPANY ONLY CONDENSED STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2022 and 2021**

	2022	2021
Income:		
Interest on securities available-for-sale	\$ 67	\$ 65
Income from minority membership interest	626	—
Dividend income	730	20,820
Total income	<u>\$ 1,423</u>	<u>\$ 20,885</u>
Expense:		
Interest on subordinated notes	\$ 1,031	\$ 2,534
Salaries and employee benefits	1,192	1,021
Occupancy and equipment	80	83
Audit, legal and consulting fees	375	320
Other operating expenses	194	249
Total expense	<u>\$ 2,872</u>	<u>\$ 4,207</u>
Net income (loss) before income tax benefit and equity in undistributed earnings of subsidiary	<u>\$ (1,449)</u>	<u>\$ 16,678</u>
Income tax benefit	<u>(580)</u>	<u>(879)</u>
Equity in undistributed earnings of subsidiary	<u>25,853</u>	<u>4,376</u>
Net income	<u><u>\$ 24,984</u></u>	<u><u>\$ 21,933</u></u>

**PARENT COMPANY ONLY CONDENSED STATEMENTS OF CASH FLOWS**  
**For The Years Ended December 31, 2022 and 2021**

	2022	2021
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 24,984	\$ 21,933
Equity in undistributed earnings of subsidiary	(25,853)	(4,376)
Amortization of subordinated debt issuance costs	55	488
Stock-based compensation expense	1,183	1,011
Change in other assets and liabilities	(1,413)	(2,598)
Net cash (used in) provided by operating activities	<u>\$ (1,044)</u>	<u>\$ 16,458</u>
<b>Cash Flows From Investing Activities</b>		
Net cash used in investing activities	<u>\$ —</u>	<u>\$ —</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of subordinated notes, net	\$ (1,250)	\$ (23,813)
Repurchase of shares of common stock	(730)	—
Common stock issuance	1,673	1,221
Net cash used in financing activities	<u>\$ (307)</u>	<u>\$ (22,592)</u>
Net decrease in cash and cash equivalents	<u>\$ (1,351)</u>	<u>\$ (6,134)</u>
Cash and cash equivalents, beginning of year	1,882	8,016
Cash and cash equivalents, end of year	<u><u>\$ 531</u></u>	<u><u>\$ 1,882</u></u>

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

No changes in the Company's independent registered public accounting firm or disagreements on accounting and financial disclosure required to be reported hereunder have taken place.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the aforementioned officers concluded that the Company's disclosure controls and procedures were effective as of the end of such period.

#### **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, management used the 2013 criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Based on management's assessment, management believes that as of December 31, 2021, the Company's internal control over financial reporting was effective based on criteria set forth by COSO in its 2013 *Internal Control-Integrated Framework*.

The Company's annual report does not include an attestation report of the Company's independent registered public accounting firm, Yount, Hyde & Barbour, P.C. ("YHB", Auditor Firm ID: 613), regarding internal control over financial reporting under Public Company Accounting Oversight Board standards. Management's report was not subject to attestation by YHB pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in its annual report.

The 2022 consolidated financial statements have been audited by the independent registered public accounting firm of YHB. Personnel from YHB were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and Committees thereof. Management believes that all representations made to the independent registered public accounting firm were valid and appropriate. The resulting report from YHB accompanies the consolidated financial statements.

#### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting identified in connection with the evaluation of internal controls that occurred during the fourth quarter of 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspection**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the captions "Election of Directors," "Executive Officers," "Ownership of Company Securities – Delinquent Section 16(a) Reports" and "Corporate Governance and The Board of Directors" in the Company's Proxy Statement for the 2023 Annual Meeting of Shareholders is incorporated by reference.

### Item 11. Executive Compensation

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the captions "Executive Compensation," "Corporate Governance and The Board of Directors – Director Compensation" and "Corporate Governance and The Board of Directors – Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement for the 2023 Annual Meeting of Shareholders is incorporated by reference.

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

*Security Ownership of Certain Beneficial Owners and Management.* Pursuant to General Instruction G(3) of Form 10-K, the information contained under the caption "Ownership of Company Securities - Security Ownership of Directors, Executive Officers and Certain Beneficial Owners" in the Company's Proxy Statement for the 2023 Annual Meeting of Shareholders is incorporated by reference.

*Equity Compensation Plan Information.* The following table sets forth information as of December 31, 2022, with respect to compensation plans under which shares of our Common Stock are authorized for issuance.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity Compensation Plans Approved by Stockholders:			
Amended and Restated 2008 Stock Plan	1,621,920	\$ 6.82	157,263
Equity Compensation Plans Not Approved by Stockholders (2)	—	—	—
<b>Total</b>	<b>1,621,920</b>	<b>\$ 6.82</b>	<b>157,263</b>

(1) Amounts exclude any securities to be issued upon exercise of outstanding options, warrants and rights.

(2) The Company does not have any equity compensation plans that have not been approved by stockholders.

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

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the captions "Executive Compensation – Certain Relationships and Related Transactions" and "Corporate Governance and The Board of Directors – Director Independence" in the Company's Proxy Statement for the 2023 Annual Meeting of Shareholders is incorporated by reference.

### Item 14. Principal Accountant Fees and Services

Pursuant to General Instruction G(3) of Form 10-K, the information contained under the captions "Audit information – Fees of Independent Registered Public Accountants" and "Audit Information – Audit Committee Pre-Approval Policies and Procedures" in the Company's Proxy Statement for the 2023 Annual Meeting of Shareholders is incorporated by reference.



## Item 15. Exhibit and Financial Statement Schedules

### (a) Exhibits

Number	Description
3.1	Articles of Incorporation of FVCBankcorp, Inc. (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
3.2	Amendment, dated May 11, 2018, to Articles of Incorporation of FVCBankcorp, Inc. (incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
3.3	Bylaws of FVCBankcorp, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on April 9, 2020)
4.1	Specimen Certificate for Common Stock (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
4.2	Form of Subordinated Note due October 15, 2030 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed on October 14, 2020)
4.3	Description of FVCBankcorp, Inc.'s Securities
10.1	Amended and Restated Employment Agreement, dated as of March 16, 2021, by and among FVCBankcorp, Inc., FVCbank and David W. Pijor (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
10.2	Amended and Restated Change in Control Agreement, dated as of March 16, 2021, by and among FVCBankcorp, Inc., FVCbank and Patricia A. Ferrick (incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
10.3	Supplemental Executive Retirement Plan Agreement, dated June 7, 2022, between FVCBankcorp, Inc. and David W. Pijor (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on June 7, 2022).
10.4	Supplemental Executive Retirement Plan Agreement, dated June 7, 2022, between FVCBankcorp, Inc. and Patricia A. Ferrick (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed on June 7, 2022).
10.5	Supplemental Executive Retirement Plan Agreement, dated June 7, 2022, between FVCBankcorp, Inc. and Jennifer L. Deacon (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed on June 7, 2022).
10.6	Supplemental Executive Retirement Plan Agreement, dated June 7, 2022, between FVCBankcorp, Inc. and William G. Byers (incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K filed on June 7, 2022).
10.7	Form of Subordinated Note Purchase Agreement dated October 13, 2020 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on October 14, 2020)
10.8	FVCBankcorp, Inc. Amended and Restated 2008 Stock Plan, as amended (incorporated by reference to Appendix A of the Proxy Statement for the Annual Meeting of Shareholders held on May 18, 2022, filed on April 8, 2022)
10.9	1st Commonwealth Bank of Virginia 2009 Stock Option Plan (incorporated by reference to Exhibit 10.6 of the Registration Statement on Form S-1 filed on August 20, 2018 (Registration No. 333-226942))
21	Subsidiaries of the Registrant
23.1	Consent of Yount, Hyde & Barbour, P.C.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	Interactive data files pursuant to Item 405 of Regulation S-T
(i)	Consolidated Statements of Condition at December 31, 2022 and 2021
(ii)	Consolidated Statement of Income for the years ended December 31, 2022 and 2021
(iii)	Consolidated Statement of Comprehensive Income for the years ended December 31, 2022 and 2021

- (iv) Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2022 and 2021
- (v) Consolidated Statement of Cash Flows for the years ended December 31, 2022 and 2021
- (vi) Notes to the Consolidated Financial Statements

104 The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2022, formatted in Inline Extensible Business Reporting Language (included with Exhibit 101).

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 and 15 (d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 24, 2023

FVCBankcorp, Inc.

By: /s/ David W. Pijor

Name: David W. Pijor

Title: *Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 24, 2023.

Signatures	Titles
/s/ David W. Pijor Name: David W. Pijor	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Jennifer L. Deacon Name: Jennifer L. Deacon	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Patricia A. Ferrick Name: Patricia A. Ferrick	President and Director
/s/ Marc N. Duber Name: Marc N. Duber	Director
/s/ L. Burwell Gunn Name: L. Burwell Gunn	Director
/s/ Meena Krishnan Name: Meena Krishnan	Director
/s/ Scott Laughlin Name: Scott Laughlin	Director
/s/ Thomas L. Patterson Name: Thomas L. Patterson	Director
/s/ Devin Satz Name: Devin Satz	Director
/s/ Lawrence W. Schwartz Name: Lawrence W. Schwartz	Director
/s/ Sidney G. Simmonds Name: Sidney G. Simmonds	Director
/s/ Daniel M. Testa Name: Daniel M. Testa	Director
/s/ Philip R. Wills III Name: Philip R. Wills III	Director
/s/ Steven M. Wiltse Name: Steven M. Wiltse	Director

