

REFINITIV

# DELTA REPORT

## 10-Q

ASRV - AMERISERV FINANCIAL INC /  
10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1281
CHANGES	487
DELETIONS	387
ADDITIONS	407

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2023** **September 30, 2023**

☐ 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 **0-11204**

**AmeriServ Financial, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of incorporation or organization)

**25-1424278**

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

**Main & Franklin Streets, P.O. Box 430, Johnstown, PA**

(Address of principal executive offices)

**15907-0430**

(Zip Code)

Registrant's telephone number, including area code **(814) 533-5300**

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

Title Of Each Class

Common Stock

Trading Symbol

ASRV

Name of Each Exchange On Which Registered

The NASDAQ Stock Market LLC

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

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

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

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

Class	Outstanding at August 1, 2023 November 1, 2023
Common Stock, par value \$0.01	17,147,270

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AmeriServ Financial, Inc.

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**Item 1. Financial Statements**
**AmeriServ Financial, Inc.**
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)  
(Unaudited)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
<b>ASSETS</b>				
Cash and due from depository institutions	\$ 13,720	\$ 18,830	\$ 14,430	\$ 18,830
Interest bearing deposits and short-term investments	3,366	4,132	3,598	4,132
Cash and cash equivalents	17,086	22,962	18,028	22,962
Investment securities, net of allowance for credit losses:				
Available for sale, at fair value (allowance for credit losses \$926 on June 30, 2023)	170,427	179,508		
Held to maturity (fair value \$55,429 on June 30, 2023 and \$55,192 on December 31, 2022; allowance for credit losses \$109 on June 30, 2023)	61,832	61,878		
Available for sale, at fair value (allowance for credit losses \$926 on September 30, 2023)			169,052	179,508
Held to maturity (fair value \$52,391 on September 30, 2023 and \$55,192 on December 31, 2022; allowance for credit losses \$32 on September 30, 2023)			60,283	61,878
Loans held for sale	560	59	—	59
Loans	987,988	991,109		
Less: Unearned income	327	343		
Loans (net of unearned income \$401 on September 30, 2023 and \$343 on December 31, 2022)			1,002,306	990,766
Less: Allowance for credit losses	12,221	10,743	12,313	10,743
Net loans	975,440	980,023	989,993	980,023
Premises and equipment:				
Operating lease right-of-use asset	599	630	583	630
Financing lease right-of-use asset	2,277	2,413	2,353	2,413
Other premises and equipment, net	14,195	14,460	14,190	14,460
Accrued interest income receivable	4,790	4,804	5,650	4,804
Intangible assets:				
Goodwill	13,611	13,611	13,611	13,611
Core deposit intangible	113	128	107	128
Bank owned life insurance	39,607	38,895	39,429	38,895
Net deferred tax asset	4,315	2,789	4,855	2,789
Federal Home Loan Bank stock	4,430	5,754	4,922	5,754
Federal Reserve Bank stock	2,125	2,125	2,125	2,125
Other assets	34,314	33,835	36,608	33,835
<b>TOTAL ASSETS</b>	<b>\$ 1,345,721</b>	<b>\$ 1,363,874</b>	<b>\$ 1,361,789</b>	<b>\$ 1,363,874</b>
<b>LIABILITIES</b>				

Non-interest bearing deposits	\$ 196,487	\$ 195,123	\$ 178,458	\$ 195,123
Interest bearing deposits	931,082	913,414	950,832	913,414
Total deposits	1,127,569	1,108,537	1,129,290	1,108,537
Short-term borrowings	56,676	88,641	63,451	88,641
Advances from Federal Home Loan Bank	16,117	19,765	22,117	19,765
Operating lease liabilities	612	643	595	643
Financing lease liabilities	2,568	2,680	2,656	2,680
Subordinated debt	26,665	26,644	26,675	26,644
Total borrowed funds	102,638	138,373	115,494	138,373
Other liabilities	11,949	10,786	15,679	10,786
TOTAL LIABILITIES	1,242,156	1,257,696	1,260,463	1,257,696
SHAREHOLDERS' EQUITY				
Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,776,089 shares issued and 17,147,270 shares outstanding on June 30, 2023; 26,746,436 shares issued and 17,117,617 shares outstanding on December 31, 2022	268	267		
Treasury stock at cost, 9,628,819 shares on June 30, 2023 and December 31, 2022	(83,280)	(83,280)		
Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,776,089 shares issued and 17,147,270 shares outstanding on September 30, 2023; 26,746,436 shares issued and 17,117,617 shares outstanding on December 31, 2022			268	267
Treasury stock at cost, 9,628,819 shares on September 30, 2023 and December 31, 2022			(83,280)	(83,280)
Capital surplus	146,343	146,225	146,354	146,225
Retained earnings	64,604	65,486	64,738	65,486
Accumulated other comprehensive loss, net	(24,370)	(22,520)	(26,754)	(22,520)
TOTAL SHAREHOLDERS' EQUITY	103,565	106,178	101,326	106,178
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,345,721	\$ 1,363,874	\$ 1,361,789	\$ 1,363,874

See accompanying notes to unaudited consolidated financial statements.

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# AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
INTEREST INCOME								
Interest and fees on loans	\$ 12,609	\$ 9,725	\$ 24,885	\$ 19,221	\$13,154	\$10,691	\$38,039	\$29,912
Interest bearing deposits and short-term investments	73	64	130	82	56	72	186	154
Investment securities:								
Available for sale	1,722	1,304	3,492	2,427	1,745	1,490	5,237	3,917
Held to maturity	475	434	946	825	484	447	1,430	1,272
Total Interest Income	14,879	11,527	29,453	22,555	15,439	12,700	44,892	35,255
INTEREST EXPENSE								

Deposits	5,019	956	9,208	1,752	5,653	1,720	14,861	3,472
Short-term borrowings	335	3	829	3	512	36	1,341	39
Advances from Federal Home Loan Bank	128	156	210	332	188	127	398	459
Financing lease liabilities	24	25	48	51	24	25	72	76
Subordinated debt	263	263	526	526	263	263	789	789
Total Interest Expense	5,769	1,403	10,821	2,664	6,640	2,171	17,461	4,835
Net Interest Income	9,110	10,124	18,632	19,891	8,799	10,529	27,431	30,420
Provision (credit) for credit losses	43	(325)	1,222	(725)	189	500	1,411	(225)
Net Interest Income after Provision (Credit) for Credit Losses	9,067	10,449	17,410	20,616	8,610	10,029	26,020	30,645
NON-INTEREST INCOME								
Wealth management fees	2,789	2,976	5,527	6,141	2,845	2,813	8,372	8,954
Service charges on deposit accounts	280	263	546	535	311	289	857	824
Net gains on loans held for sale	38	35	64	130	59	53	123	183
Mortgage related fees	34	32	67	65	41	27	108	92
Gain on sale of Visa Class B shares	—	—	1,748	—	—	—	1,748	—
Bank owned life insurance	242	231	481	440	321	329	802	769
Other income	479	601	936	1,162	679	815	1,615	1,977
Total Non-Interest Income	3,862	4,138	9,369	8,473	4,256	4,326	13,625	12,799
NON-INTEREST EXPENSE								
Salaries and employee benefits	7,728	6,963	14,903	14,368	7,358	7,071	22,261	21,439
Net occupancy expense	713	697	1,485	1,438	719	698	2,204	2,136
Equipment expense	422	415	837	812	376	393	1,213	1,205
Professional fees	1,907	838	3,215	1,468	1,146	948	4,361	2,416
Data processing and IT expense	1,080	937	2,158	1,890	1,139	1,036	3,297	2,926
Supplies, postage and freight	164	144	343	309	144	172	487	481
Miscellaneous taxes and insurance	323	349	662	672	321	350	983	1,022
Federal deposit insurance expense	175	130	300	275	195	125	495	400
Other expense	665	1,637	1,237	2,357	697	934	1,934	3,291
Total Non-Interest Expense	13,177	12,110	25,140	23,589	12,095	11,727	37,235	35,316
PRETAX INCOME (LOSS)	(248)	2,477	1,639	5,500				
Provision (credit) for income taxes	(61)	496	311	1,101				
NET INCOME (LOSS)	\$ (187)	\$ 1,981	\$ 1,328	\$ 4,399				
PRETAX INCOME					771	2,628	2,410	8,128
Provision for income taxes					124	526	435	1,627
NET INCOME					\$ 647	\$ 2,102	\$ 1,975	\$ 6,501
PER COMMON SHARE DATA:								
Basic:								
Net income (loss)	\$ (0.01)	\$ 0.12	\$ 0.08	\$ 0.26				
Net income					\$ 0.04	\$ 0.12	\$ 0.12	\$ 0.38
Average number of shares outstanding	17,147	17,109	17,139	17,102	17,147	17,111	17,142	17,105
Diluted:								
Net income (loss)	\$ (0.01)	\$ 0.12	\$ 0.08	\$ 0.26				
Net income					\$ 0.04	\$ 0.12	\$ 0.12	\$ 0.38
Average number of shares outstanding	17,147	17,149	17,148	17,148	17,147	17,145	17,146	17,146

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
COMPREHENSIVE LOSS								
Net income (loss)	\$ (187)	\$ 1,981	\$ 1,328	\$ 4,399				
Net income					\$ 647	\$ 2,102	\$ 1,975	\$ 6,501
Other comprehensive loss								
Pension obligation change for defined benefit plan	—	(5,681)	—	(4,518)	—	(59)	—	(4,577)
Income tax effect	—	1,193	—	949	—	12	—	961
Unrealized holding losses on available for sale securities arising during period	(3,241)	(5,433)	(2,673)	(12,851)	(3,418)	(8,064)	(6,091)	(20,915)
Income tax effect	681	1,141	562	2,699	718	1,694	1,280	4,393
Fair value change for interest rate hedge	1,159	—	330	—	400	—	733	—
Income tax effect	(243)	—	(69)	—	(84)	—	(156)	—
Other comprehensive loss	(1,644)	(8,780)	(1,850)	(13,721)	(2,384)	(6,417)	(4,234)	(20,138)
Comprehensive loss	\$ (1,831)	\$ (6,799)	\$ (522)	\$ (9,322)	\$ (1,737)	\$ (4,315)	\$ (2,259)	\$ (13,637)

See accompanying notes to unaudited consolidated financial statements.

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AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share and per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
COMMON STOCK								
Balance at beginning of period	\$ 268	\$ 267	\$ 267	\$ 267	\$ 268	\$ 267	\$ 267	\$ 267
New common shares issued for exercise of stock options (13 shares for the three months ended June 30, 2022 and 29,653 and 27,597 shares for the six months ended June 30, 2023 and 2022, respectively)	—	—	1	—				

New common shares issued for exercise of stock options (3,520 shares for the three months ended September 30, 2022 and 29,653 and 31,117 shares for the nine months ended September 30, 2023 and 2022, respectively)					—	—	1	—
Balance at end of period	268	267	268	267	268	267	268	267
<b>TREASURY STOCK</b>								
Balance at beginning of period	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)
Treasury stock purchased	—	—	—	—	—	—	—	—
Balance at end of period	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)	(83,280)
<b>CAPITAL SURPLUS</b>								
Balance at beginning of period	146,331	146,162	146,225	146,069	146,343	146,175	146,225	146,069
New common shares issued for exercise of stock options (13 shares for the three months ended June 30, 2022 and 29,653 and 27,597 shares for the six months ended June 30, 2023 and 2022, respectively)	—	—	94	80				
New common shares issued for exercise of stock options (3,520 shares for the three months ended September 30, 2022 and 29,653 and 31,117 shares for the nine months ended September 30, 2023 and 2022, respectively)					—	11	94	91
Stock option expense	12	13	24	26	11	12	35	38
Balance at end of period	146,343	146,175	146,343	146,175	146,354	146,198	146,354	146,198
<b>RETAINED EARNINGS</b>								
Balance at beginning of period	65,306	61,996	65,486	60,005	64,604	63,463	65,486	60,005
Net income (loss)	(187)	1,981	1,328	4,399				
Cash dividend declared on common stock (\$0.030 for the three months ended June 30, 2023 and 2022 and \$0.060 and \$0.055 for the six months ended June 30, 2023 and 2022, respectively)	(515)	(514)	(1,029)	(941)				
Net income					647	2,102	1,975	6,501
Cash dividend declared on common stock (\$0.030 for the three months ended September 30, 2023 and 2022 and \$0.090 and \$0.085 for the nine months ended September 30, 2023 and 2022, respectively)					(513)	(513)	(1,542)	(1,454)
Cumulative effect adjustment for adoption of ASU 2016-13	—	—	(1,181)	—	—	—	(1,181)	—
Balance at end of period	64,604	63,463	64,604	63,463	64,738	65,052	64,738	65,052
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, NET</b>								
Balance at beginning of period	(22,726)	(11,453)	(22,520)	(6,512)	(24,370)	(20,233)	(22,520)	(6,512)
Other comprehensive loss	(1,644)	(8,780)	(1,850)	(13,721)	(2,384)	(6,417)	(4,234)	(20,138)
Balance at end of period	(24,370)	(20,233)	(24,370)	(20,233)	(26,754)	(26,650)	(26,754)	(26,650)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$103,565</b>	<b>\$106,392</b>	<b>\$103,565</b>	<b>\$106,392</b>	<b>\$101,326</b>	<b>\$101,587</b>	<b>\$101,326</b>	<b>\$101,587</b>

See accompanying notes to unaudited consolidated financial statements.



(In thousands)  
(Unaudited)

	Six months ended	
	June 30,	
	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,328	\$ 4,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for credit losses	1,222	(725)
Depreciation and amortization expense	1,055	1,029
Amortization expense of core deposit intangible	15	16
Amortization of fair value adjustment on acquired time deposits	(23)	(63)
Net amortization of investment securities	29	63
Net amortization of deferred loan fees	(61)	(396)
Net gains on loans held for sale	(64)	(130)
Origination of mortgage loans held for sale	(3,961)	(7,518)
Sales of mortgage loans held for sale	3,524	7,377
Decrease (increase) in accrued interest receivable	14	(110)
Increase (decrease) in accrued interest payable	1,234	(346)
Earnings on bank-owned life insurance	(481)	(440)
Deferred income taxes	(257)	455
Stock compensation expense	24	26
Net change in operating leases	(31)	(48)
Other, net	(1,073)	(2,541)
Net cash provided by operating activities	2,494	1,048
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities — available for sale	(4,999)	(34,396)
Purchase of investment securities — held to maturity	(1,943)	(7,114)
Proceeds from maturities of investment securities — available for sale	10,484	12,427
Proceeds from maturities of investment securities — held to maturity	1,848	1,836
Purchase of regulatory stock	(10,033)	(1,100)
Proceeds from redemption of regulatory stock	11,357	1,404
Long-term loans originated	(86,294)	(104,816)
Principal collected on long-term loans	89,399	125,814
Purchases of premises and equipment	(623)	(1,033)
Proceeds from sale of other real estate owned and repossessed assets	39	14
Net cash provided by (used in) investing activities	9,235	(6,964)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposit balances	19,055	3,441
Net decrease in other short-term borrowings	(31,965)	—
Principal borrowings on advances from Federal Home Loan Bank	10,920	—
Principal repayments on advances from Federal Home Loan Bank	(14,568)	(8,625)
Principal payments on financing lease liabilities	(112)	(108)
Stock options exercised	94	80
Common stock dividend paid	(1,029)	(941)
Net cash used in financing activities	(17,605)	(6,153)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,876)	(12,069)
CASH AND CASH EQUIVALENTS AT JANUARY 1	22,962	41,101
CASH AND CASH EQUIVALENTS AT JUNE 30	\$ 17,086	\$ 29,032
	Nine months ended	
	September 30,	
	2023	2022
<b>OPERATING ACTIVITIES</b>		

Net income	\$ 1,975	\$ 6,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for credit losses	1,411	(225)
Depreciation and amortization expense	1,543	1,531
Amortization expense of core deposit intangible	21	23
Amortization of fair value adjustment on acquired time deposits	(29)	(83)
Net amortization of investment securities	43	98
Net amortization of deferred loan fees	(83)	(486)
Net gains on loans held for sale	(123)	(183)
Origination of mortgage loans held for sale	(6,441)	(8,239)
Sales of mortgage loans held for sale	6,623	9,405
Increase in accrued interest receivable	(846)	(636)
Increase (decrease) in accrued interest payable	2,069	(571)
Earnings on bank-owned life insurance	(802)	(769)
Deferred income taxes	(166)	601
Stock compensation expense	35	38
Net change in operating leases	(48)	(69)
Other, net	(4)	(5,082)
Net cash provided by operating activities	5,178	1,854
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities — available for sale	(11,771)	(49,372)
Purchase of investment securities — held to maturity	(2,943)	(11,104)
Proceeds from maturities of investment securities — available for sale	15,216	15,755
Proceeds from maturities of investment securities — held to maturity	4,457	2,244
Proceeds from sales of investment securities — available for sale	—	1,519
Purchase of regulatory stock	(15,747)	(4,405)
Proceeds from redemption of regulatory stock	16,579	3,190
Long-term loans originated	(140,065)	(163,679)
Principal collected on long-term loans	128,421	168,215
Purchases of premises and equipment	(1,010)	(1,621)
Proceeds from sale of other real estate owned and repossessed assets	39	14
Proceeds from life insurance policies	387	670
Net cash used in investing activities	(6,437)	(38,574)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposit balances	20,782	13,518
Net (decrease) increase in other short-term borrowings	(25,190)	26,274
Principal borrowings on advances from Federal Home Loan Bank	17,920	—
Principal repayments on advances from Federal Home Loan Bank	(15,568)	(14,131)
Principal payments on financing lease liabilities	(171)	(163)
Stock options exercised	94	91
Common stock dividend paid	(1,542)	(1,454)
Net cash (used in) provided by financing activities	(3,675)	24,135
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,934)	(12,585)
CASH AND CASH EQUIVALENTS AT JANUARY 1	22,962	41,101
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	\$ 18,028	\$ 28,516

See accompanying notes to unaudited consolidated financial statements.

## **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank) and AmeriServ Trust and Financial Services Company (the Trust Company). The Bank is a Pennsylvania state-chartered full service bank with 16 locations in Pennsylvania and 1 location in Maryland. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$2.4 billion and \$2.3 billion that are not reported on the Company's Consolidated Balance Sheets at **June 30, 2023**, **September 30, 2023** and December 31, 2022, respectively.

In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. Intercompany accounts and transactions have been eliminated in preparing the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles, or GAAP) requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results may differ from these estimates and the differences may be material to the Consolidated Financial Statements. The Company's most significant estimates relate to the allowance for credit losses (related to investment securities, loans, and unfunded commitments), intangible assets, income taxes, pension, derivatives (interest rate swaps/hedges), and the fair value of financial instruments.

### **2. Basis of Preparation**

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments consisting of normal recurring entries considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full-year.

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

### **3. Adoption of Accounting Standards**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held to maturity (HTM) securities, off-balance sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASU 2016-13 requires credit losses on available for sale (AFS) debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023 for the Company. The results reported for periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted ASU 2016-13, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held to maturity debt securities, as well as unfunded commitments. On January 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of \$1.2 million, net of tax, of which \$951,000 related to loans, \$90,000 related to held to maturity debt securities, and \$140,000 related to unfunded commitments. In addition, the Company adopted the provisions of ASU 2016-13 related to presenting other-than-temporary impairment on available for sale debt securities on January 1, 2023, though no such charges were recorded on the securities held by the Company as of the date of adoption.

It should be noted that the Company expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk within the loan portfolio. The following table presents the impact of the change from the incurred loss model to the current expected credit loss model.

	January 1, 2023		
	Pre-ASU 2016-13	Impact of ASU 2016-13 Adoption (In Thousands)	As Reported Under ASU 2016-13
<b>Assets</b>			
<u>Allowance for credit losses - held to maturity securities</u>			
Municipal	\$ —	\$ 3	\$ 3
Corporate bonds and other securities	—	111	111
Allowance for credit losses - held to maturity securities	\$ —	\$ 114	\$ 114
<u>Loans, net of unearned income</u>			
Commercial real estate (owner occupied)	\$ 75,158	\$ 6,201	\$ 81,359
Other commercial and industrial	153,420	(31)	153,389
Commercial real estate (non-owner occupied) - retail	—	148,901	148,901
Commercial real estate (non-owner occupied) - multi-family	—	106,423	106,423
Other commercial real estate (non-owner occupied)	450,744	(225,831)	224,913
Residential mortgages	297,971	(124,194)	173,777
Consumer	13,473	88,531	102,004
Loans, net of unearned income	\$ 990,766	\$ —	\$ 990,766
<u>Allowance for credit losses - loans</u>			
Commercial real estate (owner occupied)	\$ —	\$ 1,380	\$ 1,380
Other commercial and industrial	—	2,908	2,908
Commercial real estate (non-owner occupied) - retail	—	1,432	1,432
Commercial real estate (non-owner occupied) - multi-family	—	1,226	1,226
Other commercial real estate (non-owner occupied)	5,972	(2,776)	3,196
Commercial (owner occupied real estate and other)	2,653	(2,653)	—
Residential mortgages	1,380	(355)	1,025
Consumer	85	695	780
Allocation for general risk	653	(653)	—
Allowance for credit losses - loans	\$ 10,743	\$ 1,204	\$ 11,947
<b>Liabilities</b>			
Allowance for credit losses - unfunded commitments	\$ 746	\$ 177	\$ 923

In summary, the adoption of ASU 2016-13 necessitated a day one increase of \$1.2 million be made to the allowance for credit losses on our loan portfolio and a \$177,000 increase to the allowance for credit losses on unfunded commitments. Furthermore, based on the credit quality of the Company's HTM debt securities portfolio, the day one allowance for credit losses on our HTM securities portfolio totaled only \$114,000. Additional disclosures regarding the allowance for credit losses are included within Note 7 – Investment Securities, Note 9 – Allowance for Credit Losses – Loans, and Note 15 – Commitments and Contingent Liabilities.

In January 2023, the Company adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures* (ASU 2022-02), which eliminated the accounting guidance for TDRs while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, the Company determines whether a modification results in a new loan or continuation of an existing loan. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective homogenous loan pools. Additionally, the amendments of ASU 2022-02 require the Company to disclose current-period gross charge-offs by year of origination within the vintage disclosures. The vintage disclosures contain the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. This guidance was applied on a prospective basis.

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#### 4. Revenue Recognition

Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, requires the Company to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers at the time the transfer of goods or services takes place. Management determined that the primary sources of revenue associated with financial instruments, including interest and fee income on loans and interest on investments, along with certain non-interest revenue sources including net realized gains (losses) on investment securities, mortgage related fees, net gains on loans held for sale, and bank owned life insurance are not within the scope of Topic 606. These sources of revenue cumulatively comprise **81.8%** **81.6%** of the total revenue of the Company.

Non-interest income within the scope of Topic 606 is as follows:

- **Wealth management fees** - Wealth management fee income is primarily comprised of fees earned from the management and administration of trusts and customer investment portfolios. The Company's performance obligation is generally satisfied over a period of time and the resulting fees are billed monthly or quarterly, based upon the month end market value of the assets under management. Payment is generally received after month end through a direct charge to customers' accounts. Due to this delay in payment, a receivable of \$850,000 has been established as of **June 30, 2023** **September 30, 2023** and is included in other assets on the Consolidated Balance Sheets in order to properly recognize the revenue earned but not yet received. Other performance obligations (such as delivery of account statements to customers) are generally considered immaterial to the overall transactions' price. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed. Also included within wealth management fees are commissions from the sale of mutual funds, annuities, and life insurance products. Commissions on the sale of mutual funds, annuities, and life insurance products are recognized when sold, which is when the Company has satisfied its performance obligation.
- **Service charges on deposit accounts** - The Company has contracts with its deposit account customers where fees are charged for certain items or services. Service charges include account analysis fees, monthly service fees, overdraft fees, and other deposit account related fees. Revenue related to account analysis fees and service fees is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. Fees attributable to specific performance obligations of the Company (i.e. overdraft fees, etc.) are recognized at a defined point in time based on completion of the requested service or transaction.
- **Other non-interest income** - Other non-interest income consists of other recurring revenue streams such as safe deposit box rental fees, gain (loss) on sale of other real estate owned, ATM and VISA debit card fees, and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized when billed. However, if the safe deposit box rental fee is prepaid (i.e. paid prior to issuance of annual bill), the revenue is recognized upon receipt of payment. The Company has determined that since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Gains and losses on the sale of other real estate owned are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Company have been satisfied. The Company offers ATM and VISA debit cards to deposit account holders which allows our customers to access their account electronically at ATMs and POS terminals. Fees related to ATM and VISA debit card transactions are recognized when the transactions are completed and the Company has satisfied its performance obligation.

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The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three- and **Six-month** **nine-month** periods ending **June 30, 2023** **September 30, 2023** and 2022 (in thousands).

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	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Non-interest income:								
In-scope of Topic 606								
Wealth management fees	\$ 2,789	\$ 2,976	\$ 5,527	\$ 6,141	\$ 2,845	\$ 2,813	\$ 8,372	\$ 8,954
Service charges on deposit accounts	280	263	546	535	311	289	857	824
Other	516	511	997	983	554	538	1,551	1,521
Non-interest income (in-scope of topic 606)	3,585	3,750	7,070	7,659				
Non-interest income (out-of-scope of topic 606)	277	388	2,299	814				
Non-interest income (in-scope of Topic 606)					3,710	3,640	10,780	11,299
Non-interest income (out-of-scope of Topic 606)					546	686	2,845	1,500
Total non-interest income	\$ 3,862	\$ 4,138	\$ 9,369	\$ 8,473	\$ 4,256	\$ 4,326	\$ 13,625	\$ 12,799

## 5. Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are excluded for earnings per share purposes. For the three-month periods ending **June 30, 2023** **September 30, 2023** and 2022, options to purchase **292,500** **287,500** common shares, with an exercise price of \$2.96 to \$4.22, and options to purchase 22,000 common shares, with an exercise price of \$4.00 to \$4.22, respectively, were outstanding but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive. For the **six-month** **nine-month** periods ending **June 30, 2023** **September 30, 2023** and 2022, options to purchase **172,000** **177,000** common shares, with an exercise price of **\$3.83** **\$3.32** to \$4.22, and options to purchase 12,000 common shares, with an exercise price of \$4.19 to \$4.22, respectively, were outstanding but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive.

	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands, except per share data)				(In thousands, except per share data)			
<b>Numerator:</b>								
Net income (loss)	\$ (187)	\$ 1,981	\$ 1,328	\$ 4,399				
Net income					\$ 647	\$ 2,102	\$ 1,975	\$ 6,501
<b>Denominator:</b>								
Weighted average common shares outstanding (basic)	17,147	17,109	17,139	17,102	17,147	17,111	17,142	17,105
Effect of stock options	—	40	9	46	—	34	4	41
Weighted average common shares outstanding (diluted)	17,147	17,149	17,148	17,148	17,147	17,145	17,146	17,146
<b>Earnings per common share:</b>								
Basic	\$ (0.01)	\$ 0.12	\$ 0.08	\$ 0.26	\$ 0.04	\$ 0.12	\$ 0.12	\$ 0.38
Diluted	(0.01)	0.12	0.08	0.26	0.04	0.12	0.12	0.38

## 6. Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest bearing deposits and short-term investments in both money market funds and commercial paper. The Company made \$500,000 in income tax payments in the first **six nine** months of 2023 compared to **\$600,000** **\$950,000** in the same 2022 period. The Company made total interest payments of **\$9,587,000** **\$15,392,000** in the first **six nine** months of 2023 compared to **\$3,010,000** **\$5,407,000** in the same 2022 period. The Company had no non-cash transfers to other real estate owned (OREO) and repossessed assets in the first **six nine** months of 2023 compared to **\$14,000** **\$53,000** in the same 2022 period. During the first **six nine** months of 2023, the Company **did not enter entered** into **any a new financing** lease **agreements**, **related to an office location and recorded a right-of-use asset and lease liability of \$147,000**. During the first **six nine** months

of 2022, the Company entered into a new operating lease related to an office location and recorded a right-of-use asset and lease liability of \$45,000.

As a result of the adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023, the Company had non-cash transactions associated with

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the day one adjustments necessary to record the adoption. Specifically, the adoption of this accounting standard

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necessitated that a day one increase of \$1.2 million be made to the allowance for credit losses on our loan portfolio. Furthermore, ASU 2016-13 necessitated that the Company establish an allowance for expected credit losses for held to maturity (HTM) debt securities. Based upon the credit quality of the Company's HTM debt securities portfolio, the day one allowance for credit losses on our HTM securities portfolio totaled \$114,000. Finally, the adoption of CECL led to the recognition of a day one increase of \$177,000 for the Company's unfunded loan commitments.

## 7. Investment Securities

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income (loss) within shareholders' equity on a net of tax basis. Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. Additionally, the Company holds equity securities which are comprised of mutual funds held within a rabbi trust for the executive deferred compensation plan. Such securities are reported at fair value within other assets on the Consolidated Balance Sheets. Unrealized holding gains and losses on equity securities are included in earnings.

### Allowance for Credit Losses – Held to Maturity Securities

The Company measures expected credit losses on held to maturity debt securities, which are comprised of U.S. government agency and mortgage-backed securities as well as taxable municipal, corporate, and other bonds. The Company's agency and mortgage-backed securities are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, no allowance for credit losses has been established for these securities. The allowance for credit losses on the taxable municipal, corporate, and other bonds within the held to maturity securities portfolio is calculated using the probability of default/loss given default (PD/LGD) method. The calculation is completed on a quarterly basis using the default studies provided by an industry leading source. **Additionally, based on management judgment, certain qualitative adjustments, such as**

the Company's historical loss experience and/or the issuer's credit quality, may be applied. At June 30, 2023 September 30, 2023, the allowance for credit losses on the held to maturity securities portfolio totaled \$109,000, \$32,000.

The allowance for credit losses on held to maturity debt securities is included within investment securities held to maturity on the Consolidated Balance Sheets. Changes in the allowance for credit losses are recorded within provision (credit) for credit losses on the Consolidated Statements of Operations.

Accrued interest receivable on held to maturity debt securities totaled \$363,000 \$417,000 at June 30, 2023 September 30, 2023 and is included within accrued interest income receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Held to maturity debt securities are typically classified as non-accrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held to maturity debt securities are placed on non-accrual status, unpaid interest credited to income is reversed. The Company had no held to maturity debt securities in non-accrual status at June 30, 2023 September 30, 2023.

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Allowance for Credit Losses – Available for Sale Securities

The Company measures expected credit losses on available for sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. At June 30, 2023 September 30, 2023, the allowance for credit losses on the available for sale securities portfolio totaled \$926,000.

The allowance for credit losses on available for sale debt securities is included within investment securities available for sale on the Consolidated Balance Sheets. Changes in the allowance for credit losses are recorded within provision (credit) for credit losses on the Consolidated Statements of Operations. Losses are charged against the allowance when the Company believes the collectability of an available for sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale debt securities totaled \$968,000 \$1.2 million at June 30, 2023 September 30, 2023 and is included within accrued interest income receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Available for sale debt securities are typically classified as non-accrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available for sale debt securities are placed on non-accrual status, unpaid interest credited to income is reversed. It should be noted that the Company had one available for sale debt security in non-accrual status at June 30, 2023 September 30, 2023 totaling \$926,000 with an associated allowance for credit losses of \$926,000.

Credit Losses on Investment Securities – Prior to adopting ASU 2016-13

The Company adopted ASU 2016-13 effective January 1, 2023. Financial statement amounts related to investment securities recorded as of December 31, 2022 and for the period ending June 30, 2022 September 30, 2022 are presented in accordance with the accounting policies described in the following paragraphs.

Available for sale and held to maturity securities are reviewed quarterly for possible other than temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the expectation for that security's performance, the creditworthiness of the issuer, and the Company's intent and ability to hold the security to recovery. The term other than temporary is not



intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value are not necessarily favorable or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are separated into (a) the amount of the total other than temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other than temporary impairment related to all other factors. The amount of the total other than temporary impairment related to the credit loss is recognized in earnings. The amount of the total other than temporary impairment related to all other factors is recognized in other comprehensive income (loss).

At December 31, 2022, the Company believes the unrealized losses on certain securities within the investments portfolio are primarily a result of increases in market yields from the time of purchase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other than temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does

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not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

The cost basis and fair values of investment securities are summarized as follows:

**Investment securities available for sale (AFS):**

	June 30, 2023					September 30, 2023				
	GROSS		GROSS		ALLOWANCE	GROSS		GROSS		ALLOWANCE
	UNREALIZED		UNREALIZED		FOR CREDIT	UNREALIZED		UNREALIZED		FOR CREDIT
	COST BASIS	GAINS	LOSSES	LOSSES	FAIR VALUE	COST BASIS	GAINS	LOSSES	LOSSES	FAIR VALUE
	(IN THOUSANDS)					(IN THOUSANDS)				
U.S. Agency	\$ 11,655	\$ —	\$ (1,266)	\$ —	\$ 10,389	\$ 11,575	\$ —	\$ (1,380)	\$ —	\$ 10,195
U.S. Agency mortgage-backed securities	99,945	17	(13,126)	—	86,836	102,655	6	(16,674)	—	85,987
Municipal	20,672	—	(1,678)	—	18,994	20,160	—	(1,801)	—	18,359
Corporate bonds	60,663	4	(5,533)	(926)	54,208	60,588	—	(5,151)	(926)	54,511
Total	\$ 192,935	\$ 21	\$ (21,603)	\$ (926)	\$ 170,427	\$ 194,978	\$ 6	\$ (25,006)	\$ (926)	\$ 169,052

**Investment securities held to maturity (HTM):**

	June 30, 2023					September 30, 2023				
	GROSS		GROSS		ALLOWANCE	GROSS		GROSS		ALLOWANCE
	UNREALIZED		UNREALIZED		FAIR FOR CREDIT	UNREALIZED		UNREALIZED		FAIR FOR CREDIT
	COST BASIS	GAINS	LOSSES	VALUE	LOSSES	COST BASIS	GAINS	LOSSES	VALUE	LOSSES
	(IN THOUSANDS)					(IN THOUSANDS)				
U.S. Agency	\$ 2,500	\$ —	\$ (444)	\$ 2,056	\$ —	\$ 2,500	\$ —	\$ (513)	\$ 1,987	\$ —

U.S. Agency mortgage-backed securities	19,957	3	(2,317)	17,643	—	19,582	—	(3,023)	16,559	—
Municipal	33,975	—	(3,533)	30,442	(2)	33,724	—	(4,119)	29,605	(2)
Corporate bonds and other securities	5,400	—	(112)	5,288	(107)	4,477	—	(237)	4,240	(30)
<b>Total</b>	<b>\$ 61,832</b>	<b>\$ 3</b>	<b>\$ (6,406)</b>	<b>\$ 55,429</b>	<b>\$ (109)</b>	<b>\$ 60,283</b>	<b>\$ —</b>	<b>\$ (7,892)</b>	<b>\$ 52,391</b>	<b>\$ (32)</b>

**Investment securities available for sale (AFS):**

	December 31, 2022			
		GROSS	GROSS	
		UNREALIZED	UNREALIZED	FAIR
	COST BASIS	GAINS	LOSSES	VALUE
	(IN THOUSANDS)			
U.S. Agency	\$ 11,797	\$ 1	\$ (1,265)	\$ 10,533
U.S. Agency mortgage-backed securities	102,631	64	(12,710)	89,985
Municipal	20,837	—	(1,799)	19,038
Corporate bonds	63,152	30	(3,230)	59,952
Total	\$ 198,417	\$ 95	\$ (19,004)	\$ 179,508

**Investment securities held to maturity (HTM):**

	December 31, 2022			
		GROSS	GROSS	
		UNREALIZED	UNREALIZED	FAIR
	COST BASIS	GAINS	LOSSES	VALUE
	(IN THOUSANDS)			
U.S. Agency	\$ 2,500	\$ —	\$ (432)	\$ 2,068
U.S. Agency mortgage-backed securities	18,877	8	(2,212)	16,673
Municipal	33,993	2	(3,880)	30,115
Corporate bonds and other securities	6,508	—	(172)	6,336
Total	\$ 61,878	\$ 10	\$ (6,696)	\$ 55,192

The Company sold no AFS securities during the second quarter or first six months of 2023 and 2022.

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The Company sold no AFS securities during the third quarter or first nine months of 2023. The Company sold \$1.5 million AFS securities during the third quarter and first nine months of 2022 resulting in \$5,000 of gross investment security gains and \$5,000 of gross investment security losses.

The carrying value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was \$133,639,000 \$130,945,000 at June 30, 2023 September 30, 2023 and \$134,002,000 at December 31, 2022.

The interest rate environment and market yields can have a significant impact on the yield earned on mortgage-backed securities (MBS). Prepayment speed assumptions are an important factor to consider when evaluating the returns on an MBS. Generally, as interest rates decline, borrowers have more incentive to refinance into a lower rate, so prepayments will rise. Conversely, as interest rates increase, prepayments will decline. When an MBS is purchased at a premium, the yield will decrease as prepayments increase and the yield will increase as prepayments decrease. As of **June 30, 2023** **September 30, 2023**, the Company had low premium risk as the book value of our mortgage-backed securities purchased at a premium was only 100.8% of the par value.

Contractual maturities of securities at **June 30, 2023** **September 30, 2023** are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. The weighted average duration of the total investment securities portfolio at **June 30, 2023** **September 30, 2023** is **54.7** **53.8** months and is shorter than the duration at December 31, 2022 which was 56.0 months. The duration remains within our internally established guideline to not exceed 60 months which we believe is appropriate to maintain proper levels of liquidity, interest rate risk, market valuation sensitivity and profitability.

**Total investment securities:**

	June 30, 2023				September 30, 2023			
	Available for sale		Held to maturity		Available for sale		Held to maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value	Cost Basis	Fair Value	Cost Basis	Fair Value
Within 1 year	\$ 4,220	\$ 4,174	\$ 3,413	\$ 3,376	\$ 5,395	\$ 5,267	\$ 2,579	\$ 2,513
After 1 year but within 5 years	48,377	45,721	11,926	11,330	46,169	43,751	14,096	13,137
After 5 years but within 10 years	46,387	39,518	25,497	22,364	46,884	39,898	22,916	19,404
Over 10 years	93,951	81,014	20,996	18,359	96,530	80,136	20,692	17,337
Total	\$ 192,935	\$ 170,427	\$ 61,832	\$ 55,429	\$194,978	\$169,052	\$ 60,283	\$52,391

The following table summarizes the available for sale debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded as of **June 30, 2023** **September 30, 2023**, aggregated by security type and length of time in a continuous loss position (in thousands):

	June 30, 2023						September 30, 2023					
	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL		LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR	UNREALIZED	FAIR	UNREALIZED	FAIR	UNREALIZED	FAIR	UNREALIZED	FAIR	UNREALIZED	FAIR	UNREALIZED
	VALUE	LOSSES	VALUE	LOSSES	VALUE	LOSSES	VALUE	LOSSES	VALUE	LOSSES	VALUE	LOSSES
U.S. Agency	\$ 1,955	\$ (42)	\$ 8,434	\$ (1,224)	\$ 10,389	\$ (1,266)	\$ 497	\$ (2)	\$ 9,698	\$ (1,378)	\$ 10,195	\$ (1,380)
U.S. Agency mortgage-backed securities	25,108	(1,316)	57,621	(11,810)	82,729	(13,126)	7,541	(125)	74,123	(16,549)	81,664	(16,674)
Municipal	3,766	(132)	14,728	(1,546)	18,494	(1,678)	—	—	17,959	(1,801)	17,959	(1,801)
Corporate bonds	24,229	(1,723)	26,477	(3,810)	50,706	(5,533)	11,380	(544)	39,132	(4,607)	50,512	(5,151)
Total	\$55,058	\$ (3,213)	\$107,260	\$ (18,390)	\$162,318	\$ (21,603)	\$19,418	\$ (671)	\$140,912	\$ (24,335)	\$160,330	\$ (25,006)

At **June 30, 2023** **September 30, 2023**, within the available for sale debt securities portfolio, the Company had **three** **one** U.S. Agency, **40** **12** U.S. Agency mortgage-backed securities, **11** **municipal**, and **39** **14** corporate bonds that have been in a gross unrealized loss position for less than 12 months with depreciation of **5.5%** **3.3%** from its amortized cost basis. Additionally, at **June 30, 2023** **September 30, 2023**, within the available for sale debt securities portfolio, the Company had **11** **13** U.S. Agency, **112** **147** U.S. Agency mortgage-backed securities, **47** **57** municipal, and **54** **79** corporate bonds that have been in a gross unrealized loss position for greater than 12 months with depreciation of **14.6%** **14.7%** from its amortized cost basis.

These unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields decrease, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, no provision for credit losses has been recorded for these securities. Management has also concluded that based on

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These unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields decrease, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, no provision for credit losses has been recorded for these securities. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value or mature.

The Company did not record a provision for credit losses on available for sale debt securities during the second third quarter of 2023 while a \$926,000 provision for credit losses on available for sale debt securities was recorded during the first six nine months of 2023. The recognition of the loss resulted from a subordinated debt investment issued by Signature Bank which was closed by banking regulators on March 12, 2023. In a press release issued by the Federal Deposit Insurance Corporation (FDIC), it was disclosed that unsecured debt holders of the institution will not be protected. Management reviewed the Form 10-K for the year ended December 31, 2022 filed by Signature Bank, which was filed on March 1, 2023, and determined that no circumstances existed to indicate that the debt security held by the Company was impaired as of December 31, 2022. Specifically, as of December 31, 2022, Signature Bank had total assets of \$110.4 billion, net income of \$1.3 billion for the year then ended, and demonstrated strong regulatory capital ratios. The corporate security has been placed in non-accrual status and approximately \$17,000 of unpaid interest previously credited to income was reversed.

The following tables present the activity in the allowance for credit losses on held to maturity debt securities by major security type for the three and six nine months ended June 30, 2023 September 30, 2023 (in thousands).

	Three months ended June 30, 2023					Three months ended September 30, 2023				
	Balance at	Charge-		Provision	Balance at	Balance at	Charge-		Provision	Balance at
	March 31, 2023	Offs	Recoveries	(Credit)	June 30, 2023	June 30, 2023	Offs	Recoveries	(Credit)	September 30, 2023
U.S. Agency	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Agency mortgage-backed securities	—	—	—	—	—	—	—	—	—	—
Municipal	3	—	—	(1)	2	2	—	—	—	2
Corporate bonds and other securities	80	—	—	27	107	107	—	—	(77)	30
<b>Total</b>	<b>\$ 83</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 26</b>	<b>\$ 109</b>	<b>\$ 109</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (77)</b>	<b>\$ 32</b>

	Six months ended June 30, 2023						Nine months ended			
	Balance at	Impact of Adopting	Charge-		Provision	Balance at	Balance at	Impact of Adopting	Charge-	
	December 31, 2022	ASU 2016-13	Offs	Recoveries	(Credit)	June 30, 2023	December 31, 2022	ASU 2016-13	Offs	
U.S. Agency	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Agency mortgage-backed securities	—	—	—	—	—	—	—	—	—	—
Municipal	—	3	—	—	(1)	2	—	3	—	—
Corporate bonds and other securities	—	111	—	—	(4)	107	—	111	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 114</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (5)</b>	<b>\$ 109</b>	<b>\$ —</b>	<b>\$ 114</b>	<b>\$ —</b>	<b>\$ —</b>

As stated previously, the Company's agency and mortgage-backed securities are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, no allowance for credit losses has been established for these securities. The allowance for credit losses on the taxable municipal, corporate, and other bonds within the held to maturity securities portfolio is calculated using the PD/LGD method. The calculation is completed on a quarterly basis using the default studies provided by an industry leading source. Additionally, based on management judgment, certain qualitative adjustments, such as the Company's historical loss experience and/or the issuer's credit quality, may be applied.

Maintaining investment quality is a primary objective of the Company's Investment Policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of A. The Company monitors the credit ratings of its debt securities on a quarterly basis. At June 30, 2023, 53.0% of the total investment securities portfolio was rated AAA as compared to 52.5% at December 31, 2022. Approximately 14.2% of the total investment securities portfolio was either rated below A or unrated at June 30, 2023 as compared to 14.7% at December 31, 2022. September 30,

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2023, 53.8% of the total investment securities portfolio was rated AAA as compared to 52.5% at December 31, 2022. Approximately 14.5% of the total investment securities portfolio was either rated below A or unrated at September 30, 2023 as compared to 14.7% at December 31, 2022.

Specifically, the following table summarizes the amortized cost of held to maturity debt securities at June 30, 2023 September 30, 2023, aggregated by credit quality indicator (in thousands).

	June 30, 2023				September 30, 2023			
	Credit Rating				Credit Rating			
	AAA/AA/A	BBB/BB/B	Unrated	Total	AAA/AA/A	BBB/BB/B	Unrated	Total
U.S. Agency	\$ 2,500	\$ —	\$ —	\$ 2,500	\$ 2,500	\$ —	\$ —	\$ 2,500
U.S. Agency mortgage-backed securities	19,957	—	—	19,957	19,582	—	—	19,582
Municipal	33,975	—	—	33,975	33,724	—	—	33,724
Corporate bonds and other securities	4,007	—	1,393	5,400	3,006	—	1,471	4,477
Total	\$ 60,439	\$ —	\$ 1,393	\$ 61,832	\$58,812	\$ —	\$1,471	\$60,283

The Company had no held to maturity debt securities in non-accrual status or past due 90 days still accruing interest at June 30, 2023 September 30, 2023. The underlying issuers continue to make timely principal and interest payments on the securities.

## 8. Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of any deferred fees or costs and an allowance for credit losses. Accrued As of September 30, 2023 and December 31, 2022, accrued interest receivable on loans totaled \$3.5 million as of June 30, 2023 \$4.0 million and December 31, 2022 \$3.5 million, respectively, which is reported in accrued interest income receivable on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) over the contractual life of the loan.

The segments of the Company's loan portfolio are disaggregated into classes that allows management to monitor risk and performance. The loan classes used are consistent with the internal reports evaluated by the Company's management and Board of Directors to monitor risk and performance within various segments of its loan portfolio. The commercial loan segment includes both the owner occupied commercial real estate loan and the other commercial and industrial loan classes. The commercial real estate loan segment includes the non-owner occupied commercial real estate loan classes of retail, multi-family, and other. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans while the consumer loan segment consists primarily of home equity loans secured by residential real estate, installment loans, and overdraft lines of credit associated with customer deposit accounts.

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The loan portfolio of the Company consists of the following (in thousands):

	June 30, 2023	September 30, 2023
Commercial:		
Commercial real estate (owner occupied) <sup>(1)</sup>	\$ 86,949	\$ 88,458
Other commercial and industrial	150,842	144,806
Commercial real estate (non-owner occupied):		
Retail <sup>(1)</sup>	153,164	158,637
Multi-family <sup>(1)</sup>	100,322	104,597
Other <sup>(1)</sup>	219,558	229,885
Residential mortgages	175,787	174,419
Consumer	101,039	101,504
Loans, net of unearned income	\$ 987,661	\$ 1,002,306

	December 31, 2022
Commercial:	
Commercial and industrial	\$ 153,398
Paycheck Protection Program (PPP)	22
Commercial real estate (owner occupied) <sup>(1)</sup>	75,158
Commercial real estate (non-owner occupied) <sup>(1)</sup>	450,744
Residential mortgages <sup>(1)</sup>	297,971
Consumer	13,473
Loans, net of unearned income	\$ 990,766

<sup>(1)</sup> Real estate construction loans constituted 2.4%, 2.8% and 4.7% of the Company's total loans, net of unearned income as of June 30, 2023, September 30, 2023 and December 31, 2022, respectively.

Loan balances at June 30, 2023, September 30, 2023 and December 31, 2022 are net of unearned income of \$327,000, \$401,000 and \$343,000, respectively.

## 9. Allowance for Credit Losses – Loans

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged-off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has aligned our segmentation to the quarterly Call Report. This allowed the Company to use not only our data, but also peer institutions to supplement loss observations in determining our qualitative adjustments. Some further sub-

segmenting was performed on the commercial and industrial (C&I) and commercial real estate (CRE) portfolios based on collateral type. The Company has identified the following portfolio segments:

- C&I and CRE Owner Occupied – Real Estate
- C&I and CRE Owner Occupied – Other
- CRE Non-Owner Occupied – Retail
- CRE Non-Owner Occupied – Multi-Family
- CRE Non-Owner Occupied – Other
- Residential Mortgages
- Consumer

The Company is utilizing the static pool analysis (cohort) method for our CECL model. The static pool analysis methodology captures loans that qualify for a segment (i.e. balance of a pool of loans with similar risk characteristics) as of a point in time to form a cohort, then tracks that cohort over their remaining lives to determine their loss behavior. The remaining lifetime loss rate is then applied to current loans that qualify for the same segmentation criteria to form a remaining life expectation on current loans. Once historical cohorts are established, the loans in each individual cohort are tracked over their remaining lives for loss and recovery events. Each cohort is evaluated individually and as a result, a loss may be counted in several different quarterly cohort periods, as long as the specific loan existed in the population of each of those cohort periods.

The following tables summarize the rollforward of the allowance for credit losses by loan portfolio segment for the three- and ~~six-~~ ~~month~~ ~~nine-month~~ periods ending ~~June 30, 2023~~ ~~September 30, 2023~~ and 2022 (in thousands).

	Three months ended June 30, 2023					Three months ended September 30, 2023				
	Balance at March 31, 2023	Charge- Offs	Recoveries	Provision (Credit)	Balance at June 30, 2023	Balance at June 30, 2023	Charge- Offs	Recoveries	Provision (Credit)	Balance at September 30, 2023
Commercial real estate (owner occupied)	\$ 1,320	\$ —	\$ 6	\$ 191	\$ 1,517	\$ 1,517	\$ —	\$ 6	\$ 21	\$ 1,544
Other commercial and industrial	2,873	—	1	(25)	2,849	2,849	(75)	—	(30)	2,744
Commercial real estate (non-owner occupied) - retail	1,486	—	—	(9)	1,477	1,477	—	—	49	1,526
Commercial real estate (non-owner occupied) - multi-family	1,146	—	2	(3)	1,145	1,145	—	2	28	1,175
Other commercial real estate (non-owner occupied)	3,197	—	3	(113)	3,087	3,087	—	4	92	3,183
Residential mortgages	1,032	—	1	4	1,037	1,037	(54)	9	35	1,027
Consumer	1,078	(30)	72	(11)	1,109	1,109	(41)	23	23	1,114
Total	\$ 12,132	\$ (30)	\$ 85	\$ 34	\$ 12,221	\$ 12,221	\$ (170)	\$ 44	\$ 218	\$ 12,313

	Three months ended June 30, 2022					Three months ended September 30, 2022				
	Balance at	Charge-	Recoveries	Provision	Balance at	Balance at	Charge-	Recoveries	Provision	Balance at
	March 31, 2022	Offs		(Credit)	June 30, 2022	June 30, 2022	Offs		(Credit)	September 30, 2022
Commercial	\$ 3,251	\$ —	\$ —	\$ (93)	\$ 3,158	\$ 3,158	\$ —	\$ 4	\$ (406)	\$ 2,756
Commercial real estate (non-owner occupied)	5,930	—	13	(227)	5,716	5,716	(1,390)	13	1,093	5,432
Residential mortgages	1,465	(23)	4	27	1,473	1,473	(9)	2	(89)	1,377
Consumer	99	(41)	18	26	102	102	(24)	8	1	87
Allocation for general risk	1,177	—	—	(58)	1,119	1,119	—	—	(99)	1,020
Total	\$ 11,922	\$ (64)	\$ 35	\$ (325)	\$ 11,568	\$ 11,568	\$ (1,423)	\$ 27	\$ 500	\$ 10,672

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	Six months ended June 30, 2023						Nine months ended September 30, 2023					
	Balance at	Impact of Adopting	Charge-	Recoveries	Provision	Balance at	Balance at	Impact of Adopting	Charge-	Recoveries	Provision	
	December 31, 2022	ASU 2016-13	Offs		(Credit)	June 30, 2023	December 31, 2022	ASU 2016-13	Offs		(Credit)	
Commercial real estate (owner occupied)	\$ —	\$ 1,380	\$ —	\$ 12	\$ 125	\$ 1,517	\$ —	\$ 1,380	\$ —	\$ 18	\$ 146	
Other commercial and industrial	—	2,908	—	2	(61)	2,849	—	2,908	(75)	2	(91)	
Commercial real estate (non-owner occupied) - retail	—	1,432	—	—	45	1,477	—	1,432	—	—	94	
Commercial real estate (non-owner occupied) - multi-family	—	1,226	—	3	(84)	1,145	—	1,226	—	5	(56)	
Other commercial real estate (non-owner occupied)	5,972	(2,776)	—	7	(116)	3,087	5,972	(2,776)	—	11	(24)	



Commercial (owner occupied real estate and other)	2,653	(2,653)	—	—	—	—	2,653	(2,653)	—	—	—
Residential mortgages	1,380	(355)	—	3	9	1,037	1,380	(355)	(54)	12	44
Consumer	85	695	(169)	81	417	1,109	85	695	(210)	104	440
Allocation for general risk	653	(653)	—	—	—	—	653	(653)	—	—	—
Total	\$ 10,743	\$ 1,204	\$ (169)	\$ 108	\$ 335	\$ 12,221	\$ 10,743	\$ 1,204	\$ (339)	\$ 152	\$ 553

	Six months ended June 30, 2022					Nine months ended September 30, 2022				
	Balance at	Charge-		Provision	Balance at	Balance at	Charge-		Provision	Balance at
	December 31, 2021	Offs	Recoveries	(Credit)	June 30, 2022	December 31, 2021	Offs	Recoveries	(Credit)	September 30, 2022
Commercial	\$ 3,071	\$ (72)	\$ —	\$ 159	\$ 3,158	\$ 3,071	\$ (72)	\$ 4	\$ (247)	\$ 2,756
Commercial real estate (non-owner occupied)	6,392	—	26	(702)	5,716	6,392	(1,390)	39	391	5,432
Residential mortgages	1,590	(23)	12	(106)	1,473	1,590	(32)	14	(195)	1,377
Consumer	113	(86)	38	37	102	113	(110)	46	38	87
Allocation for general risk	1,232	—	—	(113)	1,119	1,232	—	—	(212)	1,020
Total	\$ 12,398	\$ (181)	\$ 76	\$ (725)	\$ 11,568	\$ 12,398	\$ (1,604)	\$ 103	\$ (225)	\$ 10,672

The Company recorded a \$34,000 \$218,000 provision for credit losses in the second third quarter of 2023 as compared to a \$325,000 \$500,000 provision recovery recorded in the second third quarter of 2022. For the first six nine months of 2023, the Company recorded a \$335,000 \$553,000 provision for credit losses compared to a \$725,000 \$225,000 provision recovery recorded in the first six nine months of 2022, representing a \$1.1 million \$778,000 unfavorable shift between years. The 2023 provision for credit losses in the loan portfolio was necessary due to risk rating and non-accrual activity. Specifically, total classified and criticized loan levels exhibited a net increase during the first six nine months of 2023 due to the risk rating downgrade of three several commercial real estate loan relationships, relationships earlier this year. In addition, an increased historical loss rate within the consumer loan pool resulted in a significant increase in the allocated allowance for credit losses despite contraction within the portfolio since the beginning of the year.

Non-performing assets increased from \$5.2 million at December 31, 2022 to \$5.7 million \$6.2 million at June 30, 2023 September 30, 2023 primarily due to an increase in non-accrual loans reflecting the transfer of a two commercial real estate loan relationship relationships together with a three small business loan loans to non-accrual status which were partially offset by a decline in non-accrual residential mortgage loans. Overall, non-performing assets remain well controlled at 0.57% 0.62% of total loans. Through six nine months of 2023, the Company experienced net loan charge-offs of \$61,000, \$187,000, or 0.01% 0.03% of total average loans, which compares favorably to net charge-offs of \$105,000, \$1.5 million, or 0.02% 0.21% of total average loans, in the first half nine months of 2022. In summary, the allowance for credit losses on our the loan portfolio provided 216% 199% coverage of non-performing assets, and 1.24% 1.23% of total loans, on June 30, 2023 at September 30, 2023, compared to 207% coverage of non-performing assets, and 1.08% of total loans, on December 31, 2022.

Historical credit loss experience is the basis for the estimation of expected credit losses. The Company applies historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already captured in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on a blend of peer and Company data as well as management judgment. Including peer data addresses the Company's lack of loss history in some pools of loans. For periods beyond our reasonable and supportable forecast period of two years, loss expectations revert to the long-run historical mean. The qualitative adjustments for current conditions are based upon the following factors:

- changes in lending policies and procedures;
- changes in economic conditions;
- changes in the nature and volume of the portfolio;
- staff experience;
- changes in volume and severity of delinquency, non-performing loans, and classified loans;
- changes in the quality of the Company's loan review system;
- trends in underlying collateral value;
- concentration risk; and
- external factors: competition, legal, regulatory.

These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve. Ultimately, 68% 69% of the second third quarter of 2023 general reserve represented qualitative adjustment with 32% 31% representing quantitative reserve.

In accordance with ASU 2016-13, the Company will evaluate individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. In contrast to legacy accounting standards, this criterion is broader than the impairment concept and management may evaluate loans individually even when no specific expectation of collectability is in place. Loans will not be included in both collective and individual analysis. The individual analysis will establish a specific reserve for loans in scope. It should be noted that there is a review threshold of \$150,000 or more for loans being subject to individual evaluation within the consumer and residential mortgage segments.

Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. The method is selected on a loan-by-loan basis, with management primarily utilizing either the discounted cash flows or the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance is made on a quarterly basis.

The need for an updated appraisal on collateral dependent loans is determined on a case-by-case basis. The useful life of an appraisal or evaluation will vary depending upon the circumstances of the property and the economic conditions in the marketplace. A new appraisal is not required if there is an existing appraisal which, along with other information, is sufficient to determine a reasonable value for the property and to support an appropriate and adequate allowance for credit losses. At a minimum, annual documented reevaluation of the property is completed by the Bank's internal Collections and Assigned Risk Department to support the value of the property.

When reviewing an appraisal associated with an existing real estate collateral dependent transaction, the Bank's Chief Credit Officer must determine if there have been material changes to the underlying assumptions in the appraisal which affect the original estimate of value. Some of the factors that could cause material changes to reported values include:

- the passage of time;
- the volatility of the local market;
- the availability of financing;
- natural disasters;
- the inventory of competing properties;

- the inventory of competing properties;
- new improvements to, or lack of maintenance of, the subject property or competing properties upon physical inspection by the Bank;
- changes in underlying economic and market assumptions, such as material changes in current and projected vacancy, absorption rates, capitalization rates, lease terms, rental rates, sales prices, concessions, construction overruns and delays, zoning changes, etc.; and/or
- environmental contamination.

The value of the property is adjusted to appropriately reflect the above listed factors and the value is discounted to reflect the value impact of a forced or distressed sale, any outstanding senior liens, any outstanding unpaid real estate taxes, transfer taxes and closing costs that would occur with sale of the real estate. If the Chief Credit Officer determines that a reasonable value cannot be derived based on available information, a new appraisal is ordered. The determination of the need for a new appraisal, versus completion of a property valuation by the Bank's Collections and Assigned Risk Department personnel, rests with the Chief Credit Officer and not the originating account officer.

The following tables summarize the loan portfolio and allowance for credit losses (in thousands).

	At June 30, 2023								At September 30, 2023				
	Commercial real estate (owner occupied)	Other commercial and industrial	Commercial real estate (non-owner occupied) - retail	Commercial real estate (non-owner occupied) - multi-family	Other commercial real estate (non-owner occupied)	Residential mortgages	Consumer	Total	Commercial real estate (owner occupied)	Other commercial and industrial	Commercial real estate (non-owner occupied) - retail	Commercial real estate (non-owner occupied) - multi-family	Consumer
<b>Loans:</b>													
Individually evaluated	\$ —	\$ 1,884	\$ —	\$ —	\$ 2,625	\$ —	\$ —	\$ 4,509	\$ 191	\$ 1,937	\$ —	\$ —	\$ —
Collectively evaluated	86,949	148,958	153,164	100,322	216,933	175,787	101,039	983,152	88,267	142,869	158,637	104,597	101,039
Total loans	\$ 86,949	\$ 150,842	\$ 153,164	\$ 100,322	\$ 219,558	\$ 175,787	\$ 101,039	\$ 987,661	\$ 88,458	\$ 144,806	\$ 158,637	\$ 104,597	\$ 101,039
<b>Allowance for credit losses:</b>													
Specific reserve allocation	\$ —	\$ 398	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 400	\$ —	\$ 434	\$ —	\$ —	\$ —
General reserve allocation	1,517	2,451	1,477	1,145	3,085	1,037	1,109	11,821	1,544	2,310	1,526	1,175	1,109
Total allowance for credit losses	\$ 1,517	\$ 2,849	\$ 1,477	\$ 1,145	\$ 3,087	\$ 1,037	\$ 1,109	\$ 12,221	\$ 1,544	\$ 2,744	\$ 1,526	\$ 1,175	\$ 1,109

	At December 31, 2022						
	Commercial	Commercial real estate (non-owner occupied)	Residential mortgages	Consumer	Allocation for general risk	Total	
<b>Loans:</b>							
Individually evaluated	\$ 1,989	\$ 1,586	\$ —	\$ —		\$ 3,575	
Collectively evaluated	226,589	449,158	297,971	13,473		987,191	
Total loans	\$ 228,578	\$ 450,744	\$ 297,971	\$ 13,473		\$ 990,766	
<b>Allowance for credit losses:</b>							
Specific reserve allocation	\$ 520	\$ 3	\$ —	\$ —	\$ —	\$ 523	
General reserve allocation	2,133	5,969	1,380	85	653	10,220	
Total allowance for credit losses	\$ 2,653	\$ 5,972	\$ 1,380	\$ 85	\$ 653	\$ 10,743	

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The following table presents the amortized cost basis of collateral-dependent loans by class of loans (in thousands).

	Collateral Type	Collateral Type
June 30, 2023	Real Estate	
September 30, 2023		Real Estate
Commercial:		
Commercial real estate (owner occupied)		\$ 191
Commercial real estate (non-owner occupied):		
Other	\$ 2,625	2,602
Total	\$ 2,625	\$ 2,793

#### Allowance for Loan Losses – Prior to adopting ASU 2016-13

Prior to the adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), the Company calculated our allowance for loan losses (ALL) using an incurred loss methodology. The following policy related to the ALL in prior periods.

As a financial institution, which assumes lending and credit risks as a principal element of its business, the Company anticipates that credit losses will be experienced in the normal course of business. Accordingly, the Company consistently applies a comprehensive methodology and procedural discipline to perform an analysis which is updated on a quarterly basis at the Bank level to determine both the adequacy of the allowance for loan losses and the necessary provision for loan losses to be charged against earnings.

The segments of the Company's loan portfolio are disaggregated into classes that allows management to monitor risk and performance. The loan classes used are consistent with the internal reports evaluated by the Company's management and Board of Directors to monitor risk and performance within various segments of its loan portfolio. The commercial loan segment includes both the commercial and industrial and the owner occupied commercial real estate loan classes while the remaining segments are not separated into classes as management monitors risk in these loans at the segment level. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans secured by residential real estate. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

The allowance consists of three elements: (1) an allowance established on specifically identified problem loans, (2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors, and (3) a general risk reserve which provides support for variance from our assessment of the qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company's loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company's management to establish allocations which accommodate each of the risk factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. Specifically, this methodology includes:

- Review of all impaired commercial and commercial real estate loans to determine if any specific reserve allocations are required on an individual loan basis. In addition, consumer and residential mortgage loans with a balance of \$150,000 or more are evaluated for impairment and specific reserve allocations are established, if applicable. All required specific reserve allocations are based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. For impaired loans the measurement of impairment may be based upon (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral of a collateral dependent loan.
- The application of formula driven reserve allocations for all commercial and commercial real estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial

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loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.

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- The application of formula driven reserve allocations to consumer and residential mortgage loans which are based upon historical net charge-off experience for those loan types. The residential mortgage loan and consumer loan allocations are based upon the Company's three-year historical average of actual loan net charge-offs experienced in each of those categories.
- The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, levels of non-accrual and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. Pass rated credits are segregated from criticized and classified credits for the application of qualitative factors.
- Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company believes that there is estimation risk associated with the use of specific and formula driven allowances.

After completion of this process, a formal meeting of the Loan Loss Reserve Committee is held to evaluate the adequacy of the reserve.

When it is determined that the prospects for recovery of the principal of a loan have significantly diminished, the loan is charged-off against the allowance account; subsequent recoveries, if any, are credited to the allowance account. In addition, non-accrual and large delinquent loans are reviewed monthly to determine potential losses.

The Company's policy is to individually review, as circumstances warrant, its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$1,000,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances of \$250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and evaluated for specific impairment if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

The ALL is maintained to support loan growth and cover charge-offs from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, the amount of non-performing loans, and past and anticipated loss experience.

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## Non-Performing Assets

Non-performing assets are comprised of (i) loans which are on a non-accrual basis, (ii) loans which are contractually past due 90 days or more as to interest or principal payments, and (iii) other real estate owned (OREO – real estate acquired through foreclosure and in-substance foreclosures) and repossessed assets.

Loans will be transferred to non-accrual status when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating the loan include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The following table presents non-accrual loans, loans past due over 90 days still accruing interest, and OREO and repossessed assets by portfolio class (in thousands).

	At June 30, 2023						At September 30, 2023					
	Loans						Loans					
	Non-	Non-		past due			Non-	Non-		past due		
	accrual	accrual	Total	over 90	OREO and	Total non-	accrual	accrual	Total	over 90	OREO and	Total non-
	with no	with	non-	days still	repossessed	performing	with no	with	non-	days still	repossessed	performing
	ACL	ACL	accrual	accruing	assets	assets	ACL	ACL	accrual	accruing	assets	assets
Commercial real estate (owner occupied)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 191	\$ —	\$ 191	\$ —	\$ —	\$ 191
Other commercial and industrial	—	1,884	1,884	—	—	1,884	—	1,937	1,937	—	—	1,937
Commercial real estate (non-owner occupied) - retail	—	—	—	—	—	—	—	—	—	—	—	—
Commercial real estate (non-owner occupied) - multi-family	—	—	—	—	—	—	—	—	—	—	—	—
Other commercial real estate (non-owner occupied)	2,623	2	2,625	—	—	2,625	2,601	1	2,602	—	—	2,602
Residential mortgages	—	483	483	—	—	483	—	491	491	255	—	746
Consumer	—	658	658	—	—	658	—	697	697	21	—	718
Total	\$ 2,623	\$ 3,027	\$ 5,650	\$ —	\$ —	\$ 5,650	\$ 2,792	\$ 3,126	\$ 5,918	\$ 276	\$ —	\$ 6,194

	At December 31, 2022
Non-accrual loans:	
Commercial and industrial	\$ 1,989
Commercial real estate (non-owner occupied)	1,586
Residential mortgages	1,577
Consumer	9
Total	5,161
Other real estate owned and repossessed assets:	
Residential mortgages	38
Consumer	1
Total	39
Total non-performing assets	\$ 5,200

It should be noted that the Company has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed in non-accrual status, any outstanding interest is reversed against interest income.

## Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk.

Management uses a nine-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five pass categories are aggregated, while the pass-6,

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special mention, substandard and doubtful categories are disaggregated to separate pools. The criticized rating categories

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utilized by management generally follow bank regulatory definitions. The special mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans in the doubtful category have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for credit losses are placed in substandard or doubtful.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$1,000,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company's commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review and rating concurrence from the Company's internal Loan Review Department. The Loan Review Department is an experienced, independent function which reports directly to the Board's Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for the year ending December 31, 2023 requires review of approximately 80% 25% of the commercial loan portfolio.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated pass-6 with aggregate balances greater than \$2,000,000, all credits rated special mention or substandard with aggregate balances greater than \$250,000, and all credits rated doubtful with aggregate balances greater than \$100,000 on an individual basis to the Company's Loan Loss Reserve Committee on a quarterly basis. Additionally, the Asset Quality Task Force, which is a group comprised of senior level personnel, meets monthly to monitor the status of problem loans.

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The following table presents the classes of the commercial and commercial real estate loan portfolios summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the internal risk rating system.

	At June 30, 2023									At September 30, 2023					
	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	2020	2019	Prior				2023	2022	2021	2020	2019	Prior
	(IN THOUSANDS)									(IN THOUSANDS)					
Commercial real estate (owner occupied)															
Pass	\$11,141	\$ 7,133	\$ 15,791	\$ 8,714	\$11,206	\$ 28,054	\$ 550	\$ —	\$ 82,589	\$15,059	\$ 6,936	\$ 15,265	\$ 8,581	\$10,463	\$ 27,086
Special Mention	—	—	466	—	2,258	—	703	—	3,427	—	—	465	—	2,258	—
Substandard	—	—	—	—	—	933	—	—	933	—	—	—	—	—	1,106
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$11,141	\$ 7,133	\$ 16,257	\$ 8,714	\$13,464	\$ 28,987	\$ 1,253	\$ —	\$ 86,949	\$15,059	\$ 6,936	\$ 15,730	\$ 8,581	\$12,721	\$ 28,192
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other commercial and industrial															
Pass	\$ 6,899	\$ 38,924	\$ 14,421	\$ 6,701	\$ 9,086	\$ 22,770	\$ 46,514	\$ —	\$145,315	\$13,691	\$ 37,112	\$ 13,378	\$ 6,425	\$ 5,547	\$ 20,960
Special Mention	—	—	134	—	—	—	—	—	134	—	—	131	—	—	—
Substandard	—	44	—	—	—	1,480	3,869	—	5,393	—	159	—	—	—	1,442
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 6,899	\$ 38,968	\$ 14,555	\$ 6,701	\$ 9,086	\$ 24,250	\$ 50,383	\$ —	\$150,842	\$13,691	\$ 37,271	\$ 13,509	\$ 6,425	\$ 5,547	\$ 22,402
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 75	\$ —	\$ —	\$ —	\$ —
Commercial real estate (non-owner occupied) - retail															
Pass	\$18,022	\$ 23,764	\$ 33,677	\$23,560	\$ 9,417	\$ 43,475	\$ 1,249	\$ —	\$153,164	\$25,300	\$ 23,906	\$ 33,398	\$23,355	\$ 9,322	\$ 42,373
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$18,022	\$ 23,764	\$ 33,677	\$23,560	\$ 9,417	\$ 43,475	\$ 1,249	\$ —	\$153,164	\$25,300	\$ 23,906	\$ 33,398	\$23,355	\$ 9,322	\$ 42,373
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —



Commercial real estate (non-owner occupied) multi-family																
Pass	\$ 8,836	\$ 16,760	\$ 16,028	\$12,232	\$11,937	\$ 33,067	\$ 351	\$ —	\$ 99,211	\$14,145	\$ 16,789	\$ 16,487	\$12,139	\$10,984	\$ 32,602	\$
Special																
Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	990	—	121	—	—	1,111	—	—	—	978	—	122	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 8,836	\$ 16,760	\$ 16,028	\$13,222	\$11,937	\$ 33,188	\$ 351	\$ —	\$100,322	\$14,145	\$ 16,789	\$ 16,487	\$13,117	\$10,984	\$ 32,724	\$
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$
Other commercial real estate (non-owner occupied)																
Pass	\$ 9,658	\$ 31,998	\$ 49,024	\$20,531	\$23,427	\$ 60,265	\$ 1,111	\$ —	\$196,014	\$22,939	\$ 34,857	\$ 48,257	\$20,354	\$23,233	\$ 55,878	\$
Special																
Mention	—	—	—	—	—	3,911	—	—	3,911	—	—	—	—	—	3,847	—
Substandard	—	1,080	—	—	7,047	11,305	—	199	19,631	—	1,066	—	—	7,047	11,229	—
Doubtful	—	—	—	—	—	2	—	—	2	—	—	—	—	—	1	—
Total	\$ 9,658	\$ 33,078	\$ 49,024	\$20,531	\$30,474	\$ 75,483	\$ 1,111	\$ 199	\$219,558	\$22,939	\$ 35,923	\$ 48,257	\$20,354	\$30,280	\$ 70,955	\$
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$
Total by risk rating																
Pass	\$54,556	\$118,579	\$128,941	\$71,738	\$65,073	\$187,631	\$ 49,775	\$ —	\$676,293	\$91,134	\$119,600	\$126,785	\$70,854	\$59,549	\$178,899	\$
Special																
Mention	—	—	600	—	2,258	3,911	703	—	7,472	—	—	596	—	2,258	3,847	—
Substandard	—	1,124	—	990	7,047	13,839	3,869	199	27,068	—	1,225	—	978	7,047	13,899	—
Doubtful	—	—	—	—	—	2	—	—	2	—	—	—	—	—	1	—
Total	\$54,556	\$119,703	\$129,541	\$72,728	\$74,378	\$205,383	\$ 54,347	\$ 199	\$710,835	\$91,134	\$120,825	\$127,381	\$71,832	\$68,854	\$196,646	\$
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 75	\$ —	\$ —	\$ —	\$ —	\$

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At December 31, 2022				
SPECIAL				
PASS	MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
(IN THOUSANDS)				

Commercial and industrial	\$ 148,361	\$ —	\$ 5,037	\$ —	\$ 153,398
Paycheck Protection Program (PPP)	22	—	—	—	22
Commercial real estate (owner occupied)	74,187	—	971	—	75,158
Commercial real estate (non-owner occupied)	423,486	11,015	16,240	3	450,744
<b>Total</b>	<b>\$ 646,056</b>	<b>\$ 11,015</b>	<b>\$ 22,248</b>	<b>\$ 3</b>	<b>\$ 679,322</b>

It is generally the policy of the Bank that the outstanding balance of any residential mortgage or home equity loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs, unless the balance is minor. A charge-down is recorded for any deficiency balance determined from the collateral evaluation. It is generally the policy of the Bank that the outstanding balance of any unsecured consumer loan that exceeds 90-days past due as to principal and/or interest is charged-off. Loans past due 90 days or more and loans in non-accrual status are considered non-performing. The following tables present the performing and non-performing outstanding balances of the residential mortgage and consumer loan portfolio classes.

	At June 30, 2023										At September 30, 2022						
	Term Loans Amortized Cost Basis by Origination Year						Revolving	Revolving	Total	Term Loans Amortized Cost Basis by Origination Year							
							Loans	Loans									
							Amortized	Converted									
	2023	2022	2021	2020	2019	Prior	Cost	to									
	Basis	Term															
(IN THOUSANDS)										(IN THOUSANDS)							
Residential mortgages																	
Performing	\$ 6,524	\$12,221	\$63,231	\$46,114	\$7,447	\$39,767	\$ —	\$ —	\$175,304	\$11,097	\$12,015	\$61,839	\$44,856	\$7,154	\$3,000	\$1,000	
Non-performing	—	—	—	—	—	483	—	—	483	—	—	—	—	—	—	—	
Total	\$ 6,524	\$12,221	\$63,231	\$46,114	\$7,447	\$40,250	\$ —	\$ —	\$175,787	\$11,097	\$12,015	\$61,839	\$44,856	\$7,154	\$3,000	\$1,000	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Consumer																	
Performing	\$ 7,147	\$22,636	\$11,061	\$ 3,711	\$1,405	\$ 6,011	\$ 48,410	\$ —	\$100,381	\$10,285	\$21,742	\$10,352	\$ 3,389	\$1,263	\$ 1,000	\$ 1,000	
Non-performing	17	—	—	47	49	287	159	99	658	16	—	—	65	48	—	—	
Total	\$ 7,164	\$22,636	\$11,061	\$ 3,758	\$1,454	\$ 6,298	\$ 48,569	\$ 99	\$101,039	\$10,301	\$21,742	\$10,352	\$ 3,454	\$1,311	\$ 1,000	\$ 1,000	
Current period gross charge-offs	\$ 4	\$ 35	\$ 17	\$ —	\$ 3	\$ 110	\$ —	\$ —	\$ 169	\$ 8	\$ 35	\$ 17	\$ 1	\$ 3	\$ —	\$ —	
Total by payment performance																	
Performing	\$13,671	\$34,857	\$74,292	\$49,825	\$8,852	\$45,778	\$ 48,410	\$ —	\$275,685	\$21,382	\$33,757	\$72,191	\$48,245	\$8,417	\$4,000	\$4,000	
Non-performing	17	—	—	47	49	770	159	99	1,141	16	—	—	65	48	—	—	
Total	\$13,688	\$34,857	\$74,292	\$49,872	\$8,901	\$46,548	\$ 48,569	\$ 99	\$276,826	\$21,398	\$33,757	\$72,191	\$48,310	\$8,465	\$4,000	\$4,000	
Current period gross charge-offs	\$ 4	\$ 35	\$ 17	\$ —	\$ 3	\$ 110	\$ —	\$ —	\$ 169	\$ 8	\$ 35	\$ 17	\$ 1	\$ 3	\$ —	\$ —	

	At December 31, 2022		
	NON-		
	PERFORMING	PERFORMING	TOTAL
	(IN THOUSANDS)		
Residential mortgages	\$ 296,401	\$ 1,570	\$ 297,971
Consumer	13,457	16	13,473
Total	\$ 309,858	\$ 1,586	\$ 311,444

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and non-accrual loans.

	At June 30, 2023							At September 30, 2023						
	30 – 59		60 – 89		90 DAYS	TOTAL	TOTAL	30 – 59		60 – 89		90 DAYS	TOTAL	TOTAL
	DAYS		DAYS					DAYS		DAYS				
	CURRENT	PAST DUE	PAST DUE	PAST DUE				PAST DUE	LOANS	CURRENT	PAST DUE			
(IN THOUSANDS)							(IN THOUSANDS)							
Commercial real estate (owner occupied)	\$ 86,949	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 86,949	\$ 88,267	\$ —	\$ —	\$ 191	\$ 191	\$ 88,458	
Other commercial and industrial	150,765	77	—	—	77	150,842	144,438	295	—	73	368	144,806		
Commercial real estate (non-owner occupied) - retail	153,164	—	—	—	—	153,164	158,637	—	—	—	—	158,637		
Commercial real estate (non-owner occupied) - multi-family	100,322	—	—	—	—	100,322	104,347	250	—	—	250	104,597		
Other commercial real estate (non-owner occupied)	218,478	—	268	812	1,080	219,558	227,284	—	—	2,601	2,601	229,885		
Residential mortgages	174,719	43	470	555	1,068	175,787	173,431	198	44	746	988	174,419		
Consumer	99,594	773	294	378	1,445	101,039	100,715	328	74	387	789	101,504		
Total	\$983,991	\$ 893	\$ 1,032	\$ 1,745	\$ 3,670	\$987,661	\$997,119	\$ 1,071	\$ 118	\$ 3,998	\$ 5,187	\$1,002,306		

	At December 31, 2022					
		30 – 59	60 – 89			
		DAYS	DAYS	90 DAYS	TOTAL	TOTAL
	CURRENT	PAST DUE	PAST DUE	PAST DUE	PAST DUE	LOANS
	(IN THOUSANDS)					
Commercial and industrial	\$ 152,314	\$ 797	\$ 287	\$ —	\$ 1,084	\$ 153,398
Paycheck Protection Program (PPP)	22	—	—	—	—	22
Commercial real estate (owner occupied)	74,960	198	—	—	198	75,158
Commercial real estate (non-owner occupied)	446,809	3,935	—	—	3,935	450,744
Residential mortgages	295,790	489	422	1,270	2,181	297,971
Consumer	13,290	60	114	9	183	13,473
Total	\$ 983,185	\$ 5,479	\$ 823	\$ 1,279	\$ 7,581	\$ 990,766

#### Loan Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty as a result of our loss mitigation activities. A variety of solutions are offered to borrowers, including loan modifications that may result in principal forgiveness, interest rate reductions, term extensions, payment delays, or combinations thereof.

- Principal forgiveness includes principal and accrued interest forgiveness. When principal forgiveness is provided, the amount of forgiveness is charged-off against the ACL.
- Interest rate reductions include modifications where the interest rate is reduced and interest is deferred.
- Term extensions extend the original contractual maturity date of the loan.
- Payment delays consist of modifications where we expect to collect the contractual amounts due, but result in a delay in the receipt of payments specified under the original loan terms. We generally consider payment delays to be insignificant when the delay is three months or less.

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The Company had no loans modified to borrowers experiencing financial difficulty during the three months ended September 30, 2023.

The following table summarizes the amortized cost basis, as of June 30, 2023 September 30, 2023, of loans modified to borrowers experiencing financial difficulty during the three and six nine months ended June 30, 2023 September 30, 2023 (in thousands).

	Term Extension		Term Extension	
	Amortized Cost Basis	% of Total Class of Loans	Amortized Cost Basis	% of Total Class of Loans
Other commercial and industrial	\$ 428	0.28 %	\$ 417	0.29 %
Total	\$ 428		\$ 417	
	Combination - Interest Rate Reduction and Term Extension		Combination - Interest Rate Reduction and Term Extension	
	Amortized Cost Basis	% of Total Class of Loans	Amortized Cost Basis	% of Total Class of Loans
Other commercial real estate (non-owner occupied)	\$ 7,047	3.21 %	\$ 7,047	3.07 %
Total	\$ 7,047		\$ 7,047	

At June 30, 2023 September 30, 2023, the Company had no unfunded loan commitments associated with the loan modifications to borrowers experiencing financial difficulty.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three and six nine months ended June 30, 2023 September 30, 2023.

Term Extension	
Loan Type	Financial Effect
Other commercial and industrial	During the first quarter of 2023, provided five month expiration date extension on non-accrual line of credit under which availability has been eliminated. During the second quarter of 2023, provided the same borrower with a one year maturity date extension

Combination - Interest Rate Reduction and Term Extension	
Loan Type	Financial Effect
Other commercial real estate (non-owner occupied)	During the second quarter, provided seven months of interest only payments at a reduced rate with the remaining portion of interest, totaling approximately \$303,000, being deferred until maturity. Additionally, provided three month maturity date extension

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The Company had no loans which were modified to borrowers experiencing financial difficulty which subsequently defaulted during the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023**. The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. Specifically, the \$7.0 million other commercial real estate (non-owner occupied) loan disclosed above is secured by a mixed use (retail/office) property located within the City of Pittsburgh, but not in the downtown central business district. **Additionally, a** recent appraisal of the property supports the collectability of the outstanding loan balance as the borrower works to find new tenants for open spaces. As of **June 30, 2023** **September 30, 2023**, the modified loans described in the tables above were current as to payments.

The **Company had no loans modified as TDRs during the three-month period ended June 30, 2022**. The following table details the loan modified as a TDR during the **six-month** **three-month** period ended **June 30, 2022** **September 30, 2022** (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted	# of Loans	Current Balance	Concession Granted
			Subsequent modification of a TDR			
			- Extension of maturity date with a below market interest rate			
Commercial and industrial	1	\$ 464				
Commercial real estate (non-owner occupied)				1	\$ 1,620	Extension of maturity date with an interest only period at below market interest rate

The following table details the loans modified as TDRs during the nine-month period ended September 30, 2022 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
			Subsequent modification of a TDR - Extension of maturity date with a below market interest rate
Commercial and industrial	1	\$ 458	

			Extension of maturity date with an interest only period at below market interest rate
Commercial real estate (non-owner occupied)	1	\$	1,620

#### 10. Short-Term Borrowings and Advances from Federal Home Loan Bank

Total short-term and Federal Home Loan Bank (FHLB) borrowings and advances consist of the following (in thousands, except percentages):

Type	At June 30, 2023			At September 30, 2023		
	Maturing	Amount	Weighted Average Rate	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	\$ 56,676	5.39 %	Overnight	\$63,451	5.68 %
FHLB Advances	2023	1,000	2.86	2023	2,000	5.38
	2024	4,197	1.19	2024	5,197	2.02
	2025	—	—	2025	—	—
	2026	6,920	3.94	2026	6,920	3.94
	2027	4,000	3.91	2027	4,000	3.91
				2028 and over	4,000	4.47
Total FHLB advances		16,117	3.15		22,117	3.71
Total short-term and FHLB borrowings		\$ 72,793	4.90 %		\$85,568	5.17 %

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Type	At December 31, 2022		
	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	\$ 88,641	4.45 %
FHLB Advances	2023	15,568	1.59
	2024	4,197	1.19
Total FHLB advances		19,765	1.50
Total short-term and FHLB borrowings		\$ 108,406	3.91 %

The rate on Open Repo Plus advances can change daily, while the rates on the advances are fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage, commercial real estate, and commercial and industrial loans with an aggregate statutory value equal to the amount of the advances are pledged as collateral to the FHLB of Pittsburgh to support these borrowings.

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## 11. Accumulated Other Comprehensive Loss

The following tables present the changes in each component of accumulated other comprehensive loss, net of tax, for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 (in thousands):

	Three months ended June 30, 2023				Three months ended June 30, 2022			Three months ended September 30, 2023				Three months ended September 30, 2022		
	Net				Net			Net				Net		
	Unrealized				Unrealized			Unrealized				Unrealized		
	Gains and				Gains and			Gains and				Gains and		
	Losses on		Defined		Losses on		Defined	Losses on		Defined		Losses on		Defined
	Investment	Interest	Benefit		Investment	Interest	Benefit	Investment	Interest	Benefit		Investment	Interest	Benefit
	Securities	Rate	Pension		Securities	Rate	Pension	Securities	Rate	Pension		Securities	Rate	Pension
	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>
Beginning balance	\$ (14,489)	\$ (655)	\$ (7,582)	\$ (22,726)	\$ (4,474)	\$ (6,979)	\$ (11,453)	\$ (17,049)	\$ 261	\$ (7,582)	\$ (24,370)	\$ (8,766)	\$ (11,467)	\$ (20,233)
Other comprehensive income (loss) before reclassifications	(2,560)	991	—	(1,569)	(4,292)	(5,577)	(9,869)	(2,700)	443	(23)	(2,280)	(6,370)	(498)	(6,868)
Amounts reclassified from accumulated other comprehensive loss	—	(75)	—	(75)	—	1,089	1,089	—	(127)	23	(104)	—	451	451
Net current period other comprehensive income (loss)	(2,560)	916	—	(1,644)	(4,292)	(4,488)	(8,780)	(2,700)	316	—	(2,384)	(6,370)	(47)	(6,417)
Ending balance	\$ (17,049)	\$ 261	\$ (7,582)	\$ (24,370)	\$ (8,766)	\$ (11,467)	\$ (20,233)	\$ (19,749)	\$ 577	\$ (7,582)	\$ (26,754)	\$ (15,136)	\$ (11,514)	\$ (26,650)

<sup>(1)</sup> Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

	Six months ended June 30, 2023				Six months ended June 30, 2022		
	Net				Net		
	Unrealized				Unrealized		
	Gains and				Gains and		
	Losses on		Defined		Losses on		Defined
	Investment	Interest	Benefit		Investment	Interest	Benefit
	Securities	Rate	Pension		Securities	Rate	Pension
	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>
Beginning balance	\$ (14,938)	\$ —	\$ (7,582)	\$ (22,520)	\$ 1,386	\$ (7,898)	\$ (6,512)
Other comprehensive income (loss) before reclassifications	(2,111)	355	—	(1,756)	(10,152)	(4,945)	(15,097)
Amounts reclassified from accumulated other comprehensive loss	—	(94)	—	(94)	—	1,376	1,376
Net current period other comprehensive income (loss)	(2,111)	261	—	(1,850)	(10,152)	(3,569)	(13,721)
Ending balance	\$ (17,049)	\$ 261	\$ (7,582)	\$ (24,370)	\$ (8,766)	\$ (11,467)	\$ (20,233)

	Nine months ended September 30, 2023				Nine months ended September 30, 2022		
	Net				Net		
	Unrealized				Unrealized		
	Gains and				Gains and		
	Losses on		Defined		Losses on		Defined
	Investment	Interest	Benefit		Investment	Interest	Benefit
	Securities	Rate	Pension		Securities	Rate	Pension
	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>

	Net				Net		
	Unrealized				Unrealized		
	Gains and				Gains and		
	Losses on		Defined		Losses on		Defined
	Investment	Interest	Benefit		Investment	Benefit	
	Securities	Rate	Pension		Securities	Pension	
	AFS <sup>(1)</sup>	Hedge <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>	AFS <sup>(1)</sup>	Items <sup>(1)</sup>	Total <sup>(1)</sup>
Beginning balance	\$ (14,938)	\$ —	\$ (7,582)	\$ (22,520)	\$ 1,386	\$ (7,898)	\$ (6,512)
Other comprehensive income (loss) before reclassifications	(4,811)	798	(23)	(4,036)	(16,522)	(5,408)	(21,930)
Amounts reclassified from accumulated other comprehensive loss	—	(221)	23	(198)	—	1,792	1,792
Net current period other comprehensive income (loss)	(4,811)	577	—	(4,234)	(16,522)	(3,616)	(20,138)
Ending balance	\$ (19,749)	\$ 577	\$ (7,582)	\$ (26,754)	\$ (15,136)	\$ (11,514)	\$ (26,650)

(1) Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

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The following tables present the amounts reclassified out of each component of accumulated other comprehensive loss for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 (in thousands):

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>			Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>		
	For the three	For the three	Affected line item in the	For the three	For the three	Affected line item in the
	months ended	months ended		months ended	months ended	
	June 30, 2023	June 30, 2022		September 30, 2023	September 30, 2022	
	statement of operations	statement of operations		statement of operations	statement of operations	
Interest rate hedge						
	\$ (95)	\$ —	Interest expense - Deposits	\$ (161)	\$ —	Interest expense - Deposits
	20	—	Provision (credit) for income taxes	34	—	Provision for income taxes
	\$ (75)	\$ —		\$ (127)	\$ —	
Amortization of estimated defined benefit pension plan loss <sup>(2)</sup>						
	\$ —	\$ 1,378	Other expense	\$ 29	\$ 571	Other expense
	—	(289)	Provision (credit) for income taxes	(6)	(120)	Provision for income taxes
	\$ —	\$ 1,089		\$ 23	\$ 451	
Total reclassifications for the period	\$ (75)	\$ 1,089		\$ (104)	\$ 451	

(1) Amounts in parentheses indicate credits.



(2) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (see Note 16 for additional details).

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>			Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>		
	For the six	For the six	Affected line item in the	For the nine	For the nine	Affected line item in the
	months ended	months ended		months ended	months ended	
	June 30, 2023	June 30, 2022		September 30, 2023	September 30, 2022	
Interest rate hedge			statement of operations			statement of operations
	\$ (119)	\$ —	Interest expense - Deposits	\$ (280)	\$ —	Interest expense - Deposits
	25	—	Provision (credit) for income taxes	59	—	Provision for income taxes
	<u>\$ (94)</u>	<u>\$ —</u>		<u>\$ (221)</u>	<u>\$ —</u>	
Amortization of estimated defined benefit pension plan loss <sup>(2)</sup>						
	\$ —	\$ 1,742	Other expense	\$ 29	\$ 2,268	Other expense
	—	(366)	Provision (credit) for income taxes	(6)	(476)	Provision for income taxes
	<u>\$ —</u>	<u>\$ 1,376</u>		<u>\$ 23</u>	<u>\$ 1,792</u>	
Total reclassifications for the period	<u>\$ (94)</u>	<u>\$ 1,376</u>		<u>\$ (198)</u>	<u>\$ 1,792</u>	

(1) Amounts in parentheses indicate credits.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (see Note 16 for additional details).

## 12. Regulatory Capital

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. For a more detailed discussion, see the Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, common equity tier 1, and tier 1 capital to risk-weighted assets (as defined) and tier 1 capital to average assets. Additionally, under Basel III rules, the decision was

made to opt-out of including accumulated other comprehensive income in regulatory capital. As of **June 30, 2023** **September 30, 2023**, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion as of such date. To be categorized as well capitalized, the Bank must maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and tier 1 leverage ratios as set forth in the table.

	At June 30, 2023						At September 30, 2023					
						TO BE WELL						TO BE WELL
						MINIMUM						MINIMUM
						REQUIRED						REQUIRED
						FOR						FOR
						CAPITAL						CAPITAL
						ADEQUACY						ADEQUACY
						PURPOSES						PURPOSES
	COMPANY		BANK			REGULATIONS*	COMPANY		BANK			REGULATIONS*
	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)						(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$154,095	14.01 %	\$138,575	12.65 %	8.00 %	10.00 %	\$154,319	13.72 %	\$138,883	12.40 %	8.00 %	10.00 %
Common Equity Tier 1 Capital (To Risk Weighted Assets)	114,211	10.38	125,356	11.44	4.50	6.50	114,362	10.17	125,601	11.21	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	114,211	10.38	125,356	11.44	6.00	8.00	114,362	10.17	125,601	11.21	6.00	8.00
Tier 1 Capital (To Average Assets)	114,211	8.45	125,356	9.37	4.00	5.00	114,362	8.41	125,601	9.33	4.00	5.00

	At December 31, 2022					
						TO BE WELL
						MINIMUM
						REQUIRED
						FOR
						CAPITAL
						ADEQUACY
						PURPOSES
	COMPANY		BANK			REGULATIONS*
	AMOUNT	RATIO	AMOUNT	RATIO	RATIO	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$ 153,092	13.87 %	\$ 136,767	12.44 %	8.00 %	10.00 %
Common Equity Tier 1 Capital (To Risk Weighted Assets)	114,959	10.41	125,278	11.39	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	114,959	10.41	125,278	11.39	6.00	8.00
Tier 1 Capital (To Average Assets)	114,959	8.52	125,278	9.39	4.00	5.00

\* Applies to the Bank only.

### 13. Derivative Hedging Instruments

The Company can use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The Company can use derivative instruments, primarily interest rate swaps, to manage interest rate risk and match the rates on certain assets by hedging the fair value of certain fixed rate debt, which converts the debt to variable rates and by hedging the cash flow variability associated with certain variable rate debt by converting the debt to fixed rates.

#### Interest Rate Swap Agreements

To accommodate the needs of our customers and support the Company's asset/liability positioning, we may enter into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions. These arrangements involve the exchange of interest payments based on the notional amounts. The Company entered into floating rate loans and fixed rate swaps with our customers. Simultaneously, the Company entered into offsetting fixed rate swaps with this large financial institution. In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay the large financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company's customers to effectively convert a variable rate

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loan to a fixed rate. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company's results of operations.

These swaps are considered free-standing derivatives and are reported at fair value within other assets and other liabilities on the Consolidated Balance Sheets. Disclosures related to the fair value of the swap transactions can be found in Note 17.

The following table summarizes the interest rate swap transactions that impacted the Company's first **six** **nine** months of 2023 and 2022 performance (in thousands, except percentages).

	At June 30, 2023					At September 30, 2023				
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
Swap assets	N/A	\$ 65,187	7.22 %	Monthly	\$ 953	N/A	\$ 64,564	7.39 %	Monthly	\$ 1,514
Swap liabilities	N/A	(65,187)	(7.22)	Monthly	(953)	N/A	(64,564)	(7.39)	Monthly	(1,514)
Net exposure		\$ —	— %		\$ —		\$ —	— %		\$ —

  

	At June 30, 2022					At September 30, 2022				
	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE	HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
Swap assets	N/A	\$ 65,138	2.95 %	Monthly	\$ (396)	N/A	\$ 64,624	3.54 %	Monthly	\$ (306)

Swap										
liabilities	N/A	(65,138)	(2.95)	Monthly	396	N/A	(64,624)	(3.54)	Monthly	306
Net										
exposure		\$ —	— %		\$ —		\$ —	— %		\$ —

#### Risk Participation Agreement

The Company entered into a risk participation agreement (RPA) with the lead bank of a commercial real estate loan arrangement. As a participating bank, the Company guarantees the performance on a borrower-related interest rate swap contract. The Company has no obligations under the RPA unless the borrower defaults on their swap transaction with the lead bank and the swap is a liability to the borrower. In that instance, the Company has agreed to pay the lead bank a pre-determined percentage of the swap's value at the time of default. In exchange for providing the guarantee, the Company received an upfront fee from the lead bank.

RPAs are derivative financial instruments and are recorded at fair value. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings with a corresponding offset within other liabilities. Disclosures related to the fair value of the RPA can be found in Note 17. The notional amount of the risk participation agreement outstanding at **June 30, 2023** **September 30, 2023** and December 31, 2022 was \$1.9 million and \$2.1 million, respectively.

#### Interest Rate Hedge

The Company has entered into two interest rate swaps with a total notional value of \$60 million in order to hedge the interest rate risk associated with certain floating-rate time deposit accounts. The hedge transactions allow the Company to add stability to interest expense and manage its exposure to interest rate movements. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed payments.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is reported in accumulated other comprehensive loss (within Shareholders' Equity), net of tax, with a corresponding offset within other liabilities. Disclosures related to the fair value of the interest rate hedge can be found in Note 17. Amounts recorded in accumulated other comprehensive loss for the effective portion of changes in the fair value are subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of the hedging relationship

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by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the period ended **June 30, 2023** **September 30, 2023**.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on certain of the Company's variable rate time deposit accounts. During the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023**, the Company had **\$95,000** **\$161,000** and **\$119,000** **\$280,000** of gains, respectively, which resulted in a decrease to interest expense. In the twelve months that follow **June 30, 2023** **September 30, 2023**, the Company estimates that approximately **\$518,000** **\$668,000** will be reclassified as a decrease to interest expense. This reclassified amount could differ from amounts actually recognized due to changes in interest rates. As of **June 30, 2023** **September 30, 2023**, the maximum length of time over which forecasted transactions are hedged is three years with all hedge transactions terminating in the first half of 2026.

The following table summarizes the effect of the effective portion of the Company's cash flow hedge accounting on accumulated other comprehensive loss for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** (in thousands).

	Three months ended June 30, 2023			Three months ended September 30, 2023		
	Amount		Amount	Amount		Amount
	Recognized in	Location on Consolidated	Reclassified	Recognized in	Location on Consolidated	Reclassified
	Other	Statements of Operations of	from	Other	Statements of Operations of	from
	Comprehensive	Reclassification from	Accumulated	Comprehensive	Reclassification from	Accumulated
	Loss on	Accumulated Other	Other Comprehensive	Loss on	Accumulated Other	Other Comprehensive
Derivatives in Cash Flow Hedging Relationships	Derivative	Comprehensive Loss	Loss	Derivative	Comprehensive Loss	Loss
Interest rate hedge	\$ 1,159	Interest expense - Deposits	\$ (95)	\$ 400	Interest expense - Deposits	\$ (161)
Total	\$ 1,159		\$ (95)	\$ 400		\$ (161)

	Six months ended June 30, 2023			Nine months ended September 30, 2023		
	Amount		Amount	Amount		Amount
	Recognized in	Location on Consolidated	Reclassified	Recognized in	Location on Consolidated	Reclassified
	Other	Statements of Operations of	from	Other	Statements of Operations of	from
	Comprehensive	Reclassification from	Accumulated	Comprehensive	Reclassification from	Accumulated
	Loss on	Accumulated Other	Other Comprehensive	Loss on	Accumulated Other	Other Comprehensive
Derivatives in Cash Flow Hedging Relationships	Derivative	Comprehensive Loss	Loss	Derivative	Comprehensive Loss	Loss
Interest rate hedge	\$ 330	Interest expense - Deposits	\$ (119)	\$ 733	Interest expense - Deposits	\$ (280)
Total	\$ 330		\$ (119)	\$ 733		\$ (280)

The Company monitors and controls all derivative products with a comprehensive Board of Directors approved Hedging Policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors, unless otherwise approved, as per the terms, within the Board of Directors approved Hedging Policy. The Company had no caps or floors outstanding at **June 30, 2023**, **September 30, 2023** and 2022.

#### 14. Segment Results

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company's major business units include community banking, wealth management, and investment/parent. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

The community banking segment includes both retail and commercial banking activities. Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, business services, and CRE loans. The wealth management segment includes the Trust Company, West Chester Capital Advisors (WCCA), our registered investment advisory firm, and Financial **Services. Wealth management activities include personal trust products and services such as personal portfolio**

**Services. Wealth management activities include personal trust products and services such as personal portfolio** investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. Financial Services include the sale of mutual funds, annuities, and insurance products. The wealth management businesses also include the union

collective investment funds (ERECT funds) which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on corporate debt, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the Consolidated Statements of Operations for the three and ~~six~~ nine months ended ~~June 30, 2023~~ September 30, 2023 and 2022 were as follows (in thousands):

	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30, 2023		June 30, 2023		September 30, 2023		September 30, 2023	
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total revenue	Net income (loss)
Community banking	\$ 13,671	\$ 4,157	\$ 27,029	\$ 7,825	\$ 14,285	\$ 4,340	\$ 41,314	\$ 12,165
Wealth management	2,792	(28)	5,538	420	2,845	487	8,383	907
Investment/Parent	(3,491)	(4,316)	(4,566)	(6,917)	(4,075)	(4,180)	(8,641)	(11,097)
Total	\$ 12,972	\$ (187)	\$ 28,001	\$ 1,328	\$ 13,055	\$ 647	\$ 41,056	\$ 1,975

	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30, 2022		June 30, 2022		September 30, 2022		September 30, 2022	
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total revenue	Net income (loss)
Community banking	\$ 12,421	\$ 2,947	\$ 24,571	\$ 6,134	\$ 13,341	\$ 3,359	\$ 37,912	\$ 9,493
Wealth management	2,993	510	6,179	1,233	2,827	425	9,006	1,658
Investment/Parent	(1,152)	(1,476)	(2,386)	(2,968)	(1,313)	(1,682)	(3,699)	(4,650)
Total	\$ 14,262	\$ 1,981	\$ 28,364	\$ 4,399	\$ 14,855	\$ 2,102	\$ 43,219	\$ 6,501

## 15. Commitments and Contingent Liabilities

The Company had various outstanding commitments to extend credit approximating ~~\$239.0 million~~ \$265.3 million and \$227.6 million along with standby letters of credit of ~~\$7.9~~ \$7.7 million and \$9.0 million as of ~~June 30, 2023~~ September 30, 2023 and December 31, 2022, respectively. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

The Company estimates expected credit losses over the contractual period in which it is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision (credit) for credit losses line on the Consolidated Statements of Operations. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company recorded a provision for credit losses on unfunded commitments for the three and nine months ended September 30, 2023 of \$48,000 and \$14,000, respectively. The carrying amount of the allowance for credit losses for the Company's obligations related to unfunded commitments and standby letters of credit, which is reported in other liabilities on the Consolidated Balance Sheets, was ~~\$889,000~~ \$937,000 at ~~June 30, 2023~~ September 30, 2023 and \$746,000 at December 31, 2022.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## 16. Pension Benefits

The Company has a noncontributory defined benefit pension plan covering certain employees who work at least 1,000 hours per year. The participants have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five

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consecutive calendar years during the final ten-year period of employment. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities and corporate bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 were as follows (in thousands):

	Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
COMPONENTS OF NET PERIODIC BENEFIT COST:								
Service cost	\$ 258	\$ 363	\$ 516	\$ 727	\$ 327	\$ 358	\$ 841	\$ 1,073
Interest cost	435	349	870	697	514	365	1,384	1,094
Expected return on plan assets	(1,034)	(1,045)	(2,068)	(2,091)	(1,124)	(1,052)	(3,192)	(3,156)
Amortization of net loss	—	364	—	728	29	341	29	1,024
Settlement charge	—	1,014	—	1,014	—	230	—	1,244
Net periodic pension (benefit) cost	\$ (341)	\$ 1,045	\$ (682)	\$ 1,075	\$ (254)	\$ 242	\$ (938)	\$ 1,279

The service cost component of net periodic benefit cost is included in salaries and employee benefits and all other components of net periodic benefit cost are included in other expense on the Consolidated Statements of Operations.

The reduced pension expense in the second third quarter and first six nine months of 2023 reflects the retirement of a larger than typical number of employees over the past two years who chose to take a lump sum payment instead of receiving future monthly annuity payments. These individuals are no longer included in the pension plan which therefore favorably impacts the Company's basic pension expense. Additionally, the Company recognized a \$1,014,000 \$230,000 and \$1.2 million settlement charge in connection with its defined benefit pension plan in the second third quarter and first six nine months of 2022, respectively, while no such charge was recognized in the same periods of this year. A settlement charge must be recognized when the total dollar amount of lump sum distributions paid from the pension plan to retired employees exceeds a threshold of expected annual service and interest costs in the current year.

The accrued pension liability, which had a positive (debit) balance of \$22.0 million \$22.3 million and \$21.3 million, was reclassified to other assets on the Consolidated Balance Sheets as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The balance of the accrued pension liability continues to be a positive value as a result of Company contributions to the plan and the revaluation of the obligation.

The Company implemented a soft freeze of its defined benefit pension plan to provide that non-union employees hired on or after January 1, 2013 and union employees hired on or after January 1, 2014 are not eligible to participate in the pension plan. Instead, such employees are eligible to participate in a qualified 401(k) plan. This change was made to help reduce pension costs in future periods.

## 17. Disclosures about Fair Value Measurements and Financial Instruments

The following disclosures establish a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three broad levels defined within this hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

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available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

### Assets and Liabilities Measured and Recorded on a Recurring Basis

Equity securities are reported at fair value utilizing Level 1 inputs. These securities are mutual funds held within a rabbi trust for the Company's executive deferred compensation plan. The mutual funds held are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. It should be noted that available for sale securities are reported at fair value, net of any related allowance for credit losses.

The fair values of the simultaneous interest rate swaps and the interest rate hedge used for interest rate risk management and the risk participation agreement associated with a commercial real estate loan are based on an external derivative valuation model using data inputs from similar transactions as of the valuation date and classified Level 2.

The following table presents the assets and liabilities measured and reported on the Consolidated Balance Sheets on a recurring basis at their fair value as of June 30, 2023, September 30, 2023 and December 31, 2022, by level within the fair value hierarchy (in thousands).

	Fair Value Measurements at June 30, 2023				Fair Value Measurements at September 30, 2023			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Equity securities <sup>(1)</sup>	\$ 478	\$ 478	\$ —	\$ —	\$ 492	\$ 492	\$ —	\$ —
Available for sale securities:								
U.S. Agency	10,389	—	10,389	—	10,195	—	10,195	—
U.S. Agency mortgage-backed securities	86,836	—	86,836	—	85,987	—	85,987	—
Municipal	18,994	—	18,994	—	18,359	—	18,359	—
Corporate bonds	54,208	—	54,208	—	54,511	—	54,511	—
Interest rate swap asset <sup>(1)</sup>	6,175	—	6,175	—	7,805	—	7,805	—
Interest rate hedge <sup>(1)</sup>	331	—	331	—	733	—	733	—
Interest rate swap liability <sup>(2)</sup>	(6,272)	—	(6,272)	—	(7,863)	—	(7,863)	—



Risk participation agreement <sup>(2)</sup>

—	—	—	—	—	—	—	—	—	—
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	Fair Value Measurements at December 31, 2022			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Equity securities <sup>(1)</sup>	\$ 502	\$ 502	\$ —	\$ —
Available for sale securities:				
U.S. Agency	10,533	—	10,533	—
U.S. Agency mortgage-backed securities	89,985	—	89,985	—
Municipal	19,038	—	19,038	—
Corporate bonds	59,952	—	59,952	—
Interest rate swap asset <sup>(1)</sup>	6,992	—	6,992	—
Interest rate swap liability <sup>(2)</sup>	(6,872)	—	(6,872)	—
Risk participation agreement <sup>(2)</sup>	—	—	—	—

<sup>(1)</sup> Included within other assets on the Consolidated Balance Sheets.

<sup>(2)</sup> Included within other liabilities on the Consolidated Balance Sheets.

#### Assets Measured and Recorded on a Non-Recurring Basis

The Company evaluates individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. Individually evaluated loans are reported at the fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted using unobservable inputs. At June

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30, 2023,

#### Assets Measured and Recorded on a Non-Recurring Basis

The Company evaluates individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. Individually evaluated loans are reported at the fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted using unobservable inputs. At September 30, 2023, individually evaluated loans using the collateral method with a carrying value of \$2.6 million \$2.8 million were reduced by a specific valuation allowance totaling \$2,000 \$1,000 resulting in a net fair value of \$2.6 million \$2.8 million. At December 31, 2022, individually evaluated loans using the collateral method with a carrying value of \$1.6 million were reduced by a specific valuation allowance totaling \$3,000 resulting in a net fair value of \$1.6 million.

Other real estate owned is measured at fair value based on appraisals, less estimated costs to sell at the date of foreclosure. The Bank's internal Collections and Assigned Risk Department estimates the fair value of repossessed assets, such as vehicles and equipment, using a formula driven analysis based on automobile or other industry data, less estimated costs to sell at the time of repossession. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less costs to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO and repossessed assets.

Assets measured and recorded at fair value on a non-recurring basis are summarized below (in thousands, except range data):

	Fair Value Measurements				Fair Value Measurements			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
June 30, 2023								
September 30, 2023								
Individually evaluated loans	\$ 2,623	\$ —	\$ —	\$ 2,623	\$ 2,792	\$ —	\$ —	\$ 2,792

Fair Value Measurements

December 31, 2022	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Impaired loans	\$ 1,583	\$ —	\$ —	\$ 1,583
Other real estate owned and repossessed assets	39	—	—	39

		Quantitative Information About Level 3 Fair Value Measurements				Quantitative Information About Level 3 Fair Value Measurements			
		Valuation		Unobservable		Valuation		Unobservable	
June 30, 2023		Fair Value	Techniques	Input	Range (Wgtd Avg)				
September 30, 2023						Fair Value	Techniques	Input	Range (Wgtd Avg)
Individually evaluated loans		\$ 2,623	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to 100% (0.1%)	\$ 2,792	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to 100% (0.03%)

Quantitative Information About Level 3 Fair Value Measurements				
		Valuation	Unobservable	
December 31, 2022	Fair Value	Techniques	Input	Range (Wgtd Avg)
Impaired loans	\$ 1,583	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to 100% (0.2%)
Other real estate owned and repossessed assets	39	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	52% (52%)
			Liquidation expenses	10% to 39% (11%)

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable. Also includes qualitative adjustments by management and estimated liquidation expenses.

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

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market

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characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash and cash equivalents, bank owned life insurance, regulatory stock, accrued interest receivable and payable, deposits with no stated maturities, and short-term borrowings have fair values

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which approximate the recorded carrying values. The fair value measurements for all of these financial instruments are Level 1 measurements.

The estimated fair values based on U.S. GAAP measurements and recorded carrying values at **June 30, 2023**, **September 30, 2023** and December 31, 2022 for the remaining financial instruments not required to be reported at fair value were as follows:

	June 30, 2023					September 30, 2023				
	Carrying	Fair Value	(Level 1)	(Level 2)	(Level 3)	Carrying	Fair Value	(Level 1)	(Level 2)	(Level 3)
	Value					Value				
	(IN THOUSANDS)					(IN THOUSANDS)				
	FINANCIAL ASSETS:									
Investment securities – HTM	\$ 61,832	\$ 55,429	\$ —	\$ 52,499	\$ 2,930	\$ 60,283	\$ 52,391	\$ —	\$ 50,584	\$ 1,807
Loans held for sale	560	585	585	—	—					
Loans, net of allowance for credit losses and unearned income	975,440	907,289	—	—	907,289	989,993	915,084	—	—	915,084
FINANCIAL LIABILITIES:										
Deposits with stated maturities	301,734	299,269	—	—	299,269	314,843	313,143	—	—	313,143
All other borrowings (1)	42,782	41,004	—	—	41,004	48,792	46,525	—	—	46,525

	December 31, 2022				
	Carrying				
	Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
	(IN THOUSANDS)				
FINANCIAL ASSETS:					
Investment securities – HTM	\$ 61,878	\$ 55,192	\$ —	\$ 52,323	\$ 2,869
Loans held for sale	59	57	57	—	—
Loans, net of allowance for credit losses and unearned income	980,023	938,188	—	—	938,188
FINANCIAL LIABILITIES:					
Deposits with stated maturities	286,004	281,297	—	—	281,297
All other borrowings <sup>(1)</sup>	46,409	44,759	—	—	44,759

<sup>(1)</sup> All other borrowings include advances from Federal Home Loan Bank and subordinated debt.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The Company's remaining assets and liabilities which are not considered financial instruments have not been valued differently than has been customary under historical cost accounting.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

### THREE MONTHS ENDED JUNE SEPTEMBER 30, 2023 VS. THREE MONTHS ENDED JUNE SEPTEMBER 30, 2022

.....PERFORMANCE OVERVIEW.....The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Three months ended June 30, 2023	Three months ended June 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022
Net income (loss)	\$ (187)	\$ 1,981		
Net income			\$ 647	\$ 2,102
Diluted earnings per share	(0.01)	0.12	0.04	0.12
Return on average assets (annualized)	(0.06)%	0.59 %	0.19 %	0.62 %
Return on average equity (annualized)	(0.72)%	7.10 %	2.49 %	7.81 %

The Company reported a net loss income of \$187,000, \$647,000, or \$0.01 \$0.04 per diluted common share. This earnings performance represented a \$2,168,000, \$1,455,000, or 109.4% 69.2%, decrease from the second third quarter of 2022 when net income totaled \$1,981,000, \$2,102,000, or \$0.12 per diluted common share. The net loss reported in the second quarter of 2023 was primarily attributable to legal and professional costs incurred to defend the company against an activist investor waging a proxy contest for Board seats. The Company continued to effectively operate our customer relationship focused community bank in a

conservative manner during this period of external distraction and took necessary steps to protect the best interests of all shareholders and stakeholders. Overall, a decrease to net interest income due which reflects total interest expense increasing to continued pressure from increasing deposit costs, along with a higher provision for credit losses and degree than the increase in total interest income, along with increased non-interest expense resulted in due to additional legal and professional services costs related to litigation and responses to the actions of an activist investor were the primary reasons for the lower level of earnings in the second third quarter of 2023.

.....NET INTEREST INCOME AND MARGIN.....The Company's net interest income represents the amount by which interest income on earning assets exceeds interest paid on interest bearing liabilities. Net interest income is a primary source of the Company's earnings, and it is affected by interest rate fluctuations as well as changes in the amount and mix of earning assets and interest bearing liabilities. The following table compares the Company's net interest income performance for the second third quarter of 2023 to the second third quarter of 2022 (in thousands, except percentages):

	Three months ended June 30, 2023	Three months ended June 30, 2022	Change	% Change	Three months ended September 30, 2023	Three months ended September 30, 2022	Change	% Change
Interest income	\$ 14,879	\$ 11,527	\$ 3,352	29.1 %	\$ 15,439	\$ 12,700	\$ 2,739	21.6 %
Interest expense	5,769	1,403	4,366	311.2	6,640	2,171	4,469	205.8
Net interest income	\$ 9,110	\$ 10,124	\$ (1,014)	(10.0)	\$ 8,799	\$ 10,529	\$ (1,730)	(16.4)
Net interest margin	2.89 %	3.23 %	(0.34)%	N/M	2.76 %	3.35 %	(0.59)%	N/M

N/M — not meaningful

The Company's net interest income in the second third quarter of 2023 decreased by \$1.0 million \$1.7 million, or 10.0% 16.4%, from the prior year's second third quarter while the net interest margin of 2.89% 2.76% for the second third quarter of 2023 represents a 34-basis 59-

basis point decrease from the **second third** quarter of 2022. The Company's quarterly net interest margin performance peaked in the third quarter of 2022. The decrease in net interest income reflects total interest expense increasing to a higher level than the increase in total interest income. The Company continues to benefit from increased yields on total loans and investment securities due to a higher U.S. Treasury yield curve and the Federal Reserve's action to tighten monetary policy in their effort to tame decades high inflation. However, similar to what is occurring across the banking industry, **the** increased national interest rates have caused total deposit and borrowing costs to increase to a higher degree, resulting in net interest margin compression and lower net interest income.

Total average loans in the **second third** quarter of 2023 compare favorably to the 2022 **second third** quarter average by **\$9.1 million** **\$18.6 million**, or **0.9%** **1.9%**. Excluding PPP loans, which still existed on the balance sheet in 2022, total average loans in the **second third** quarter of 2023 exceeded last year's **second third** quarter by **\$13.8 million** **\$20.0 million**, or **1.4%** **2.0%**. More significantly, on an end of period basis, total loans at September 30, 2023, increased by \$22.9 million since the end of the third quarter of 2022 and surpassed the \$1.0 billion threshold for the first time in Company history. Loan pipelines continue to be strong, but **some** customers have delayed fundings given the uncertainty that exists in the economy and expectations regarding interest rates. **However, the strong level of production experienced throughout 2022 resulted in total average loans in the second quarter of 2023 comparing favorably to the second quarter of 2022.** Growth in commercial & industrial loans (C&I), **commercial real estate (CRE)**, and home equity loans more than offset decreased **commercial real estate (CRE)**, residential mortgage and consumer loans. Overall, the higher interest rate environment along with the higher

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average volumes of C&I, **CRE**, and home equity loans, resulted in total loan interest income improving by **\$2.9 million** **\$2.5 million**, or **29.7%** **23.0%**, for the **second third** quarter of 2023 when compared to the **second third** quarter of last year.

Total investment securities averaged **\$261.8 million** **\$260.2 million** for the **second third** quarter of 2023 which is **\$21.2 million** **\$6.8 million**, or **8.8%** **2.7%**, higher than the **\$240.6 million** **\$253.4 million** average for the **second third** quarter of last year. The increase reflects additional securities purchased, primarily during 2022, as the **increased** U.S. Treasury yield curve **resulted increased resulting** in a more favorable market for securities purchasing activity. The higher rates resulted in yields for new federal agency mortgage-backed securities and federal agency bonds improving and exceeding the overall average yield of the existing securities portfolio causing interest income from the securities portfolio to increase by **\$459,000**, **\$292,000**, or **26.4%** **15.1%**, for the **second third** quarter of this year.

Due to a combination of increased investment in securities, loan growth and total deposits modestly declining, short-term investments and bank deposits demonstrated a lower average balance in the **second third** quarter of 2023 compared to last year's **second third** quarter by **\$25.0 million** **\$9.8 million**, or **87.0%** **75.4%**. Despite this decline, the Company's liquidity position remains strong. We will continue to carefully monitor our liquidity position and short-term investments as we expect deposits related to government stimulus programs to continue to decline during **the remainder** of 2023. Overall, the 2023 **second third** quarter average balance of

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total interest earning assets increased since last year's **second third** quarter average by **\$5.3 million** **\$15.6 million**, or **0.4%** **1.3%**, while total interest income increased by **\$3.4 million** **\$2.7 million**, or **29.1%** **21.6%**, compared to the **second third** quarter of 2022.

On the liability side of the balance sheet, total average deposits for the **second third** quarter of 2023 are **\$5.1 million** **\$10.0 million**, or **0.4%** **0.9%**, lower than the 2022 **second third** quarter average. The modest decrease since last year's **second third** quarter is reflective of a portion of the funds from the government stimulus programs leaving the balance sheet and reflects greater pricing competition in the market to

retain deposits because of the increasing national interest rates. Since ~~early March~~ ~~earlier in~~ 2023 when ~~two three~~ large bank failures occurred, customer fear of contagion within the industry caused deposit flight, especially uninsured deposits, from certain banks to other financial services providers. Despite this turmoil, ~~AmeriServ Financial's~~ ~~the Company's~~ core deposit base continued to demonstrate the strength and stability that ~~it has been experienced~~ for many years. In addition to its strong, loyal core deposit base, the Company has several other sources of liquidity including a significant unused borrowing capacity at the Federal Home Loan Bank (FHLB), overnight lines of credit at correspondent banks and access to the Federal Reserve Discount Window. The Company does not ~~currently~~ utilize brokered deposits as a funding source. The loan to deposit ratio averaged ~~85.2%~~ ~~86.5%~~ in the ~~second third~~ quarter of 2023, which indicates that the Company has ample capacity to continue to grow its loan portfolio and is ~~strongly well~~ positioned to support our customers and our community during times of economic volatility.

Total interest expense in the ~~second third~~ quarter of 2023 increased by ~~\$4.4 million~~ ~~\$4.5 million~~, or ~~311.2%~~ ~~205.8%~~, when compared to the ~~second third~~ quarter of 2022, due to higher deposit and short-term borrowings interest expense. Deposit interest expense was higher by ~~\$4.1 million~~ ~~\$3.9 million~~, or ~~425.0%~~ ~~228.7%~~, despite while the ~~second third~~ quarter 2023 average volume of total interest bearing deposits ~~remaining relatively consistent with~~ grew from the 2022 ~~second third~~ quarter average ~~growing by~~ ~~\$12.5 million~~ ~~\$21.9 million~~, or ~~1.3%~~ ~~2.3%~~. The impact that the higher national interest rates had on deposit costs combined with increased market competition to retain and attract deposits contributed to net interest margin compression. ~~Another factor contributing to net interest margin compression was an unfavorable deposit mix shift as the 2023 third quarter average of non-interest bearing demand deposits declined by \$31.8 million, or 14.5%, while total interest-bearing deposits increased by \$21.9 million, or 2.3% when compared to the 2022 third quarter average.~~ For interest rate risk management purposes and in an effort to offset a portion of the unfavorable impact that rising funding costs are having on net interest income, management proactively executed a \$50 million interest rate hedge in February 2023 and another \$10 million interest rate hedge in April 2023 to fix the cost of certain deposits that are indexed and move with short-term interest rates. These hedging transactions ~~brought reduced~~ the Company's ~~negative~~ variability of net interest income ~~to in a more neutral position.~~ ~~rising interest rate environment and helped slow net interest margin compression.~~ Overall, total deposit cost averaged ~~1.74%~~ ~~1.95%~~ in the ~~second third~~ quarter of 2023, which is ~~141~~ ~~136~~ basis points higher than total deposit cost of ~~0.33%~~ ~~0.59%~~ in the ~~second third~~ quarter of 2022.

Total borrowings interest expense increased by ~~\$303,000~~, ~~\$536,000~~, or ~~67.8%~~ ~~118.8%~~, between the ~~second third~~ quarter of 2023 and the ~~second third~~ quarter of 2022. The increase results from the impact that the higher national interest rates had on overnight borrowings cost as well as the Company utilizing more overnight borrowed funds in 2023. Total overnight borrowings averaged ~~\$25.0 million~~ ~~\$36.0 million~~ in the ~~second third~~ quarter of 2023 after only ~~\$1.5 million~~ ~~\$5.1 million~~ of average overnight borrowings were utilized during the ~~second third~~ quarter of 2022. ~~Borrowings interest expense was favorably impacted by reduced interest expense from Federal Home Loan Bank (FHLB) term borrowings, which declined by \$28,000, or 17.9%. The~~ ~~Despite a decrease in the~~ average balance of FHLB term borrowings ~~was lower~~ in the ~~second third~~ quarter of 2023 ~~by \$18.0 million~~ compared to the third quarter of 2022 of \$10.7 million, or ~~49.7%~~ ~~34.2%~~, ~~as the interest expense from FHLB term borrowings increased by \$61,000, or 48.0%. The~~ strength of the Company's liquidity position allowed management to let FHLB

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term advances mature during 2022 and not be replaced. However, given the inversion in the yield curve, ~~during 2023, rates for~~ FHLB term advances ~~have rates that~~ are lower than the cost of overnight borrowed funds. Therefore, management replaced matured FHLB term advances during the ~~second third~~ quarter of 2023.

The table that follows provides an analysis of net interest income on a tax-equivalent basis (non-GAAP) for the three-month periods ended ~~June 30, 2023~~ ~~September 30, 2023~~ and 2022 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) the Company's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of this table, loan balances include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of 21% was used to compute tax-equivalent interest income and yields (non-GAAP). The tax equivalent adjustments to interest income on loans and municipal securities for the three months ended ~~June 30,~~

2023 September 30, 2023 and 2022 was \$4,000 \$5,000 and \$3,000, respectively, which is reconciled to the corresponding GAAP measure at the bottom of the table. Differences between the net interest spread and margin from a GAAP basis to a tax-equivalent basis were not material.

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### Three months ended June September 30 (In thousands, except percentages)

	2023			2022			2023			2022		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest earning assets:												
Loans and loans held for sale, net of unearned income	\$ 986,111	\$12,613	5.08 %	\$ 976,995	\$ 9,729	3.95 %	\$ 994,263	\$13,159	5.20 %	\$ 975,615	\$10,694	4.31 %
Short-term investments and bank deposits	3,727	73	7.73	28,684	64	0.89	3,196	56	6.89	13,009	72	2.16
Investment securities – AFS	200,287	1,722	3.44	180,881	1,304	2.89	199,181	1,745	3.50	192,863	1,490	3.09
Investment securities – HTM	61,482	475	3.09	59,734	434	2.91	61,017	484	3.17	60,535	447	2.95
Total investment securities	261,769	2,197	3.36	240,615	1,738	2.89	260,198	2,229	3.43	253,398	1,937	3.06
<b>Total interest earning assets/interest income</b>	<b>1,251,607</b>	<b>14,883</b>	<b>4.74</b>	<b>1,246,294</b>	<b>11,531</b>	<b>3.69</b>	<b>1,257,657</b>	<b>15,444</b>	<b>4.86</b>	<b>1,242,022</b>	<b>12,703</b>	<b>4.05</b>
Non-interest earning assets:												
Cash and due from banks	16,612			17,882			14,673			17,814		
Premises and equipment	17,299			17,395			17,028			17,575		
Other assets	74,608			80,729			75,372			74,758		
Allowance for credit losses	(13,332)			(12,070)			(13,387)			(11,757)		
<b>TOTAL ASSETS</b>	<b>\$1,346,794</b>			<b>\$1,350,230</b>			<b>\$1,351,343</b>			<b>\$1,340,412</b>		
Interest bearing liabilities:												
Interest bearing deposits:												
Interest bearing demand	\$ 225,260	\$ 1,029	1.85 %	\$ 229,394	\$ 127	0.22 %	\$ 225,395	\$ 1,077	1.90 %	\$ 226,606	\$ 353	0.62 %
Savings	129,672	31	0.10	139,963	34	0.09	126,589	31	0.10	139,724	35	0.09
Money markets	303,950	1,793	2.39	291,998	241	0.33	299,694	2,008	2.66	289,701	570	0.79
Time deposits	299,913	2,166	2.93	284,935	554	0.78	309,719	2,537	3.25	283,504	762	1.08

Total interest bearing deposits	958,795	5,019	2.10	946,290	956	0.41	961,397	5,653	2.33	939,535	1,720	0.73
Short-term borrowings	24,967	335	5.28	1,500	3	0.83	35,970	512	5.59	5,142	36	2.88
Advances from Federal Home Loan Bank	18,209	128	2.81	36,190	156	1.82	20,455	188	3.69	31,109	127	1.66
Subordinated debt	27,000	263	3.90	27,000	263	3.90	27,000	263	3.90	27,000	263	3.90
Lease liabilities	3,206	24	2.96	3,475	25	2.91	3,138	24	3.04	3,424	25	2.91
<b>Total interest bearing liabilities/interest expense</b>	<b>1,032,177</b>	<b>5,769</b>	<b>2.24</b>	<b>1,014,455</b>	<b>1,403</b>	<b>0.55</b>	<b>1,047,960</b>	<b>6,640</b>	<b>2.51</b>	<b>1,006,210</b>	<b>2,171</b>	<b>0.86</b>
Non-interest bearing liabilities:												
Demand deposits	198,984			216,596			187,480			219,307		
Other liabilities	10,720			7,281			12,927			8,146		
Shareholders' equity	104,913			111,898			102,976			106,749		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,346,794</b>			<b>\$1,350,230</b>			<b>\$1,351,343</b>			<b>\$1,340,412</b>		
Interest rate spread			2.50			3.14			2.35			3.19
Net interest income/Net interest margin (non-GAAP)		9,114	2.89 %		10,128	3.23 %		8,804	2.76 %		10,532	3.35 %
Tax-equivalent adjustment		(4)			(4)			(5)			(3)	
<b>Net Interest Income (GAAP)</b>	<b>\$ 9,110</b>			<b>\$10,124</b>			<b>\$ 8,799</b>			<b>\$10,529</b>		

.....**PROVISION FOR CREDIT LOSSES**.....The Company recorded a **\$43,000** **\$189,000** expense for the provision for credit losses in the **second third** quarter of 2023 after recognizing a **\$325,000 benefit** **\$500,000 provision expense** in the **second third** quarter of **2022 resulting in a net unfavorable change of \$368,000, 2022**. The **increased second reduced third** quarter of 2023 provision for credit losses was comprised of the recognition of a **\$34,000** **\$218,000** provision for credit losses for the loan portfolio and a **\$26,000** **\$48,000** provision **for credit losses related to unfunded commitments which more than offset a \$77,000 provision recovery** for credit losses for the HTM securities **portfolio which more than offset a \$17,000 provision recovery for credit losses related to unfunded commitments.**portfolio.

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The **second third** quarter 2023 provision for credit losses in the loan portfolio was necessary due to risk rating and non-accrual activity. Overall, we believe that non-performing assets remain well controlled, totaling **\$5.7 million** **\$6.2 million**, or **0.57%** **0.62%** of

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total loans, on June 30, 2023 at September 30, 2023. The Company experienced net loan recoveries charge-offs of \$55,000, \$126,000, or 0.02% 0.05% of total average loans, in the second third quarter of 2023 which compares favorably to net charge-offs of \$29,000, \$1.4 million, or 0.01% 0.57% of total average loans, in the second third quarter of 2022, 2022 due to the partial charge-down of one commercial real estate loan relationship.

.....NON-INTEREST INCOME.....Non-interest income for the second third quarter of 2023 totaled \$3.9 million \$4.3 million and decreased by \$276,000, \$70,000, or 6.7% 1.6%, from the second third quarter of 2022 performance. Factors contributing to the lower level of non-interest income for the quarter included:

- a \$187,000, \$136,000, or 6.3%, decrease in wealth management fees due to the unfavorable market conditions for both equity securities and bonds which have reduced the market value of wealth management assets. Also, new customer business growth has only partially offset the unfavorable impact of market conditions on fee income; and
- a \$122,000, or 20.3% 16.7%, decrease in other income due to the recognition of a credit valuation adjustment to the market value of the interest rate swap contracts that the Company executed to accommodate the needs of certain borrowers while managing our interest rate risk position; position; and
- a \$32,000, or 1.1%, increase in wealth management fees as the market value of wealth management assets increased since the third quarter of 2022. Wealth management revenues have shown modest growth for the past three consecutive quarters.

.....NON-INTEREST EXPENSE.....Non-interest expense for the second third quarter of 2023 totaled \$13.2 million \$12.1 million and increased by \$1.1 million, \$368,000, or 8.8% 3.1%, from the prior year's second third quarter. Factors contributing to the higher level of non-interest expense for the quarter included:

- a \$1.1 million \$287,000, or 4.1%, increase in salaries and employee benefits attributable to the annual employee merit increases, a greater level of full-time equivalent employees as the Company filled certain open positions that were vacant last year, and the impact that inflationary pressures are having on the cost of new hires. Partially offsetting the higher level of salaries was lower pension expense as there are fewer employees in the defined benefit pension plan due to numerous retirements over the past few years;
- a \$237,000, or 127.6% 25.4%, reduction in other expense as the Company did not have to recognize a pension settlement charge in the third quarter of 2023;
- a \$198,000, or 20.9%, rise in professional fees due primarily to increased legal and professional fees related to the Company's recent annual meeting proxy contest and defense against an activist investor. The Company is still involved These costs amounted to \$308,000 in ongoing litigation with an activist investor; the third quarter of 2023; and
- a \$103,000, or 9.9%, increase in data processing and IT expense due to increased software costs from our core data provider and additional expenses related to monitoring our computing and network environment.

.....INCOME TAX EXPENSE.....The Company recorded an income tax credit expense of \$61,000 \$124,000, or an effective tax rate of 16.1%, in the second third quarter of 2023. This compares to an income tax expense of \$496,000, \$526,000, or an effective tax rate of 20.0%, for the second third quarter of 2022.

#### SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2023 VS. SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2022

.....PERFORMANCE OVERVIEW.....The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Six months ended June 30, 2023	Six months ended June 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income	\$ 1,328	\$ 4,399	\$ 1,975	\$ 6,501
Diluted earnings per share	0.08	0.26	0.12	0.38
Return on average assets	0.20 %	0.66 %	0.20 %	0.65 %
Return on average equity	2.55	7.80	2.53	7.80

For the six-month nine-month period ended June 30, 2023 September 30, 2023, the Company reported net income of \$1,328,000, \$1,975,000, or \$0.08 \$0.12 per diluted common share. This earnings performance was a \$3,071,000, \$4,526,000, or 69.8% 69.6%, decline from the six-month nine-month period of 2022 when net income totaled \$4,399,000, \$6,501,000, or \$0.26 \$0.38 per diluted common share. Overall, the decrease to net interest income, along with a higher provision for credit losses and increased non-interest expense, more than offset an increased level of non-interest income resulting in the lower level of earnings in the first six months of 2023.

The benefits of maintaining a strong relationship focused community bank are evident during periods of market volatility and financial uncertainty. Since the end of 2022, the Company has seen an increase of \$19.0 million, or 1.7%, in deposits which demonstrates customer confidence and the strength and loyalty of our core deposit base. Additionally, wealth management revenues have shown modest growth for the past two consecutive quarters. We believe that the

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Company is well positioned to withstand ongoing market volatility and potential industry-related challenges that it may face through income, along with increased non-interest expense were the remainder primary reasons for the lower level of earnings in the first nine months of 2023.

While net income is down year-over-year, the Company continued to effectively operate its customer relationship focused community bank in a conservative manner amid a challenging period for the industry. Importantly, there have been several encouraging new business development results in key areas so far this year. For the first time in the Company's history, total loans now exceed \$1 billion. The loyalty of its deposit customers has shown excellent resilience, with an increase of \$20.8 million, or 1.9%, in total deposits since the end of 2022. Additionally, wealth management revenues have now shown modest growth for the past three consecutive quarters.

.....NET INTEREST INCOME AND MARGIN.....The following table compares the Company's net interest income performance for the first six nine months of 2023 to the first six nine months of 2022 (in thousands, except percentages):

	Six months ended June 30, 2023	Six months ended June 30, 2022	Change	% Change	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Change	% Change
Interest income	\$ 29,453	\$ 22,555	\$ 6,898	30.6 %	\$ 44,892	\$ 35,255	\$ 9,637	27.3 %
Interest expense	10,821	2,664	8,157	306.2	17,461	4,835	12,626	261.1
Net interest income	\$ 18,632	\$ 19,891	\$ (1,259)	(6.3)	\$ 27,431	\$ 30,420	\$ (2,989)	(9.8)
Net interest margin	2.96 %	3.19 %	(0.23)%	N/M	2.89 %	3.24 %	(0.35)%	N/M

N/M — not meaningful

The Company's net interest income in the first six nine months of 2023 decreased by \$1.3 million \$3.0 million, or 6.3% 9.8%, from the prior year's first six nine months while the net interest margin of 2.96% 2.89% for the first half nine months of 2023 represents a 23-basis 35-basis point decline from the first half nine months of 2022. As previously mentioned, the decrease in net interest income reflects total interest expense increasing to a higher level than the increase in total interest income. The Company continues to benefit from increased yields on total loans and investment securities due to a higher U.S. Treasury yield curve and the Federal Reserve's action to tighten monetary policy in their effort to tame decades high inflation. However, similar to what is occurring across the banking industry, the increased national interest rates have caused total deposit and borrowing costs to increase to a higher degree, resulting in net interest margin compression and lower net interest income.

Total average loans in the first six nine months of 2023 compare favorably to the 2022 first six-month nine-month average by \$8.0 million \$11.6 million, or 0.8% 1.2%. Excluding PPP loans, which still existed on the balance sheet in 2022, total average loans in the first half nine months of 2023 exceeded last year's first half nine months by \$16.4 million \$17.6 million, or 1.7% 1.8%. As previously mentioned, loan pipelines continue to be strong, but and the loan portfolio has demonstrated consistent growth in 2023 despite some customers have delayed delaying fundings given the uncertainty that exists in the economy and expectations regarding interest rates. Therefore, loan production in 2023 has been slower so far this year than what was experienced in 2022. However, the strong level of production experienced throughout 2022 resulted in total average loans in 2023 comparing favorably to the first six months of 2022. Growth in commercial & industrial loans (C&I), commercial real estate (CRE), and home equity loans more than offset decreased commercial real estate (CRE), residential mortgage and consumer loans. Overall, the higher interest rate environment along with the higher average volumes of C&I, CRE and home equity loans, resulted in total loan interest income improving by \$5.7 million \$8.1 million, or 29.5% 27.2%, for the first six nine months of 2023 when compared to the first six nine months of last year. This increase occurred despite a \$376,000 \$433,000 reduction in PPP loan related income in 2023.

Total investment securities averaged \$263.9 million \$262.7 million for the first half nine months of 2023 which is \$32.8 million \$24.2 million, or 14.2% 10.1%, higher than the \$231.0 million \$238.5 million average for the first half nine months of last year. The increase reflects additional securities purchased primarily during 2022 as the increased U.S. Treasury yield curve resulted increased resulting in a more favorable market for securities purchasing activity causing the Company to redeploy some of its short-term excess liquidity. Overall, the higher rates resulted in yields for new federal agency mortgage-backed securities and federal agency bonds improving and exceeding the overall average yield of the existing securities portfolio causing interest income from the securities portfolio to increase by \$1.2 million \$1.5 million, or 36.5% 28.5%, through six nine months of this year. So far in 2023, purchases of securities have slowed significantly as more funds have been allocated to the loan portfolio and the Company has been controlling the amount of overnight borrowed funds. The rising national interest rates caused the rate on overnight borrowed funds to be in line with or exceed the yield on the typical types of federal agency mortgage-backed securities that are normally purchased. While yields on new security purchases still exceed the overall average yield of the existing securities portfolio, the shrinking and in some cases negative spread between overnight borrowings and the yield on new securities caused ranged from negative to only marginally positive causing the slowdown in purchasing activity. Thus, the new investment

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security purchases have primarily been used to replace maturing securities cash flow in order from maturing securities to maintain appropriate balances for pledging purposes related to deposits of public funds pledging purposes. funds.

Due to a combination of increased investment in securities, loan growth and total deposits modestly declining, short-term investments and bank deposits demonstrated a lower average balance in the first half nine months of 2023 compared to last year's first half nine months by \$33.6 million \$25.6 million, or 89.2% 87.2%. Despite this decline, the Company's liquidity position remains strong. We

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will continue to carefully monitor our liquidity position and short-term investments as we expect deposits related to government stimulus programs to continue to decline during the remainder of 2023. Overall, the 2023 first six-month nine-month average balance of total interest earning assets increased since last year's six-month nine-month average by \$7.3 million \$10.1 million, or 0.6% 0.8%, while total interest income increased by \$6.9 million \$9.6 million, or 80.6% 27.3%, since the first six nine months of 2022.

On the liability side of the balance sheet, through six nine months, total average deposits are \$7.4 million \$8.3 million, or 0.6% 0.7%, lower compared to the first six nine months of 2022. The modest decrease since last year is reflective of a portion of the funds from the government stimulus programs leaving the balance sheet and reflects greater pricing competition in the market to retain deposits because of the increasing national interest rates. As previously mentioned, since early March 2023 when two large bank failures occurred, customer fear of contagion within the industry caused deposit flight, especially uninsured deposits, from certain banks to other financial services providers. Despite this turmoil, AmeriServ Financial's Company's core deposit base continued to demonstrate the strength and stability that it has for many years. years, even during times of turmoil when three large bank failures occurred earlier in 2023 and customer fear of contagion within the industry caused deposit flight. Total deposits in fact, grew during the first six nine months of 2023 by \$19.0 million \$20.8 million, or 1.7% 1.9%, on an end of period basis since December 31, 2022, demonstrating what we believe is customer confidence in our bank. AmeriServ Financial Bank. In addition to its strong, loyal core deposit base, the Company has several other sources of liquidity, including a significant unused borrowing capacity at the Federal Home Loan Bank (FHLB), overnight lines of credit at correspondent banks and access to the Federal Reserve Discount Window. The Company does not currently utilize brokered deposits as a funding source.

Total interest expense in the first ~~six~~ **nine** months of 2023 increased by ~~\$8.2 million~~ **\$12.6 million**, or ~~306.2%~~ **261.1%**, when compared to the first ~~six~~ **nine** months of 2022, due to higher deposit and short-term borrowings interest expense. Deposit interest expense was higher by ~~\$7.5 million~~ **\$11.4 million**, or ~~425.6%~~ **328.0%**, ~~despite while~~ the first ~~six months~~ **nine-month** 2023 average volume of total interest bearing deposits remaining relatively consistent with grew from the 2022 first ~~six-month~~ **nine-month** average growing by ~~\$8.9 million~~ **\$13.2 million**, or ~~0.9%~~ **1.4%**. The rising national interest rates resulted in certain deposit products, particularly public funds, ~~that which~~ are tied to a market index, repricing upward with the move in ~~short-term~~ national interest rates causing interest expense to increase. Additionally, increased market competition ~~has caused~~ **resulted in** the Company ~~to increase~~ **increasing** rates on certain shorter-term certificates of deposit ~~in order~~ to retain funds. ~~Another~~ factor contributing to net interest margin compression was an unfavorable deposit mix shift as the nine-month average of non-interest bearing demand deposits declined by \$21.5 million, or 9.9%, while, as mentioned above, total interest bearing deposits increased by \$13.2 million, or 1.4%. As previously mentioned, for interest rate risk management purposes and to offset a portion of the unfavorable impact that rising funding costs are having on net interest income, management proactively executed a \$50 million interest rate hedge in February 2023 and another \$10 million interest rate hedge in April 2023 to fix the cost of certain deposits that are indexed and move with short-term interest rates. These hedging transactions ~~brought reduced~~ the Company's ~~negative~~ variability of net interest income ~~to in a~~ **more neutral position**. ~~rising interest rate environment and helped slow net interest margin compression~~. Overall, total deposit cost averaged ~~1.61%~~ **1.72%** in the first ~~half~~ **nine months** of 2023, which is ~~131~~ **132** basis points higher than total deposit cost of ~~0.30%~~ **0.40%** in the first ~~half~~ **nine months** of 2022.

Total borrowings interest expense increased by ~~\$701,000~~ **\$1.2 million**, or ~~76.9%~~ **90.8%**, in the first ~~half~~ **nine months** of 2023 compared to the first ~~half~~ **nine months** of 2022. The increase results from the impact that the higher national interest rates had on overnight borrowings cost as well as the Company utilizing more overnight borrowed funds so far in 2023. Total ~~overnight~~ **short-term** borrowings averaged ~~\$32.8 million~~ **\$33.9 million** in the first ~~half~~ **nine months** of 2023 after only ~~\$750,000~~ of average overnight borrowings were utilized during ~~averaging~~ **\$2.2 million** in the first ~~half~~ **nine months** of 2022. As previously mentioned, given the high cost of overnight borrowed funds, management has been effectively controlling the usage of this funding source. ~~As a result, average overnight borrowed funds in the second quarter of 2023 decreased by \$15.8 million, or 38.7%, from the first quarter of 2023 average balance~~. Borrowings interest expense was favorably impacted by reduced interest expense from ~~Federal Home Loan Bank (FHLB)~~ **FHLB** term borrowings ~~greater than one year~~, which declined by ~~\$122,000~~ **\$95,000**, or ~~36.7%~~ **20.9%**, during the ~~six~~ **nine** months of 2023 compared to 2022. The average balance of ~~advances from FHLB term borrowings~~ was lower in the first ~~half~~ **nine months** of 2023 by ~~\$20.7 million~~ **\$17.4 million**, or ~~53.6%~~ **48.1%**, as the ~~strength of the~~ Company's ~~strong~~ liquidity position allowed management to let FHLB term advances mature during 2022 and not be replaced. However, given the inversion in the yield curve, ~~during 2023, rates for FHLB term advances have rates that~~ are lower than the cost of overnight borrowed funds. Therefore, management began replacing matured FHLB term advances in ~~2023~~ **2023** as part of its overall balance sheet management strategy.

The table that follows provides an analysis of net interest income on a tax-equivalent basis (non-GAAP) for the ~~six-month~~ **nine-month** periods ended ~~June 30, 2023~~ **September 30, 2023** and 2022. For a detailed discussion of the components and assumptions

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included in the table, see the paragraph before the quarterly table on page ~~43~~ **44**. The tax equivalent adjustments to interest income on loans and municipal securities for the ~~six~~ **nine** months ended ~~June 30, 2023~~ **September 30, 2023** and 2022 was ~~\$6,000~~ **\$7,000**, ~~respectively, \$10,000~~ which is reconciled to the corresponding GAAP measure at the bottom of the table. Differences between the net interest spread and margin from a GAAP basis to a tax-equivalent basis were not material.

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**Six Nine months ended June September 30** (In thousands, except percentages)

		2023						2022					
		Interest			Interest			Interest			Interest		
		Average	Income/	Yield/	Average	Income/	Yield/	Average	Income/	Yield/	Average	Income/	Yield/
		Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
Interest earning assets:													
Loans and loans held for sale, net of unearned income		\$ 986,302	\$24,891	5.03 %	\$ 978,272	\$19,228	3.92 %	\$ 988,955	\$38,049	5.09 %	\$ 977,386	\$29,922	4.05 %
Short-term investments and bank deposits		4,051	130	6.37	37,608	82	0.43	3,766	186	6.51	29,409	154	0.69
Investment securities – AFS		202,274	3,492	3.45	173,474	2,427	2.80	201,243	5,237	3.47	179,938	3,917	2.90
Investment securities – HTM		61,608	946	3.11	57,563	825	2.87	61,411	1,430	3.15	58,553	1,272	2.90
Total investment securities		263,882	4,438	3.37	231,037	3,252	2.82	262,654	6,667	3.39	238,491	5,189	2.90
Total interest earning assets/interest income		1,254,235	29,459	4.70	1,246,917	22,562	3.62	1,255,375	44,902	4.76	1,245,286	35,265	3.76
Non-interest earning assets:													
Cash and due from banks		16,512			17,824			15,899			17,820		
Premises and equipment		17,394			17,386			17,272			17,449		
Other assets		74,853			81,145			75,027			79,016		
Allowance for credit losses		(12,739)			(12,291)			(12,955)			(12,113)		
TOTAL ASSETS		\$1,350,255			\$1,350,981			\$1,350,618			\$1,347,458		
Interest bearing liabilities:													
Interest bearing deposits:													
Interest bearing demand		\$ 225,993	\$ 1,889	1.69 %	\$ 229,333	\$ 196	0.17 %	\$ 225,793	\$ 2,966	1.76 %	\$ 228,425	\$ 549	0.32 %
Savings		131,096	63	0.10	137,925	67	0.10	129,594	94	0.10	138,524	102	0.10
Money markets		300,776	3,249	2.18	291,569	401	0.28	300,415	5,257	2.34	290,946	971	0.45
Time deposits		297,215	4,007	2.72	287,340	1,088	0.76	301,384	6,544	2.90	286,061	1,850	0.87
Total interest bearing deposits		955,080	9,208	1.94	946,167	1,752	0.37	957,186	14,861	2.08	943,956	3,472	0.49
Short-term borrowings		32,843	829	5.01	750	3	0.83	33,885	1,341	5.22	2,214	39	2.42
Advances from Federal Home Loan Bank		17,949	210	2.36	38,691	332	1.74	18,784	398	2.83	36,164	459	1.72
Subordinated debt		27,000	526	3.90	27,000	526	3.90	27,000	789	3.90	27,000	789	3.90
Lease liabilities		3,241	48	2.95	3,504	51	2.91	3,207	72	2.98	3,477	76	2.91

Total interest bearing liabilities/interest expense	1,036,113	10,821	2.10	1,016,112	2,664	0.53	1,040,062	17,461	2.24	1,012,811	4,835	0.64
Non-interest bearing liabilities:												
Demand deposits	198,431			214,745			194,781			216,266		
Other liabilities	10,709			6,346			11,448			6,946		
Shareholders' equity	105,002			113,778			104,327			111,435		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,350,255</b>			<b>\$1,350,981</b>			<b>\$1,350,618</b>			<b>\$1,347,458</b>		
Interest rate spread			2.60			3.09			2.52			3.12
Net interest income/Net interest margin (non-GAAP)		18,638	2.96 %		19,898	3.19 %		27,441	2.89 %		30,430	3.24 %
Tax-equivalent adjustment		(6)			(7)			(10)			(10)	
<b>Net Interest Income (GAAP)</b>		<b>\$18,632</b>			<b>\$19,891</b>			<b>\$27,431</b>			<b>\$30,420</b>	

.....**PROVISION FOR CREDIT LOSSES**.....The Company recorded a \$1.2 million \$1.4 million expense for the provision for credit losses in the first six nine months of 2023 after recognizing a \$725,000 \$225,000 benefit in the first six nine months of 2022 resulting in a net unfavorable change of \$1.9 million \$1.6 million. Included in the six-month nine-month 2023 provision expense was the

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recognition of a \$926,000 loss from a subordinated debt investment with Signature Bank which was closed by banking regulators on March 12, 2023. In a press release issued by the Federal Deposit Insurance Corporation (FDIC), it was disclosed that unsecured debt holders of the institution will not be protected.

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The 2023 provision for credit losses for the loan portfolio was necessary due to risk rating and non-accrual activity. Total classified and criticized loan levels exhibited a net increase during the first six nine months of 2023 due to the downgrade of three several commercial real estate loan relationships. relationships earlier this year. Specifically, non-performing assets increased from \$5.2 million at December 31, 2022 to \$5.7 million \$6.2 million at June 30, 2023 September 30, 2023. Through six nine months of 2023, the Company experienced net loan charge-offs of \$61,000, \$187,000, or 0.01% 0.03% of total average loans, which compares favorably to net charge-offs of \$105,000, \$1.5 million, or 0.02% 0.21% of total average loans, in the first half nine months of 2022. In summary, the allowance for credit losses on the loan portfolio

provided 216% 199% coverage of non-performing assets, and 1.24% 1.23% of total loans, on June 30, 2023 at September 30, 2023, compared to 207% coverage of non-performing assets, and 1.08% of total loans, on December 31, 2022.

.....NON-INTEREST INCOME.....Non-interest income for the first six nine months of 2023 totaled \$9.4 million \$13.6 million and increased by \$896,000, \$826,000, or 10.6% 6.5%, from the first six nine months of 2022 performance. Factors contributing to the higher level of non-interest income for the six-month nine-month period included:

- AmeriServ Financial Bank sold all 7,859 shares of the Class B common stock of Visa, Inc. that it owned for a sale price of \$1.7 million. The shares had no carrying value on the balance sheet and, as the Bank had no historical cost basis in the shares, the entire sale price was recognized as a gain. The Company believes that this was an appropriate time elected to capture the this gain on these shares in 2023 due to the volatility and uncertainty in the financial markets;
- a \$614,000, \$582,000, or 10.0% 6.5%, decrease in wealth management fees due to the unfavorable market conditions for both equity securities and particularly bonds which have reduced the market value of wealth management assets. Also, new customer business growth has only partially offset the unfavorable impact of market conditions on fee income. The Overall, the fair market value of wealth management assets declined since December 31, 2021, by \$266.1 million \$327.1 million, or 9.8% 12.1%, and totaled \$2.4 billion at June 30, 2023 September 30, 2023;
- a \$226,000, \$362,000, or 19.4% 18.3%, decrease in other income due to the recognition of a credit valuation adjustment to the market value of the interest rate swap contracts that the Company executed to accommodate the needs of certain borrowers while managing our interest rate risk position; and
- a \$66,000, \$60,000, or 50.8% 32.8%, decrease in net gains on loans held for sale as the limited housing supply along with sharply higher interest rates continues to unfavorably impact residential mortgage loan production.

.....NON-INTEREST EXPENSE.....Non-interest expense for the first six nine months of 2023 totaled \$25.1 million \$37.2 million and increased by \$1.6 million \$1.9 million, or 6.6% 5.4%, from the prior year's first six nine months. Factors contributing to the higher level of non-interest expense for the six-month nine-month period included:

- a \$1.7 million \$1.9 million, or 119.0% 80.5%, rise in professional fees due primarily to increased legal and professional fees related to the Company's recent annual meeting proxy contest and defense against an activist investor. Given that investor and a proxy contest at the Company's shareholders voted 2023 annual meeting. These costs amounted to elect \$2.0 million for the Board's slate first nine months of director candidates, the Company expects 2023. As expected, costs related to the activist shareholder issue to decline declined meaningfully between the second and third quarters of 2023 by \$828,000. However, given a recent increase in activity by the activist investor, the Company cannot determine at this time whether these costs will remain at a lower level in the second half fourth quarter of 2023. However, the Company is still involved in ongoing litigation with an activist investor; 2023;
- a \$1.1 million \$1.4 million, or 47.5% 41.2%, decrease in other expense as the Company did not have to recognize a pension settlement charge in the first half nine months of 2023 compared to a \$1,014,000 \$1,244,000 charge recognized in the first half nine months of 2022;
- a \$535,000, an \$822,000, or 3.7% 3.8%, increase in salaries and employee benefits expense. The increase is attributed attributable to the annual employee merit increases, a greater level of full-time equivalent employees (FTE) as the Company filled

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certain open positions that were vacant last year, and the impact that inflationary pressures are having on the cost of new hires. Partially offsetting the higher level of salaries was lower incentive compensation and pension expense as there are fewer employees in the defined benefit pension plan due to numerous retirements over the past few years; and

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- a ~~\$268,000~~, ~~\$371,000~~, or ~~14.2%~~ ~~12.7%~~, increase in data processing and IT expense due to increased software costs from our core data provider and additional expenses related to monitoring our computing and network environment.

.....**INCOME TAX EXPENSE**.....The Company recorded an income tax expense of ~~\$311,000~~, ~~\$435,000~~, or an effective tax rate of ~~19.0%~~ ~~18.0%~~, in the first ~~six~~ ~~nine~~ months of 2023. This compares to an income tax expense of ~~\$1.1 million~~ ~~\$1.6 million~~, or an effective tax rate of 20.0%, for the first ~~six~~ ~~nine~~ months of 2022. The lower level of income tax expense this year is due to the reduced level of pre-tax income.

.....**SEGMENT RESULTS**.....The community banking segment reported a net income contribution of ~~\$7,825,000~~ ~~\$12,165,000~~ in the first ~~six~~ ~~nine~~ months of 2023 which was ~~\$1,691,000~~ ~~\$2,672,000~~ higher than the net income contribution in the first ~~six~~ ~~nine~~ months of 2022. The increase between time periods results from the strength that this segment provides to the Company which was determined by a thorough funds transfer pricing analysis. In short, a funds transfer pricing analysis determines how funding (deposits) and use of this funding (loans) by each segment contributes to the overall profitability of the Company by providing an estimated positive or negative dollar value of the segment's contribution to the Company. Overall, the funds transfer pricing analysis indicated that the community banking segment provided a ~~\$4.5 million~~ ~~an additional \$7.0 million~~ benefit to the ~~Company~~, ~~Company in the nine months of 2023 when compared to the nine months of 2022~~. Despite the benefit that community banking provides, this segment was unfavorably impacted from net interest margin compression as total deposit interest expense increased to a higher level than the increase to total loan interest income. ~~Another factor contributing to net interest margin compression was an unfavorable deposit mix shift as the nine-month average of non-interest bearing demand deposits declined by \$21.5 million, or 9.9%, while total interest-bearing deposits increased by \$13.2 million, or 1.4%.~~ This segment continues to benefit from increased yields on loans due to a higher U.S. Treasury yield curve and the Federal Reserve's action to tighten monetary policy. However, the increased national interest rates have caused total deposit costs to increase to a higher degree. The Company benefitted from a higher level of total average loans in the first ~~half~~ ~~nine~~ months of 2023. Growth in commercial & industrial ~~loans~~ (C&I), ~~commercial real estate~~ (CRE), and home equity loans more than offset decreased residential mortgage ~~consumer~~ and ~~commercial real estate~~ (CRE) ~~consumer~~ loans. This segment did benefit from an additional ~~\$215,000~~ ~~\$98,000~~ of total loan charge income which partially offset a decline in PPP processing fees and interest. The Company recognized ~~\$376,000~~ ~~\$433,000~~ of PPP related income in the first ~~six~~ ~~nine~~ months of 2022 and did not recognize any PPP related income in 2023. Overall, total loan interest income improved by ~~\$5.7 million~~ ~~\$8.1 million~~, or ~~29.5%~~ ~~27.2%~~, for the first ~~six~~ ~~nine~~ months of 2023 when compared to the first ~~six~~ ~~nine~~ months of last year. Deposit interest expense was higher by ~~\$7.5 million~~ ~~\$11.4 million~~, or ~~425.6%~~ ~~328.0%~~, while, ~~as mentioned above, the first half nine months of 2023 average volume of total interest-bearing deposits increased by \$8.9 million~~ ~~\$13.2 million~~, or ~~0.9%~~ ~~1.4%~~. The impact that the higher national interest rates had on deposit costs combined with increased market competition to retain and attract deposits contributed to net interest margin compression. This segment was unfavorably impacted by the Company recording ~~\$335,000~~ ~~\$567,000~~ of expense for the allowance for credit losses on our loan portfolio ~~and unfunded commitments~~ in the first ~~six~~ ~~nine~~ months of 2023 compared to a ~~\$725,000~~ ~~\$225,000~~ recovery for loan losses in last year's first ~~six~~ ~~nine~~ months. This was discussed previously in the Provision for Credit Losses section within this document. Non-interest income was unfavorably impacted by the recognition of a ~~\$217,000~~ ~~\$178,000~~ credit valuation adjustment to the market value of the interest rate swap contracts that the Company executed to accommodate the needs of certain commercial borrowers while managing our interest rate risk position. Also, unfavorably impacting non-interest income was a reduced level of loan sale gain income by ~~\$66,000~~ ~~\$60,000~~ due to the lower level of residential mortgage loan production in 2023. Non-interest expense, within the community banking segment, in the ~~first six~~ ~~nine~~ months of 2023 compares favorably to last year's first ~~six~~ ~~nine~~ months as reduced pension expense, explained in Note 16, and lower incentive compensation more than offset higher salaries cost. As mentioned previously in the MD&A, the Company did not have to recognize a pension settlement charge in the first ~~half~~ ~~nine~~ months of 2023 after recognizing a ~~\$1.0 million~~ ~~\$1.2 million~~ pension settlement charge last year, which positively impacted all segments.

The wealth management segment's net income contribution decreased by ~~\$813,000~~ ~~\$751,000~~ in the first ~~six~~ ~~nine~~ months of 2023 from the first ~~six~~ ~~nine~~ months of 2022. The decrease reflects the unfavorable market conditions for both equity securities and bonds which have reduced the market value of wealth management assets. Also, new customer business growth has only partially offset the unfavorable impact of market conditions on fee income. The fair market value of wealth

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management assets declined since December 31, 2021 by ~~\$266.1 million~~ ~~\$327.1 million~~, or ~~9.8%~~ ~~12.1%~~, and totaled \$2.4 billion at ~~June 30, 2023~~ ~~September 30, 2023~~. Note that the market value of wealth management assets increased since the third quarter of 2022 and contributed



to a favorable quarter versus quarter comparison for wealth management fee income. Wealth management revenues have shown modest growth for the past three consecutive quarters. However, nine-month results for wealth management fees continue to reflect the unfavorable market conditions. Partially offsetting this the decline in wealth management revenue for the nine-month period were lower levels of incentive compensation, pension costs and professional fees.

The investment/parent segment reported a net loss of \$6,917,000 \$11,097,000 in the first six nine months of 2023 which is greater than the net loss of \$2,968,000 \$4,650,000 in the first six nine months of 2022 by \$3,949,000, \$6,447,000. The funds transfer pricing analysis within this segment caused the loss reported within this segment to be \$2.8 million \$4.7 million higher due to the inverted yield curve and the accelerated increase in funding costs on our balance sheet. Also, contributing to the greater loss within this segment was the first quarter of 2023 recognition of a \$926,000 loss from a subordinated debt investment with Signature Bank and \$1.7 million \$2.0 million of additional legal and professional fees related to the Company's recent annual meeting proxy contest

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and defense against an activist shareholder. This segment was also unfavorably impacted by \$700,000 \$1.2 million of additional total borrowings interest expense due to the higher average balance of short-term borrowed funds. These unfavorable items more than offset the \$1.7 million gain recognized during the first quarter of 2023 from the sale of the 7,859 shares of the Class B common stock of Visa Inc. that the Bank owned and an increased level of interest income from investment securities and short-term investments by \$1.2 million \$1.5 million as the higher interest rates resulted in an improved overall total portfolio yield.

.....BALANCE SHEET.....The Company's total consolidated assets were \$1.3 billion \$1.4 billion at June 30, 2023 September 30, 2023, which declined by \$18.2 million \$2.1 million, or 1.3% 0.2%, from the December 31, 2022 asset level. This change was related, primarily, to decreased levels of cash and cash equivalents and investment securities which were partially offset by increased levels of loans and loans, other assets. Specifically, cash and cash equivalents were reduced by \$5.9 million \$4.9 million, or 25.6% 21.5%, while investment securities decreased \$9.1 million \$12.1 million, or 3.8% 5.0%, during the first six nine months of 2023. Purchasing activity of investment securities slowed significantly during 2023 as more funds have been allocated to the loan portfolio and the Company controlled has been controlling the amount of its overnight borrowed funds due to the shrinking and in some cases negative to the marginally positive spread between overnight borrowings and the yield on new securities. Loans, net of unearned fees, decreased \$3.1 million increased \$11.5 million, or 0.3% 1.2%, primarily as loan production slowed during a result of growth in commercial real estate (CRE) loans. Other assets increased \$2.8 million, or 8.2%, in the first half nine months of 2023. Loan pipelines continue 2023 due to be strong, but customers have delayed fundings. Further, the allowance for credit losses on our loan portfolio increased \$1.5 million, or 13.8%, due primarily to the adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023 which necessitated a day one increase of \$1.2 million be made to the allowance. Partially offsetting the decrease in loans was a \$501,000 an increase in residential mortgage loans held the positive (debit) balance of the accrued pension liability as well as increased market values for sale, the interest rate swaps and hedges.

Total deposits increased by \$19.0 million \$20.8 million, or 1.7% 1.9%, in the first six nine months of 2023. This demonstrates customer confidence and the strength and loyalty of our core deposit base. As of June 30, 2023 September 30, 2023, the 25 largest depositors represented 20.7% 22.6% of total deposits, which is an increase from December 31, 2022, when it was 18.8%. As of June 30, 2023 September 30, 2023 and December 31, 2022, the estimated amount of uninsured deposits was \$343.9 million \$351.9 million and \$316.5 million, respectively. The estimate of uninsured deposits was done at the single account level and does not take into account total customer balances in the Bank. It should be noted that approximately 50% of these uninsured deposits relate to public funds from municipalities, government entities, and school districts which by law are required to be collateralized by investment securities or FHLB letters of credit to protect these depositor funds. Total borrowings have decreased by \$35.7 \$22.9 million, or 25.8% 16.5%, since year-end 2022. This change was driven by a decrease in both short-term borrowings and FHLB term advances, borrowings. Specifically, short-term borrowings decreased by \$32.0 million \$25.2 million, or 36.1%, while FHLB term advances decreased by \$3.6 million, or 18.5% 28.4%. Given the high cost of overnight borrowed funds, management has been effectively controlling the usage of this funding source. In addition, the inversion in the yield curve has caused FHLB term advances to have rates that are lower than the cost of overnight borrowed funds. Therefore, management began replacing matured FHLB term advances in 2023, 2023 leading to a slight increase in this line item of \$2.4 million, or 11.9%.

The Company's total shareholders' equity decreased by ~~\$2.6 million~~ \$4.9 million, or ~~2.5%~~ 4.6%, during the first ~~six~~ nine months of 2023. The decrease in capital is the result of the Company's earnings performance during the first ~~half~~ nine months of 2023 being more than offset by the cumulative effect adjustment for the adoption of ASU 2016-13 and our common stock dividend payments to shareholders. In addition, the reduced market value of the available for sale investment securities portfolio had a negative impact on accumulated other comprehensive loss which more than offset the improved market value adjustment on the interest rate ~~hedge~~, ~~hedges~~.

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The Company continues to be considered well capitalized for regulatory purposes with a total capital ratio of ~~14.01%~~ 13.72%, and a common equity tier 1 capital ratio of ~~10.38%~~ 10.17% at ~~June 30, 2023~~ September 30, 2023. See the discussion of the Basel III capital requirements under the Capital Resources section below. As of ~~June 30, 2023~~ September 30, 2023, the Company's book value per common share was ~~\$6.04~~ \$5.91 and its tangible book value per common share was ~~\$5.24~~ \$5.11<sup>(1)</sup>. When compared to December 31, 2022, book value per common share and tangible book value per common share declined by ~~\$0.16~~ \$0.29 per common share. The decline in the Company's book value and tangible book value per share in the first ~~six~~ nine months of 2023 compared to last year-end reflects a decrease in the fair value of the Company's available for sale investment securities by ~~\$2.7 million~~ \$6.1 million due to higher interest rates. Note that this caused a greater accumulated other comprehensive loss within total equity since December 31, 2022, as the decline in market value of the Company's available for sale investment securities portfolio more than offset a positive market value adjustment for the interest rate hedges. There was no required revaluation of the net pension liability during the first ~~half~~ nine months of 2023. The tangible common equity to tangible assets ratio was ~~6.74%~~ 6.50%<sup>(1)</sup> at ~~June 30, 2023~~ September 30, 2023 and decreased by ~~11-basis~~ 35-basis points when compared to December 31, 2022.

(1) Non-GAAP financial information, see "Reconciliation of Non-GAAP Financial Measures" later in this MD&A.

.....**LOAN QUALITY**.....The following table sets forth information concerning the Company's loan delinquency, non-performing assets, and classified assets (in thousands, except percentages):

	June 30, 2023	December 31, 2022	June 30, 2022	September 30, 2023	December 31, 2022	September 30, 2022
Total accruing loan delinquency (past due 30 to 89 days)	\$ 1,530	\$ 6,296	\$ 2,228	\$ 1,089	\$ 6,296	\$ 2,343
Total non-accrual loans	5,650	5,161	3,240	5,918	5,161	4,557
Total non-performing assets*	5,650	5,200	3,240	6,194	5,200	4,596
Accruing loan delinquency, as a percentage of total loans, net of unearned income	0.15 %	0.64 %	0.23 %	0.11 %	0.64 %	0.24 %
Non-accrual loans, as a percentage of total loans, net of unearned income	0.57	0.52	0.34	0.59	0.52	0.47
Non-performing assets, as a percentage of total loans, net of unearned income, and other real estate owned and repossessed assets*	0.57	0.52	0.34	0.62	0.52	0.47
Non-performing assets as a percentage of total assets*	0.42	0.38	0.25	0.45	0.38	0.34
As a percent of average loans, net of unearned income:						
Annualized net charge-offs	0.01	0.17	0.02	0.03	0.17	0.21
Annualized provision (credit) for credit losses - loans	0.07	0.01	(0.15)	0.07	0.01	(0.03)
Total classified loans (loans rated substandard or doubtful)**	\$ 28,211	\$ 23,837	\$ 18,778	\$ 25,299	\$ 23,837	\$ 16,304

\* Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past due 90 days or more as to interest and principal payments, and (iii) other real estate owned and repossessed assets.

\*\* Total classified loans include non-performing residential mortgage and consumer loans.

Overall, the Company continued to maintain good asset quality in the first **six** months of 2023 as evidenced by low levels of non-accrual loans, non-performing assets, and loan delinquency levels that continue to be below 1% of total loans. The decline in accruing loan delinquency is primarily attributable to a decrease in commercial and commercial real estate loan **delinquency which was partially offset by an increase in consumer and residential mortgage loan** delinquency. The increase in non-accrual loans, as well as non-performing assets, reflects the transfer of **a two** commercial real estate loan **relationship relationships** together with **a three** small business **loan loans** to non-accrual status which were partially offset by a decline in non-accrual residential mortgage loans. The increase in classified loans is the result of the risk rating downgrade of **three two** commercial real estate loan **relationships. relationships** which was partially offset by the risk rating upgrade of **a commercial & industrial loan.**

We also continue to closely monitor the loan portfolio given the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of **June 30, 2023** **September 30, 2023**, the 25 largest credits represented **21.8%** **21.7%** of total loans outstanding, which remained **consistent with unchanged since** December 31, 2022 **when it was 21.7%.**

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### [Urban Office Exposure](#)

Urban office secured criticized commitments totaled \$11.6 million at September 30, 2023 and was comprised of three other commercial real estate (non-owner occupied) loans, as follows:

- the aforementioned \$7.0 million classified other commercial real estate (non-owner occupied) loan disclosed in Note 9, Allowance for Credit Losses - Loans;
- a \$3.6 million classified other commercial real estate (non-owner occupied) loan secured by two interconnected office buildings located within the central business district of the City of Pittsburgh and evidencing a weakening trend in occupancy. The loan originated in 2018, matures in 2028, and has evidenced a clean repayment history; and
- a \$965,000 criticized other commercial real estate (non-owner occupied) loan secured by a mixed-use (retail/office) property located within the City of Pittsburgh, but not in the downtown central business district, and evidencing sustained weak occupancy. The loan does evidence low loan to value and continued guarantor financial support. The loan originated in 2009, matures in 2029, and maintains a clean repayment history.

.....**ALLOWANCE FOR CREDIT LOSSES**.....The following table sets forth the allowance for credit losses and certain ratios for the periods ended (in thousands, except percentages):

	June 30, 2023	December 31, 2022	June 30, 2022	September 30, 2023	December 31, 2022	September 30, 2022
Allowance for credit losses - loans	\$ 12,221	\$ 10,743	\$ 11,568	\$ 12,313	\$ 10,743	\$ 10,672
Allowance for credit losses - loans as a percentage of each of the following:						
total loans, net of unearned income	1.24 %	1.08 %	1.20 %	1.23 %	1.08 %	1.09 %
total non-accrual loans	216.30	208.16	357.04	208.06	208.16	234.19
total non-performing assets	216.30	206.60	357.04	198.79	206.60	232.20
Allowance for credit losses - securities	\$ 1,035	\$ —	\$ —	\$ 958	\$ —	\$ —
Allowance for credit losses - unfunded loan commitments	889	746	840	937	746	774

.....**LIQUIDITY**.....The Company's liquidity position continues to be strong. Total average deposits are **\$7.4 million** **\$8.3 million**, or **0.6%** **0.7%**, lower when compared to the 2022 first **six-month** **nine-month** average. The modest decrease is reflective of a portion of the funds from the government stimulus programs leaving the balance sheet and also reflects greater pricing competition in the market to retain deposits because of the increasing national interest rates. **Since early March 2023 when two large bank failures occurred, customer fear of contagion within the industry caused deposit flight, especially uninsured deposits, from certain banks to other financial services providers. Despite this turmoil, AmeriServ Financial's** **The Company's** core deposit base continued to demonstrate the strength and stability that it has for many years. years, even during times of turmoil when three large bank failures occurred earlier in 2023 and customer fear of contagion within the industry caused deposit flight. Total deposits **in fact** grew during the first **six** **nine** months of 2023 by **\$19.0 million** **\$20.8 million**, or **1.7%** **1.9%**, on an end of period basis since December 31, 2022, demonstrating customer confidence in **our bank. AmeriServ Financial Bank.** The Company does not **currently** utilize brokered deposits as a funding source. In addition to its strong, loyal core deposit base, the Company has several other sources of liquidity, including a significant unused borrowing capacity at the Federal Home Loan Bank (FHLB), overnight lines of credit at correspondent banks and access to the Federal Reserve Discount Window. Overall, deposit volumes continue to remain at a high level by historical standards in relation to the levels experienced prior to the pandemic. **Deposit volumes continue to demonstrate stability since the second half of 2021.** The core deposit base is adequate to fund the Company's operations. Cash flow from maturities, prepayments and amortization of securities is used to help fund loan growth.

Average short-term investments demonstrated a lower average balance in the first **half** **nine months** of 2023 compared to the first **half** **nine months** of last year by **\$33.6 million** **\$25.6 million**, or **89.2%** **87.2%**. Despite this decline, the Company's liquidity position remains strong. The average balance of FHLB term borrowings was lower in the first **half** **nine months** of 2023 by **\$20.7 million** **\$17.4 million**, or **53.6%** **48.1%**, as the strength of the Company's liquidity position allowed management to let FHLB term advances mature during 2022 and not be replaced. However, given the inversion in the yield curve, FHLB term advances have rates that are lower than the cost of overnight borrowed funds. Therefore, management is replacing matured FHLB term advances in 2023. The challenge remains as to the uncertainty regarding the duration that the higher than historical level

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of deposits will remain on the balance sheet which will be determined by customer behavior as the economic conditions change. Diligent monitoring and management of our short-term investment position and our level of overnight borrowed funds remains a priority. Given the high cost of overnight borrowed funds, management has been effectively controlling the usage of this funding source. **As a result, average overnight borrowed funds in the second quarter of 2023 decreased by \$15.8 million, or 38.7%, from the first quarter of 2023 average balance.** Continued loan growth and prudent investment in securities are critical to achieve the best return on the normal level of earning asset cash flow that occurs each month. So far in 2023, purchases of securities have slowed as more funds have been allocated to the loan portfolio. **Loan production pipelines continue to be strong, and the loan portfolio has demonstrated consistent growth in the first half of 2023 has been slower than what was experienced in the first half of 2022 as customers have delayed fundings given the uncertainty that exists in the economy and expectations regarding interest rates, 2023.** We strive to operate our loan to deposit ratio in a range of 80% to 100%. The Company's loan to deposit ratio averaged **85.2%** **86.5%** in the **second** **third** quarter of 2023, which indicates that the Company has ample capacity to continue to grow its loan portfolio and is strongly positioned to support our customers and our community during times of economic volatility. We are also well positioned to service our existing loan pipeline and grow our loan to deposit ratio while remaining within our guideline parameters.

Liquidity can also be analyzed by utilizing the Consolidated Statements of Cash Flows. Cash and cash equivalents decreased by **\$5.9 million** **\$4.9 million** from December 31, 2022, to **\$17.1 million** **\$18.0 million** at **June 30, 2023** **September 30, 2023**, due to **\$17.6 million** **\$6.4 million** of net cash used in investing activities and **\$3.7 million** of net cash used in financing activities more than offsetting **\$9.2 million** of net cash provided by investing activities and **\$2.5 million** **\$5.2 million** of net cash provided by operating activities. Within investing activities, cash advanced for new loans originated totaled

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\$86.3 million \$140.1 million and was \$3.1 million lower \$11.6 million higher than the \$89.4 million \$128.4 million of cash received from loan principal payments. Within financing activities, total short-term borrowings decreased by \$32.0 million \$25.2 million, total FHLB borrowings decreased increased by \$3.6 million \$2.4 million while total deposits increased by \$19.1 million \$20.8 million. Within operating activities, \$4.0 million \$6.4 million of mortgage loans held for sale were originated while \$3.5 million \$6.6 million of mortgage loans were sold into the secondary market.

The holding company had \$7.9 million \$7.4 million of cash, short-term investments, and investment securities at June 30, 2023 September 30, 2023, which represents a \$1.7 million \$2.2 million decrease from the holding company's cash position since December 31, 2022. Dividend payments from our subsidiaries also provide provided ongoing cash to the holding company. At June 30, 2023 September 30, 2023, our subsidiary Bank had \$11.9 million \$12.1 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that limits dividend payments from the Trust Company to 75% of annual net income. Overall, we believe that the holding company has sufficient liquidity to meet its subordinated debt interest payments and its dividend payout level with respect to its common stock.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investments, interest bearing deposits with banks, and federal funds sold. These assets totaled \$17.1 million \$18.0 million and \$23.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company's subsidiary bank is a member of the FHLB, which provides the opportunity to obtain short-term to longer-term advances based upon the Company's investment in certain residential mortgage, commercial real estate, and commercial and industrial loans. At June 30, 2023 September 30, 2023, the Company had \$299 million \$288 million of overnight borrowing availability at the FHLB, \$41 million \$42 million of short-term borrowing availability at the Federal Reserve Bank and \$35 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

.....**CAPITAL RESOURCES**.....The Bank meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The Company's common equity tier 1 capital ratio was 10.38% 10.17%, the tier 1 capital ratio was 10.38% 10.17%, and the total capital ratio was 14.01% 13.72% at June 30, 2023 September 30, 2023. The Company's tier 1 leverage ratio was 8.45% 8.41% at June 30, 2023 September 30, 2023. We anticipate that we will maintain our strong capital ratios throughout the remainder of 2023. There is a particular emphasis on ensuring that the subsidiary bank has appropriate levels of capital to support its non-owner occupied commercial real estate loan concentration, which stood at 339% 351% of regulatory capital at June 30, 2023 September 30, 2023.

Our focus is on preserving capital to support customer lending and allow the Company to take advantage of business opportunities as they arise. We currently believe that we have sufficient capital and earnings power to continue to pay our common stock cash dividend at its current rate of \$0.03 per quarter. While the Company has frequently executed common stock buyback programs in the past, we presently do not have one in place due to the drop in our tangible common equity ratio to 6.74% 6.50%<sup>(1)</sup> as a result of the decline in value of our AFS securities portfolio. At June 30, 2023 September 30, 2023, the Company had approximately 17.1 million common shares outstanding.

The Basel III capital standards establish the minimum capital levels in addition to the well capitalized requirements under the federal banking regulations prompt corrective action. The capital rules also impose a 2.5% capital conservation buffer (CCB) on top of the three

minimum risk-weighted asset ratios. Banking institutions that fail to meet the effective minimum ratios once the CCB is taken into account will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution's "eligible retained income" (four quarter trailing net income, net of distributions and tax effects not reflected in net income). The Company and the Bank meet all capital requirements, including the CCB, and continue to be committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a return to our shareholders.

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Under the Basel III capital standards, the minimum capital ratios are:

	MINIMUM CAPITAL RATIO	
	MINIMUM CAPITAL RATIO	PLUS CAPITAL CONSERVATION BUFFER
Common equity tier 1 capital to risk-weighted assets	4.5 %	7.0 %
Tier 1 capital to risk-weighted assets	6.0	8.5
Total capital to risk-weighted assets	8.0	10.5
Tier 1 capital to total average consolidated assets	4.0	

(1) Non-GAAP financial information, see "Reconciliation of Non-GAAP Financial Measures" later in this MD&A.

.....INTEREST RATE SENSITIVITY.....The following table presents an analysis of the sensitivity inherent in the Company's net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company's base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

INTEREST RATE SCENARIO	CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY		CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY	
	VARIABILITY OF NET INTEREST INCOME	VARIABILITY OF NET INTEREST INCOME	VARIABILITY OF NET INTEREST INCOME	VARIABILITY OF NET INTEREST INCOME
200 bp increase	0.4 %	4.2 %	(2.2)%	0.2 %
100 bp increase	0.2	3.0	(1.1)	0.9
100 bp decrease	(0.3)	(5.8)	1.0	(3.4)
200 bp decrease	(1.3)	(14.0)	1.3	(9.8)

The Company believes that its overall interest rate risk position is well controlled. The execution of a \$50 million interest rate hedge, during the first quarter of 2023, and the execution of an additional \$10 million interest rate hedge, during the second quarter of 2023, to fix the cost of certain deposits that are indexed and move with short-term interest rates, brought reduced the Company's negative variability of net interest income in a rising interest rate environment and helped slow net interest margin compression. The fed funds rate is currently at a targeted range of 5.25% to 5.50% as the Federal Reserve took action during the first nine months of 2023 to increase the rate a more neutral position, total of 100 basis points.

Overall, the Company's interest rate risk position is relatively neutral. The variability of net interest income is positive slightly negative in the upward rate shocks due scenarios as the Company is marginally more exposed to liabilities repricing upward to a greater extent than assets. Specifically, the cost of funds is immediately impacted when short-term national interest rates increase because certain deposit products and overnight borrowed funds move with the market. This was partially

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offset by the Company's ~~short~~ shorter duration investment securities portfolio and the scheduled repricing of loans tied to an index, such as SOFR or prime. Also, In addition to the interest rate hedges discussed above, the Company has effectively utilized interest rate swaps for interest rate risk management purposes. The interest rate swaps allow our customers to lock in fixed interest rates while the Company retains the benefit of interest rates moving with the market. Regarding interest bearing liabilities, the Company will continue its disciplined approach to price its core deposit accounts in a controlled but competitive manner, manner and control the amount of overnight borrowed funds. The variability of net interest income is ~~negative~~ slightly positive in the downward rate scenarios shocks as the Company has marginally more exposure to ~~assets~~ short-term liabilities repricing downward to a greater extent than liabilities. The fed funds rate is currently at a targeted range of 5.00% to 5.25% as the Federal Reserve took action during the first six months of 2023 to increase the rate a total of 75 basis points. ~~assets~~. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shocks due to a reduced value for core deposits.

.....OFF BALANCE SHEET ARRANGEMENTS.....The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company had various outstanding commitments to extend credit approximating ~~\$239.0 million~~ \$265.3 million and standby letters of credit of ~~\$7.9 million~~ \$7.7 million as of ~~June 30, 2023~~ September 30, 2023. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending.

.....OTHER INFORMATION.....During the second quarter of 2023, a prominent third-party vendor (the "Vendor") to AmeriServ Financial Bank (the "Bank") and to AmeriServ Trust and Financial Services Company (the "Trust Company"), each wholly-owned subsidiaries of AmeriServ Financial, Inc. (together with Bank and the Trust Company, the "Company"), confirmed to the Bank and the Trust Company that personally identifiable information associated with their respective clients had been compromised in a security incident that the Vendor experienced ("Vendor Incident"). The Vendor Incident resulted from a zero-day vulnerability in a popular file sharing software that the Vendor used called MOVEit Transfer ("MOVEit"). Progress Software Corporation developed and maintains MOVEit, which is used by thousands of organizations around the world. According to national media reports, the MOVEit zero-day vulnerability was exploited in a large-scale cyber campaign that is impacting government agencies, universities, and corporations around the world. Each of the Bank and the Trust Company uses the Vendor for certain operational support services.

As a result of the Vendor Incident, the Vendor confirmed to each of the Bank and the Trust Company that an unauthorized party was able to obtain access to certain of the Bank's and Trust Company's data files in the Vendor's possession that contained social security numbers, account numbers, and other personally identifiable information. The Bank and the Trust Company worked with the Vendor to provide appropriate notifications to potentially affected customers and have provided notice to regulatory agencies as required by federal and state law.

The Vendor confirmed that it has implemented the recommended patches released by Progress Software for the MOVEit platform to date and has taken other security measures with respect to file transfers. Upon learning of the Vendor Incident, the Company promptly commenced an investigation of the matter, including through the engagement of outside independent cybersecurity experts, to determine the scope and nature of any Bank and Trust Company client data that may have been affected. There is no indication the Vendor Incident involved the Company's internal network or IT systems, and there has been no material interruption to the Company's business operations.

Since the occurrence of the incident, the Company has incurred, and may continue to incur, certain expenses related to the Vendor Incident through September 30, 2023. Based upon the information that the Company has learned to date, the Company anticipates expenses related to the Vendor Incident should not be material due to, among other things, the fact that the Vendor has agreed to pay for notification as well as two years of credit monitoring services to all affected parties. However, the scope and timing of the issue remain uncertain. Accordingly, the Company's estimate may change from time to time, and actual losses and expenses could vary. Further, the Company remains subject to risks and uncertainties as a result of the Vendor Incident, including litigation risk and additional regulatory scrutiny.



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.....**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**.....The tangible common equity ratio and tangible book value per share are considered to be non-GAAP measures and are calculated by dividing tangible equity by tangible assets or shares outstanding. The Company believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition. This non-GAAP data should be

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considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. Limitations associated with non-GAAP financial measures include the risks that persons might disagree as to the appropriateness of items included in these measures, and, because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies.

The following table sets forth the calculation of the Company's tangible common equity ratio and tangible book value per share at **June 30, 2023** **September 30, 2023** and December 31, 2022 (in thousands, except share and ratio data):

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Total shareholders' equity	\$ 103,565	\$ 106,178	\$ 101,326	\$ 106,178
Less: Intangible assets	13,724	13,739	13,718	13,739
Tangible common equity	89,841	92,439	87,608	92,439
Total assets	1,345,721	1,363,874	1,361,789	1,363,874
Less: Intangible assets	13,724	13,739	13,718	13,739
Tangible assets	1,331,997	1,350,135	1,348,071	1,350,135
Tangible common equity ratio (non-GAAP)	6.74 %	6.85 %	6.50 %	6.85 %
Total shares outstanding	17,147,270	17,117,617	17,147,270	17,117,617
Tangible book value per share (non-GAAP)	\$ 5.24	\$ 5.40	\$ 5.11	\$ 5.40

.....**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**.....The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles (GAAP) and conform to general practices within the banking industry. Accounting and reporting policies for the pension liability, allowance for credit losses (related to investment securities, loans, and unfunded commitments), intangible assets, income taxes, and derivatives (interest rate swaps/~~hedge~~ **hedges**) are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by the Company could result in material changes in the Company's financial position or results of operation.

**ACCOUNT — Pension liability**

**BALANCE SHEET REFERENCE — Other assets**

**INCOME STATEMENT REFERENCE — Salaries and employee benefits and Other expense**

**DESCRIPTION**

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension obligations and future expense. Additionally, pension expense can also be



impacted by settlement accounting charges if the amount of employee selected lump sum distributions exceed the total amount of service and interest component costs of the net periodic pension cost in a particular year. Our pension benefits are described further in Note 16 of the Notes to Unaudited Consolidated Financial Statements.

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**ACCOUNT — Allowance for Credit Losses**

**BALANCE SHEET REFERENCE — Investment securities, net of allowance for credit losses, Allowance for credit losses – loans, Other liabilities**

**INCOME STATEMENT REFERENCE — Provision (credit) for credit losses**

**DESCRIPTION**

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) and subsequent related updates. This standard replaces the incurred loss methodology for recognizing credit losses and requires the Company to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held to maturity (HTM) securities, and off-balance sheet credit exposures such as unfunded commitments. In addition, ASU 2016-13

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requires credit losses on available for sale (AFS) debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell the security.

The Company measures expected credit losses on held to maturity debt securities, which are comprised of U.S. government agency and mortgage-backed securities as well as taxable municipal, corporate, and other bonds. The Company's agency and mortgage-backed securities are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. As such, no allowance for credit losses has been established for these securities. The allowance for credit losses on the taxable municipal, corporate, and other bonds within the held to maturity securities portfolio is calculated using the PD/LGD method. The calculation is completed on a quarterly basis using the default studies provided by an industry leading source. **Based on management judgment, certain qualitative adjustments, such as the Company's historical loss experience and/or the issuer's credit quality, may be applied.**

The Company measures expected credit losses on available for sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis.

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged-off against the ACL when they are deemed uncollectible.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb current expected credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates. This process also considers economic conditions, for a reasonable and supportable forecast period of two years. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

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The Company estimates expected credit losses over the contractual period in which it is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

**ACCOUNT — Intangible assets**

**BALANCE SHEET REFERENCE — Intangible assets**

**INCOME STATEMENT REFERENCE — Other expense**

**DESCRIPTION**

The Company considers our accounting policies related to goodwill and core deposit intangible to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past

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acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill and core deposit intangible, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company's core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the

Company's own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company's goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company's ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company's services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company's deposit and customer base over a longer time frame. The quality and value of a Company's assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to the impairment of goodwill.

Goodwill, which has an indefinite useful life, is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. The core deposit intangible, which is a wasting asset, is amortized and reported in other expense for a period of ten years using the sum of the years digits amortization method.

#### **ACCOUNT — Income Taxes**

#### **BALANCE SHEET REFERENCE — Net deferred tax asset**

#### **INCOME STATEMENT REFERENCE — Provision (credit) for income taxes**

#### **DESCRIPTION**

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. This income tax review is completed on a quarterly basis.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in

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future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of **June 30, 2023** **September 30, 2023**, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

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**ACCOUNT — Derivatives (interest rate swaps/hedges)**  
**BALANCE SHEET REFERENCE — Other assets and Other liabilities**  
**INCOME STATEMENT REFERENCE — Other income**  
**DESCRIPTION**

The Company periodically enters into derivative instruments to meet the financing, interest rate and equity risk management needs of its customers or the Bank.

The Company recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive loss, net of deferred taxes and are subsequently reclassified to earnings when the hedged transaction affects earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

To accommodate the needs of our customers and support the Company's asset/liability positioning, we may enter into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions. The Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings in amounts that offset. These instruments and their offsetting positions are recorded in other assets and other liabilities on the Consolidated Balance Sheets.

**.....FORWARD LOOKING STATEMENT.....**

**THE STRATEGIC FOCUS:**

AmeriServ Financial is committed to increasing shareholder value by striving for consistently improving financial performance; providing our customers with products and exceptional service for every step in their lifetime financial journey; cultivating an employee atmosphere rooted in trust, empowerment and growth; and serving our communities through employee involvement and a philanthropic spirit. We will strive to provide our shareholders with consistently improved financial performance; the products, services and know-how needed to forge lasting banking for life customer relationships; a work environment that challenges and rewards staff; and the manpower and financial resources needed to make a difference in the communities we serve. Our strategic initiatives will focus on these four key constituencies:

- Shareholders — We strive to increase earnings per share; identifying and managing revenue growth and expense control; and managing risk. Our goal is to increase value for AmeriServ shareholders by growing earnings per share and narrowing the financial performance gap between AmeriServ and its peer banks. We try to return earnings to shareholders through a combination of dividends and share repurchases (none currently authorized) subject to maintaining sufficient capital to support balance sheet growth and economic uncertainty. We strive to educate our employee base as to the meaning/importance of earnings per share as a performance measure. We will develop a value added combination for increasing revenue and controlling expenses that is

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rooted in developing and offering high-quality financial products and services; an existing branch network; electronic banking capabilities with 24/7 convenience; and providing truly exceptional customer service. We will explore branch consolidation opportunities and further leverage union affiliated revenue streams, prudently manage the Company's risk profile to improve asset yields and increase profitability and continue to identify and implement technological opportunities and advancements to drive efficiency for the holding company and its affiliates.

- Customers — The Company expects to provide exceptional customer service, identifying opportunities to enhance the Banking for Life philosophy by providing products and services to meet the financial needs in every step through a customer's life cycle, and further defining the role technology plays in anticipating and satisfying customer needs. We anticipate providing leading banking systems and solutions to improve and enhance customers' Banking for Life experience. We will provide customers with a comprehensive offering of

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financial solutions including retail and business banking, home mortgages and wealth management at one location. We have upgraded and modernized select branches to be more inviting and technologically savvy to meet the needs of the next generation of AmeriServ customers without abandoning the needs of our existing demographic.

- Staff — We are committed to developing high-performing employees, establishing and maintaining a culture of trust and effectively and efficiently managing staff attrition. We will employ a work force succession plan to manage anticipated staff attrition while identifying and grooming high performing staff members to assume positions with greater responsibility within the organization. We will employ technological systems and solutions to provide staff with the tools they need to perform more efficiently and effectively.
- Communities — We will continue to promote and encourage employee community involvement and leadership while fostering a positive corporate image. This will be accomplished by demonstrating our commitment to the communities we serve through assistance in providing affordable housing programs for low-to-moderate-income families; donations to qualified charities; and the time and talent contributions of AmeriServ staff to a wide-range of charitable and civic organizations.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "project," "plan" or similar expressions. These forward-looking statements are based upon current expectations, are subject to risk and uncertainties and are applicable only as of the dates of such statements. Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Form 10-Q, even if subsequently made available on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Form 10-Q. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations and supervisory actions by such regulators, including bank failures; (vii) the presence in the Company's market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors' products and services for those of the Company and vice versa; (x) changes in consumer

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spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; (xii) the ability to attract new or retain existing deposits or to retain or grow loans, including growth from unfunded closed loans; (xiii) the ability to generate future revenue growth or to control future growth in non-interest expense, including, but not limited to, those related to technological changes, including changes regarding artificial intelligence and cybersecurity, changes affecting oversight of the financial services industry, and changes intended to manage or mitigate climate and related environmental risks; (xiv) the impact of failure in, or breach of, our operational or security systems or those of third parties with whom we do business, including as a result of cyberattacks or an increase in the incidence of fraud, illegal payments, security breaches or other illegal acts impacting us or our customers; (xv) expense and reputational impact on the Company as a result of litigation and other expenses related to its proxy contest; the continuing activities of an activist shareholder; (xvi) legal, reputational, and financial risks resulting from the MOVEit cyber incident, our ongoing investigation of the incident, including the Company's potential discovery of additional information related

to the incident in connection with this investigation, any potential regulatory inquiries and/or litigation to which the Company may become subject in connection with this incident, the extent of remediation and other additional costs that may be incurred by the Company in connection with this incident, the extent of insurance

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coverage and contractual indemnification, the potential that other third-party vendors may have been affected by the MOVEit vulnerability in a manner that may compromise client data, including personally identifiable information; and (xvii) other external developments which could materially impact the Company's operational and financial performance.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

**Item 3.....QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....**

The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in the Interest Rate Sensitivity section of the MD&A.

**Item 4.....CONTROLS AND PROCEDURES.....**

(a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of **June 30, 2023** **September 30, 2023**, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of **June 30, 2023** **September 30, 2023**, are effective.

(b) Changes in Internal Controls. Effective January 1, 2023, AmeriServ Financial Inc. adopted CECL. The Company designed new controls and modified existing controls as part of this adoption. These additional controls over financial reporting included controls over model creation and design, model governance, assumptions, and expanded controls over loan level data. There were no other changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f)) that occurred during the most recent fiscal quarter that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company's knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

**Item 1A. Risk Factors**

Not Applicable

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

During the quarter ended September 30, 2023, none of our directors or officers (as defined in Section 16 of the Securities Exchange Act of 1934, as amended) adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (each as defined in Item 408(a) and (c) of Regulation S-K).

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**Item 5. Other Information**

During the second quarter of 2023, a prominent third-party vendor (the "Vendor") to AmeriServ Financial Bank (the "Bank") and to AmeriServ Trust and Financial Services Company (the "Trust Company"), each wholly-owned subsidiaries of AmeriServ Financial, Inc. (together with Bank and the Trust Company, the "Company"), confirmed to the Bank and the Trust Company that personally identifiable information associated with their respective clients had been compromised in a security incident that the Vendor experienced ("Vendor Incident"). The Vendor Incident resulted from a zero-day vulnerability in a popular file sharing software that the Vendor used called MOVEit Transfer ("MOVEit"). Progress Software Corporation developed and maintains MOVEit, which is used by thousands of organizations around the world. According to recent national media reports, the MOVEit zero-day vulnerability was exploited in a large-scale cyber campaign that is impacting government agencies, universities, and corporations around the world. Each of the Bank and the Trust Company uses the Vendor for certain operational support services.

As a result of the Vendor Incident, the Vendor recently confirmed to each of the Bank and the Trust Company that an unauthorized party was able to obtain access to certain of the Bank's and Trust Company's client data files in the Vendor's possession that contained social security numbers, account numbers, and other personally identifiable information. The Bank and the Trust Company are working with the Vendor to provide appropriate notifications to potentially affected parties and have provided notice to regulatory agencies as required by federal and state law.

The Vendor confirmed that it has implemented the recommended patches released by Progress Software for the MOVEit platform to date and has taken other security measures with respect to file transfers. Upon learning of the Vendor Incident, the Company promptly commenced an investigation of the matter, including through the engagement of outside independent cybersecurity experts, to determine the scope and nature of any Bank and Trust Company client data that may have been affected. There is no indication the Vendor Incident involved the Company's internal network or IT systems, and there has been no material interruption to the Company's business operations.

The Company has incurred, and may continue to incur, certain expenses related to the Vendor Incident. Further, the Company remains subject to risks and uncertainties as a result of the Vendor Incident, including litigation risk and additional regulatory scrutiny. The Company is continuing to evaluate the full scope and impact of the Vendor Incident.

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**Item 6. Exhibits**

- 3.1 [Amended and Restated Articles of Incorporation as amended through August 11, 2011 \(Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8 \(File No. 333-176869\) filed on September 16, 2011\).](#)
- 3.2 [Bylaws, as amended and restated on April 2, 2020 \(Incorporated by reference to Exhibit 3.1 to the Current report on Form 8-K filed on April 6, 2020\).](#)
- 15.1 [Report of S.R. Snodgrass, P.C. regarding unaudited interim financial statement information.](#)
- 15.2 [Awareness Letter of S.R. Snodgrass, P.C.](#)
- 31.1 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 Includes the following financial and related information from AMERISERV FINANCIAL, INC.'s Quarterly Report on Form 10-Q as of and for the quarter ended **June 30, 2023** **September 30, 2023**, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Loss (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to the Unaudited Consolidated Financial Statements.
- 104 The cover page from this Quarterly Report on Form 10-Q formatted in Inline XBRL.

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

AmeriServ Financial, Inc.

Registrant

Date: **August 10, 2023** **November 9, 2023**

/s/ Jeffrey A. Stopko

Jeffrey A. Stopko

President and Chief Executive Officer

Date: **August 10, 2023** **November 9, 2023**

/s/ Michael D. Lynch

Michael D. Lynch

Executive Vice President and Chief Financial Officer

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Exhibit 15.1

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and the Board of Directors**



To the Stockholders and the Board of Directors

AmeriServ Financial, Inc.

#### Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated balance sheet of AmeriServ Financial, Inc. and subsidiaries (the "Company") as of June 30, 2023, September 30, 2023, the related consolidated statements of operations, and comprehensive income for the three-month loss, and six-month periods ended June 30, 2023 and 2022, the related consolidated statement of changes in shareholders' equity for the six-month period three-month and nine-month periods ended June 30, 2023, September 30, 2023 and 2022, the related consolidated statements of cash flows for the six-month nine-month periods ended June 30, 2023, September 30, 2023 and 2022, and the related notes to the consolidated financial statements (collectively, the interim financial statements). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated March 27, 2023, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2022, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

#### Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

/s/S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania

August 10, November 9, 2023

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Exhibit 15.2

August 10, November 9, 2023

AmeriServ Financial, Inc.  
216 Franklin Street  
P.O. Box 520  
Johnstown, Pennsylvania 15901

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of AmeriServ Financial, Inc. and subsidiaries for the three- and six-month nine-month periods ended June 30,

2023 September 30, 2023 and 2022, as indicated in our report dated August 10, 2023 November 9, 2023; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which was included in your quarterly reports on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, is incorporated by reference in the following Registration Statements:

- Registration Statement No. 333-176869 on Form S-8
- Registration Statement No. 033-56604 on Form S-3
- Registration Statement No. 033-55845 on Form S-8
- Registration Statement No. 033-55207 on Form S-8
- Registration Statement No. 033-55211 on Form S-8
  - Registration Statement No. 333-176869 on Form S-8
  - Registration Statement No. 033-56604 on Form S-3
  - Registration Statement No. 033-55845 on Form S-8
  - Registration Statement No. 033-55207 on Form S-8
  - Registration Statement No. 033-55211 on Form S-8

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Sincerely,

/s/S.R. Snodgrass, P.C.

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Exhibit 31.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934  
AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey A. Stopko, certify that:

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

- (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and
5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: August 10, 2023 November 9, 2023

/s/ Jeffrey A. Stopko

Jeffrey A. Stopko

President & CEO

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**Exhibit 31.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934  
AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Lynch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmeriServ Financial, Inc. (ASF);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and
5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: August 10, 2023 November 9, 2023

/s/ Michael D. Lynch  
Michael D. Lynch  
Executive Vice President & CFO

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Exhibit 32.1

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey A. Stopko, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1). The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey A. Stopko  
Jeffrey A. Stopko  
President and Chief Executive Officer  
August 10, November 9, 2023

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Exhibit 32.2

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. Lynch, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- 1). The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael D. Lynch  
Michael D. Lynch  
Executive Vice President and Chief Financial Officer  
August 10, November 9, 2023

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