REFINITIV

DELTA REPORT

10-Q

MRBK - MERIDIAN CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	894
CHANGES	299
DELETIONS	384
ADDITIONS	211

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2023 March 31, 2024

Or

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

For the transition period from __________ to __________

Commission File Number: **000-55983**

MeridianCorporation.jpg

(Exact name of registrant as specified in its charter)

Pennsylvania	**83-1561918**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 Old Lincoln Highway, Malvern, Pennsylvania 19355

(Address of principal executive offices) (Zip Code)

(484) 568-5000

(Registrant's telephone number, including area code)

Title of class	Trading Symbol	Name of exchange on which registered
Common Stock, $1 par value	MRBK	The NASDAQ Stock Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 in 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. As of November 3, 2023 May 6, 2024 there were 11,177,751 11,185,515 outstanding shares of the issuer's common stock, par value $1.00 per share.

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Glossary of Acronyms, Abbreviations, and Terms

The acronyms, abbreviations, and terms listed below are used in various sections of this report. As used throughout this report, the terms "Meridian", "we", "our", or "us" refer to Meridian Corporation and its consolidated subsidiaries, unless the context otherwise requires.

Acronym	Description
ACH	Automated clearing house
ACL	Allowance for credit losses
AFS	Available-for-sale
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
ALM	Asset / liability management
AOCI	Accumulated other comprehensive income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BHC Act	Bank Holding Company Act of 1956
BOLI	Bank owned life insurance
BSA-AML	Bank Secrecy Act - Anti-Money Laundering
BTFP	Federal Reserve Bank Term Funding Program
CBCA	Change in Bank Control Act
CBLR	Community Bank Leverage Ratio
CDARS	Certificate of Deposit Account Registry Service
CECL	Current expected credit losses
CET1	Common equity tier 1
CFPB	Consumer Financial Protection Bureau
CMO	Collateralized mortgage obligation
COVID-19	Coronavirus Disease 2019
CRE	Commercial real estate
DIF	FDIC’s deposit insurance fund
ECOA	Equal Credit Opportunity Act
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Authority
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank of Pittsburgh
FHLMC	Federal Home Loan Mortgage Corporation or Freddie Mac
FICO	Financing Corporation
FNMA	Federal National Mortgage Association or Fannie Mae
FRB	Federal Reserve Bank of Philadelphia
FTE	Fully taxable equivalent
GAAP	U.S. generally accepted accounting principles
GLB Act	Gramm-Leach-Bliley Act
GNMA	Government National Mortgage Association or Ginnie Mae
GSE	Government-sponsored entities
HTM	Held-to-maturity
ICBA	Independent Community Bankers of America
JOBS Act	Jumpstart Our Business Startups Act of 2012
LBP	Look-back period
LEP	Loss emergence period

LGD	Loss given default
LIBOR	London Inter-bank Offering Rate
LIHTC	Low-income-housing tax credit
MBS	Mortgage-backed securities
MSLP	Main Street Lending Programs
MSR	Mortgage servicing rights
OFAC	Office of Foreign Assets Control
OREO	Other real estate owned
PCAOB	Public Company Accounting Oversight Board
PD	Probability of default
PDBS	Pennsylvania Department of Banking and Securities
PPP	Paycheck Protection Program
ROU	Right-of-use
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SNC	Shared national credit
SOFR	Secure Overnight Financing Rate
TILA	Truth in Lending Act
TDR	Troubled debt restructuring
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veteran's Affairs

MERIDIAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(dollars in thousands, except share data)	*(dollars in thousands, except share data)*	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands, except share data)*	**March 31, 2024**	**December 31, 2023**
Assets:	**Assets:**					
Cash and due from banks	Cash and due from banks	$ 13,737	$ 11,299			
Cash and due from banks						
Cash and due from banks						
Interest-bearing deposits at other banks	Interest-bearing deposits at other banks	46,022	27,092			
Cash and cash equivalents	Cash and cash equivalents	59,759	38,391			
Securities available-for-sale, at fair value (amortized cost of $138,014 and $148,976, respectively)		122,218	135,346			
Securities held-to-maturity, at amortized cost (fair value of $30,665 and $33,085, respectively)		36,232	37,479			
Cash and cash equivalents						
Cash and cash equivalents						

Securities available-for-sale, at fair value (amortized cost of $161,865 and $156,492, respectively)			
Securities held-to-maturity, at amortized cost (fair value of $32,003 and $32,730, respectively)			
Equity investments	Equity investments	2,019	2,086
Mortgage loans held for sale	Mortgage loans held for sale	23,144	22,243
Loans, net of fees and costs	Loans, net of fees and costs	1,885,629	1,743,682
Allowance for credit losses	Allowance for credit losses	(19,683)	(18,828)
Loans and other finance receivables, net of the allowance for credit losses	Loans and other finance receivables, net of the allowance for credit losses	1,865,946	1,724,854
Restricted investment in bank stock	Restricted investment in bank stock	8,309	6,931
Bank premises and equipment, net	Bank premises and equipment, net	13,310	13,349
Bank owned life insurance	Bank owned life insurance	28,641	28,055
Accrued interest receivable	Accrued interest receivable	8,984	7,363
Other real estate owned	Other real estate owned	1,703	1,703
Deferred income taxes	Deferred income taxes	4,993	3,936
Servicing assets	Servicing assets	11,835	12,346
Goodwill	Goodwill	899	899
Intangible assets	Intangible assets	3,022	3,175
Other assets	Other assets	39,957	24,072
Total assets	Total assets	$2,230,971	$2,062,228
Liabilities:	**Liabilities:**		
Liabilities:			
Liabilities:			
Deposits:	Deposits:		
Deposits:			
Deposits:			
Non-interest bearing			
Non-interest bearing			
Non-interest bearing	Non-interest bearing	$ 244,668	$ 301,727

Interest bearing	Interest bearing	1,563,977	1,410,752
Total deposits	Total deposits	1,808,645	1,712,479
Borrowings	Borrowings	177,959	122,082
Subordinated debentures	Subordinated debentures	50,079	40,346
Subordinated debentures			
Subordinated debentures			
Accrued interest payable	Accrued interest payable	7,814	2,389
Other liabilities	Other liabilities	31,360	31,652
Total liabilities	Total liabilities	2,075,857	1,908,948
Stockholders' equity:	**Stockholders' equity:**		
Common stock, $1 par value per share. 25,000,000 shares authorized; 13,180,934 and 13,156,308 shares issued and 11,177,751 and 11,465,572 shares outstanding, respectively		13,181	13,156
Stockholders' equity:			
Stockholders' equity:			
Common stock, $1 par value per share. 25,000,000 shares authorized; 13,188,698 and 13,186,198 shares issued and 11,185,515 and 11,183,015 shares outstanding, respectively			
Common stock, $1 par value per share. 25,000,000 shares authorized; 13,188,698 and 13,186,198 shares issued and 11,185,515 and 11,183,015 shares outstanding, respectively			
Common stock, $1 par value per share. 25,000,000 shares authorized; 13,188,698 and 13,186,198 shares issued and 11,185,515 and 11,183,015 shares outstanding, respectively			
Surplus	Surplus	79,731	79,072
Treasury stock, 2,003,183 and 1,690,736 shares, respectively, at cost		(26,079)	(21,821)
Treasury stock, 2,003,183 and 2,003,183 shares, respectively, at cost			
Unearned common stock held by employee stock ownership plan	Unearned common stock held by employee stock ownership plan	(1,403)	(1,403)
Retained earnings	Retained earnings	102,043	95,815
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(12,359)	(11,539)

Total stockholders' equity	Total stockholders' equity	155,114	153,280
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	$2,230,971	$2,062,228

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended March 31,
	Three months ended March 31,
	Three months ended March 31,
(dollars in thousands, except per share data)	
(dollars in thousands, except per share data)	
(dollars in thousands, except per share data)	
Interest income:	
Interest income:	
Interest income:	
Loans and other finance receivables, including fees	
Loans and other finance receivables, including fees	
Loans and other finance receivables, including fees	
Securities - taxable	
Securities - taxable	
Securities - taxable	
Securities - tax-exempt	
Securities - tax-exempt	
Securities - tax-exempt	
Cash and cash equivalents	
Cash and cash equivalents	
Cash and cash equivalents	
Total interest income	
Total interest income	
Total interest income	
Interest expense:	
Interest expense:	
Interest expense:	
Deposits	
Deposits	
Deposits	
Borrowings	
Borrowings	

Borrowings
Total interest expense
Total interest expense
Total interest expense
Net interest income
Net interest income
Net interest income
Provision for credit losses
Provision for credit losses
Provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Non-interest income:
Non-interest income:
Non-interest income:
Mortgage banking income
Mortgage banking income
Mortgage banking income
Wealth management income
Wealth management income
Wealth management income
SBA loan income
SBA loan income
SBA loan income
Earnings on investment in life insurance
Earnings on investment in life insurance
Earnings on investment in life insurance
Net change in the fair value of derivative instruments
Net change in the fair value of derivative instruments
Net change in the fair value of derivative instruments
Net change in the fair value of loans held-for-sale
Net change in the fair value of loans held-for-sale
Net change in the fair value of loans held-for-sale
Net change in the fair value of loans held-for-investment
Net change in the fair value of loans held-for-investment
Net change in the fair value of loans held-for-investment
Net (loss) gain on hedging activity
Net (loss) gain on hedging activity
Net (loss) gain on hedging activity

	Three months ended September 30,	Nine months ended September 30,

(dollars in thousands, except per share data)		2023	2022	2023	2022
Interest income:					
Loans and other finance receivables, including fees		$ 33,980	$ 21,848	$ 95,612	$ 58,187
Securities - taxable		901	648	2,853	1,599
Securities - tax-exempt		333	369	1,038	1,015
Cash and cash equivalents		245	93	741	157
Total interest income		35,459	22,958	100,244	60,958
Interest expense:					
Deposits		15,543	4,075	41,013	7,182
Borrowings		2,692	857	7,230	2,166
Total interest expense		18,235	4,932	48,243	9,348
Net interest income		17,224	18,026	52,001	51,610
Provision for credit losses		82	526	2,186	1,743
Net interest income after provision for credit losses		17,142	17,500	49,815	49,867
Non-interest income:					
Mortgage banking income		4,819	7,329	13,143	21,367
Wealth management income		1,258	1,114	3,689	3,672
SBA loan income		982	989	3,463	3,946
Earnings on investment in life insurance		201	138	585	413
Net change in the fair value of derivative instruments		103	127	217	(713)
Net change in the fair value of loans held-for-sale		111	(237)	(88)	(1,094)
Net change in the fair value of loans held-for-investment		(570)	(886)	(673)	(2,499)
Net gain on hedging activity		82	399	81	4,941
Net loss on sale of investment securities available-for-sale		(3)	—	(58)	—
Other					
Other					
Other	Other	1,103	1,251	3,489	3,695
Total non-interest income	Total non-interest income	8,086	10,224	23,848	33,728
Total non-interest income					
Total non-interest income					
Non-interest expense:					
Non-interest expense:					
Non-interest expense:	**Non-interest expense:**				
Salaries and employee benefits	Salaries and employee benefits	12,420	13,360	35,633	41,585
Salaries and employee benefits					
Salaries and employee benefits					
Occupancy and equipment					
Occupancy and equipment					
Occupancy and equipment	Occupancy and equipment	1,226	1,191	3,610	3,619
Professional fees	Professional fees	1,104	899	2,930	2,659
Professional fees					
Professional fees					

Advertising and promotion						
Advertising and promotion						
Advertising and promotion	Advertising and promotion	848	1,165	2,799		3,340
Data processing and software	Data processing and software	1,652	1,442	4,764		3,939
Data processing and software						
Data processing and software						
Pennsylvania bank shares tax						
Pennsylvania bank shares tax						
Pennsylvania bank shares tax						
Other						
Other						
Other	Other	2,768	2,204	7,686	—	6,258
Total non-interest expense	Total non-interest expense	20,018	20,261	57,422		61,400
Total non-interest expense						
Total non-interest expense						
Income before income taxes						
Income before income taxes						
Income before income taxes	Income before income taxes	5,210	7,463	16,241		22,195
Income tax expense	Income tax expense	1,205	1,665	3,568		4,927
Income tax expense						
Income tax expense						
Net income						
Net income						
Net income	Net income	$ 4,005	$ 5,798	$ 12,673		$ 17,268
Basic earnings per common share	Basic earnings per common share	$ 0.36	$ 0.49	$ 1.14		$ 1.45
Basic earnings per common share						
Basic earnings per common share						
Diluted earnings per common share						
Diluted earnings per common share						
Diluted earnings per common share	Diluted earnings per common share	$ 0.35	$ 0.48	$ 1.11		$ 1.40
Basic weighted average shares outstanding	Basic weighted average shares outstanding	11,058	11,736	11,129		11,928
Basic weighted average shares outstanding						
Basic weighted average shares outstanding						
Diluted weighted average shares outstanding	Diluted weighted average shares outstanding	11,363	12,118	11,449		12,344
Diluted weighted average shares outstanding						
Diluted weighted average shares outstanding						

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(dollars in thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income:	$ 4,005	$ 5,798	$ 12,673	$ 17,268
Net change in unrealized gains (losses) on investment securities available for sale:				
Change in fair value of investment securities, net of tax of $(575), $(1,129), $(489), and $(3,694), respectively	(2,059)	(3,910)	(1,757)	(12,760)
Reclassification adjustment for net losses (gains) realized in net income, net of tax effect of $1, $0, $13, and $(1), respectively	2	—	45	(9)
Reclassification adjustment for investment securities transferred to held-to-maturity, net of tax effect of $7, $8, $19, and $(293), respectively	22	37	67	(962)
Unrealized investment losses, net of tax effect of $(566), $(1,121), $(457), and $(3,989), respectively	$ (2,035)	$ (3,873)	$ (1,645)	$ (13,731)
Net change in unrealized gains (losses) on interest rate swaps used in cash flow hedges, net of tax effect of $(140), $0, $(233), and $0, respectively	497	—	825	—
Total other comprehensive loss	$ (1,538)	$ (3,873)	$ (820)	$ (13,731)
Total comprehensive income	$ 2,467	$ 1,925	$ 11,853	$ 3,537

(dollars in thousands)	Three months ended March 31, 2024	Three months ended March 31, 2023
Net income:	$ 2,676	$ 4,021
Net change in unrealized (losses) gains on investment securities available for sale:		
Change in fair value of investment securities, net of tax of $(98) and $460, respectively	(298)	1,670
Reclassification adjustment for investment securities transferred to held-to-maturity, net of tax effect of $7 and $0, respectively	22	—
Unrealized investment (losses) gains, net of tax effect of $(90) and $460, respectively	$ (276)	$ 1,670
Net change in unrealized gains on interest rate swaps used in cash flow hedges, net of tax effect of $(247) and $0, respectively	749	—
Total other comprehensive income	$ 473	$ 1,670
Total comprehensive income	$ 3,149	$ 5,691

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(dollars in thousands, except per share data)	*(dollars in thousands, except per share data)*	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total	*(dollars in thousands, except per share data)*	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Three Months Ended September 30, 2023																
Balance at July 1, 2023		$13,181	$79,650	$(26,079)	$ (1,403)	$ 99,434	$(10,821)	$153,962								
Three Months Ended March 31, 2024																
Balance at January 1, 2024																
Balance at January 1, 2024																
Balance at January 1, 2024																
Net income	Net income	—	—	—	—	4,005	—	4,005								
Other comprehensive loss		—	—	—	—	—	(1,538)	(1,538)								
Other comprehensive income																

Dividends declared ($0.125 per share)	Dividends declared ($0.125 per share)	—	—	—	—	(1,396)	—	(1,396)
Common stock issued through share-based awards and exercises								
Common stock issued through share-based awards and exercises								
Common stock issued through share-based awards and exercises								
Stock based compensation expense	Stock based compensation expense	—	81	—	—	—	—	81
Balance at September 30, 2023		$13,181	$79,731	$(26,079)	$ (1,403)	$102,043	$(12,359)	$155,114
Balance at March 31, 2024								

(dollars in thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Nine Months Ended September 30, 2023							
Balance at January 1, 2023	$ 13,156	$ 79,072	$ (21,821)	$ (1,403)	$ 95,815	$ (11,539)	$ 153,280
Adjustment to initially apply ASU No. 2016-13 for CECL (1), net of tax					(2,228)		(2,228)
Net income	—	—	—	—	12,673	—	12,673
Other comprehensive loss	—	—	—	—	—	(820)	(820)
Dividends declared ($0.375 per share)	—	—	—	—	(4,217)	—	(4,217)
Net purchase of treasury stock through publicly announced plans (127,849 shares)	—	—	(4,258)	—	—	—	(4,258)
Common stock issued through share-based awards and exercises	25	144	—	—	—	—	169
Stock based compensation expense	—	515	—	—	—	—	515
Balance at September 30, 2023	$ 13,181	$ 79,731	$ (26,079)	$ (1,403)	$ 102,043	$ (12,359)	$ 155,114

(dollars in thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Three Months Ended September 30, 2022							
Balance at July 1, 2022	$ 13,096	$ 77,824	$ (11,896)	$ (1,602)	$ 87,815	$ (9,150)	$ 156,087
Net income	—	—	—	—	5,798	—	5,798
Other comprehensive loss	—	—	—	—	—	(3,873)	(3,873)
Dividends declared ($0.10 per share)	—	—	—	—	(1,208)	—	(1,208)
Net purchase of treasury stock through publicly announced plans (394,838 shares)	—	—	(6,137)	—	—	—	(6,137)
Common stock issued through share-based awards and exercises	5	112	—	—	—	—	117
Stock based compensation expense	—	377	—	—	—	—	377
Balance at September 30, 2022	$ 13,101	$ 78,313	$ (18,033)	$ (1,602)	$ 92,405	$ (13,023)	$ 151,161

(dollars in thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Three Months Ended March 31, 2023							
Balance at January 1, 2023	$ 13,156	$ 79,072	$ (21,821)	$ (1,403)	$ 95,815	$ (11,539)	$ 153,280
Adjustment to initially apply ASU No. 2016-13 for CECL, net of tax	—	—	—	—	(2,228)	—	(2,228)
Net income	—	—	—	—	4,021	—	4,021
Other comprehensive income	—	—	—	—	—	1,670	1,670

	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Dividends declared ($0.125 per share)	—	—	—	—	(1,428)	—	(1,428)
Net purchase of treasury stock through publicly announced plans (184,598 shares)	—	—	(2,691)	—	—	—	(2,691)
Common stock issued through share-based awards and exercises	24	124	—	—	—	—	148
Stock based compensation expense	—	277	—	—	—	—	277
Balance at March 31, 2023	$ 13,180	$ 79,473	$ (24,512)	$ (1,403)	$ 96,180	$ (9,869)	$ 153,049

(dollars in thousands, except per share data)	Common Stock	Surplus	Treasury Stock	Unearned ESOP	Retained Earnings	AOCI	Total
Nine Months Ended September 30, 2022							
Balance at January 1, 2022	$ 13,070	$ 77,128	$ (8,860)	$ (1,602)	$ 84,916	$ 708	$ 165,360
Net income	—	—	—	—	17,268	—	17,268
Other comprehensive loss	—	—	—	—	—	(13,731)	(13,731)
Dividends declared ($0.80 per share)	—	—	—	—	(9,779)	—	(9,779)
Net purchase of treasury stock through publicly announced plans (589,608 shares)	—	—	(9,173)	—	—	—	(9,173)
Common stock issued through share-based awards and exercises	31	454	—	—	—	—	485
Stock based compensation expense	—	731	—	—	—	—	731
Balance at September 30, 2022	$ 13,101	$ 78,313	$ (18,033)	$ (1,602)	$ 92,405	$ (13,023)	$ 151,161

(1) See Note 1, "Summary of Significant Accounting Policies - Pronouncements Adopted in 2023" for additional information.

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

		Nine months ended September 30,	
		2023	**2022**
(dollars in thousands)	*(dollars in thousands)*		
Net income	Net income	$ 12,673	$ 17,268
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Loss on sale of investment securities		58	—

	Three months ended March 31,	
(dollars in thousands)	**2024**	**2023**
Adjustments to reconcile net income to net cash used in operating activities:		
Net amortization of investment premiums and discounts and change in fair value of equity securities		
Net amortization of investment premiums and discounts and change in fair value of equity securities		

Net amortization of investment premiums and discounts and change in fair value of equity securities	Net amortization of investment premiums and discounts and change in fair value of equity securities	1,225	668
Depreciation and amortization (accretion), net	Depreciation and amortization (accretion), net	289	(1,343)
Provision for credit losses	Provision for credit losses	2,186	1,743
Amortization of issuance costs on subordinated debt	Amortization of issuance costs on subordinated debt	56	89
Stock based compensation	Stock based compensation	515	731
Net change in fair value of derivative instruments	Net change in fair value of derivative instruments	(217)	713
Net change in fair value of loans held for sale	Net change in fair value of loans held for sale	88	1,094
Net change in fair value of loans held for investment	Net change in fair value of loans held for investment	673	2,499
Amortization and net impairment of servicing rights	Amortization and net impairment of servicing rights	1,618	1,753
SBA loan income	SBA loan income	(3,463)	(3,946)
Proceeds from sale of loans	Proceeds from sale of loans	515,573	863,056
Loans originated for sale	Loans originated for sale	(504,880)	(794,541)
Mortgage banking income	Mortgage banking income	(13,143)	(21,367)
Increase in accrued interest receivable	Increase in accrued interest receivable	(1,621)	(999)
Increase in other assets	Increase in other assets	(4,874)	(1,675)

Earnings from investment in bank owned life insurance	Earnings from investment in bank owned life insurance	(585)	(413)
(Increase) decrease in deferred income tax		170	(219)
Increase in accrued interest payable		5,425	1,123
Increase in deferred income tax			
(Decrease) increase in accrued interest payable			
Decrease in other liabilities	Decrease in other liabilities	(778)	(2,579)
Net cash provided by operating activities		$ 10,988	$ 63,655
Net cash used in operating activities			
Cash flows from investing activities:	**Cash flows from investing activities:**		
Cash flows from investing activities:			
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Activity in available-for-sale securities:			
Activity in available-for-sale securities:	Activity in available-for-sale securities:		
Maturities, repayments and calls	Maturities, repayments and calls	7,301	8,662
Sales		13,514	—
Maturities, repayments and calls			
Maturities, repayments and calls			
Purchases			
Purchases			
Purchases	Purchases	(12,949)	(22,176)
Activity in held-to-maturity securities:	Activity in held-to-maturity securities:		
Maturities, repayments and calls	Maturities, repayments and calls	1,020	540
Purchases		—	(5,500)
Maturities, repayments and calls			
Maturities, repayments and calls			

Increase in restricted stock			
Increase in restricted stock			
Increase in restricted stock	Increase in restricted stock	(1,378)	(100)
Net increase in loans	Net increase in loans	(149,462)	(225,967)
Purchases of premises and equipment	Purchases of premises and equipment	(1,080)	(2,020)
Net cash used in investing activities	Net cash used in investing activities	$ (143,034)	$ (246,561)
Net cash used in investing activities			
Net cash used in investing activities			
Cash flows from financing activities:	**Cash flows from financing activities:**		
Cash flows from financing activities:			
Cash flows from financing activities:			
Net increase in deposits			
Net increase in deposits			
Net increase in deposits	Net increase in deposits	96,166	227,140
Increase (decrease) in short-term borrowings		37,201	(17,886)
(Decrease) increase in short-term borrowings			
(Decrease) increase in short-term borrowings			
(Decrease) increase in short-term borrowings			
Increase in long-term debt	Increase in long-term debt	18,676	—
Repayment of subordinated debt	Repayment of subordinated debt	(54)	—
Proceeds from issuance of subordinated debt		9,740	—
Issuance costs on subordinated debt		(9)	—
Repayment of subordinated debt			
Repayment of subordinated debt			
Net purchase of treasury stock			
Net purchase of treasury stock			
Net purchase of treasury stock	Net purchase of treasury stock	(4,258)	(9,173)
Dividends paid	Dividends paid	(4,217)	(9,779)
Share based awards and exercises	Share based awards and exercises	169	485
Net cash provided by financing activities	Net cash provided by financing activities	$ 153,414	$ 190,787
Net change in cash and cash equivalents	Net change in cash and cash equivalents	21,368	7,881

Net change in cash and cash equivalents			
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	38,391	23,480
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	$ 59,759	$ 31,361
Supplemental disclosure of cash flow information:	**Supplemental disclosure of cash flow information:**		
Supplemental disclosure of cash flow information:			
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Cash paid during the period for:			
Cash paid during the period for:	Cash paid during the period for:		
Interest	Interest	$ 42,818	$ 8,225
Income taxes		1,839	5,365
Interest			
Interest			
Transfers from loans held for sale to loans held for investment		351	2,955
Net loans sold, not settled	Net loans sold, not settled	12,820	—
Transfer of securities from AFS to HTM		—	23,655
Net loans sold, not settled			
Net loans sold, not settled			

See accompanying notes to the unaudited consolidated financial statements.

MERIDIAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The Corporation's unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Amounts subject to significant estimates are items such as the allowance for credit losses, lending related commitments and the related unfunded commitment reserve, the fair value of financial instruments, other-than-temporary impairments of investment securities, and the valuations of goodwill, intangible assets, and servicing assets.

These unaudited consolidated financial statements should be read in conjunction with the Corporation's filings with the SEC (including our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023), subsequently filed quarterly reports on Form 10-Q and current reports on Form 8-K that update or provide information in addition to the information included in Form 10-K and Form 10-Q filings, if any.

Certain prior period amounts have been reclassified to conform with current period presentation. Reclassifications had no effect on net income or stockholders' equity. Operating results for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results for the year ending December 31, 2023 December 31, 2024 or for any other period.

Stock Split

On February 28, 2023, the Corporation approved and declared a two-for-one stock split in the form of a stock dividend, paid March 20, 2023, to shareholders of record as of March 14, 2023. Under the terms of the stock split, the Corporation's shareholders received a dividend of one share for every share held on the record date. The dividend was paid in authorized but unissued shares of common stock of the Corporation. The par value of the Corporation's stock was not affected by the split and remained at $1.00 per share. All share and per share amounts reported in the consolidated financial statements have been adjusted to reflect the two-for-one stock split.

Loans

Loans held for investment are recorded at amortized cost, net of ACL. Amortized cost is the amount at which a financial asset is originated or acquired, adjusted for the amortization of premium and discount, net deferred fees or costs, collection of cash, and write-offs. Interest income on loans is recognized using the level yield method. Loan origination fees, commitment fees and direct loan origination costs are deferred and recognized over the life of the related loans using a level yield method over the period to maturity.

Allowance for Credit Losses - Loans and Leases

On January 1, 2023, the Corporation adopted ASU 2016-13, Financial Instruments-Credit Losses ("Topic 326"), which replaced the incurred loss impairment model with an expected loss methodology that is referred to as the CECL methodology. The Corporation now establishes an ACL in accordance with Topic 326. The ACL includes quantitative and qualitative factors that comprise management's current estimate of expected credit losses, including portfolio mix and segmentation, modeling methodology, historical loss experience, relevant available information from internal and external sources relating to reasonable and supportable forecasts about future economic conditions, prepayment speeds, and qualitative adjustment factors.

The Corporation's portfolio segments, established based on similar risk characteristics and loss behaviors, are:

• Commercial mortgage, commercial and industrial, construction, SBA loans, and commercial small business leases (commercial loans), and
• Residential, equity secured lines and loans, and installment loans (retail loans).

Expected credit losses are estimated over the contractual term, adjusted for expected prepayments and recoveries. The contractual term excludes any extensions, renewals and modifications unless the Corporation has reasonable expectations at the reporting date that it will result in a modification, or they are not unconditionally cancellable. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance includes two primary components: (i) an allowance established on loans which share similar risk characteristics collectively evaluated for credit losses (collective basis) and (ii) an allowance established on loans which do not share similar risk characteristics with any loan segment and are individually evaluated for credit losses (individual basis).

Loans that share similar risk characteristics are collectively reviewed for credit loss and are evaluated based on historical loss experience, adjusted for current economic conditions and future economic forecasts. Estimated losses are determined differently for commercial and consumer loans, and each portfolio segment is further segmented by internally assessed risk ratings.

Management uses a third-party economic forecast to modify the calculated historical loss rates of the portfolio segments. The Corporation's economic forecast extends out 4 quarters (the forecast period) and reverts to the historical loss rates on a straight-line basis over 1 quarter (the reversion period) as we believe this to be reasonable and supportable in the current environment. The economic forecast and reversion periods will be evaluated periodically by management and updated as appropriate.

The historical loss rates for commercial loans are estimated by determining the PD and expected LGD. The PD is calculated based on the historical rate of migration to an event of credit loss during the look-back period. The historical loss rates for retail loans is calculated based solely on average net loss rates over the same look-back period. The Corporation's current look-back period is 32 quarters which helps to ensure that historical loss rates are adequately considering losses over a full economic cycle.

Loans that do not share similar risk characteristics with any loan segments are evaluated on an individual basis. These loans, which may include borrowers experiencing financial difficulties, are not included in the collective basis evaluation. When it is probable that collection of all principal and interest due according to their contractual terms is not likely, which is assessed based on the credit characteristics of the loan and/or payment status, these loans are individually reviewed and measured for potential credit loss.

The amount of the potential credit loss is measured using one of three methods: (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the fair value of collateral, if the loan is collateral dependent; or (iii) the loan's observable market price. If the measured fair value of the loan is less than the amortized cost basis of the loan, an allowance for credit loss is recorded.

For collateral dependent loans, the expected credit losses at the individual asset level is the difference between the collateral's fair value (less cost to sell) and the amortized cost.

Qualitative adjustment factors consider various internal and external conditions which are allocated among loan segments and take into consideration:

• Current underwriting policies, staff and portfolio concentrations,
• Risk rating accuracy, credit and administration,
• Internal risk emergence (including internal trends of delinquency, portfolio growth, and collateral value), and
• , Competitive environment, as it could impact loan structure and underwriting.

These factors are based on their relative standing compared to the period in which historical losses are used in quantitative reserve estimates and current directional trends, and reasonable and supportable forecasts. Qualitative factors in the model can add to or subtract from quantitative reserves.

Loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with individual problem loans. In addition, various regulatory agencies periodically review our loan ratings and allowance for credit losses and the Bank's internal loan review department performs loan reviews.

Accrued interest receivable on loans is excluded from the estimate of credit losses and is included in *Accrued interest receivable* on the Consolidated Balance Sheets.

For additional detail regarding the allowance for credit losses and the provision for credit losses, see Note 5.

Past Due and Nonaccrual Loans

Past due loans and leases are defined as loans contractually past due 30 - 89 days as to principal or interest payments but which remain in accrual status, or loans delinquent 90 days or more but are considered well secured and in the process of collection.

Nonaccruing loans and leases are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and the loan is not well secured and in the process of collection. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management’s assessment of the ultimate collectability of principal and interest. Loans are returned to accrual status when it is determined that the borrower has the ability to make all principal and interest payments in accordance with the terms of the loan (i.e. a consistent repayment record, generally six consecutive payments, has been demonstrated).

Unless loans are well-secured and collection is imminent, for loans greater than 90 days past due their respective reserves are generally charged off once the loss has been confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those securities that the Corporation intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Corporation’s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for the amortization of premiums and accretion of discounts, using the specific identification method.

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed on a level yield basis.

Investments in equity securities are recorded in accordance with ASC 321-10, *Investments - Equity Securities.* Equity securities are carried at fair value, with changes in fair value reported in net income. At September 30, 2023 and December 31, 2022, investments in equity securities consisted of an investment in mutual funds with a fair value of $2.0 million, and $2.1 million, respectively.

The Corporation’s accounting policy specifies that (a) if the Corporation does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired, unless there is a credit loss. When the Corporation does not intend to sell the security, and it is more likely than not, the Corporation will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Corporation did not recognize any other-than-temporary impairment charges during the three and nine months ended September 30, 2023 and 2022.

Allowance for Credit Losses - Held-to-Maturity Debt Securities

We follow Accounting Standards Codification (ASC) 326-20, *Financial Instruments - Credit Loss - Measured at Amortized Cost,* to measure expected credit losses on held-to-maturity debt securities on a collective basis by security investment grade. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Corporation classifies the held-to-maturity debt securities into the following major security types: state and municipal securities. These securities are highly rated with a history of no credit losses, and are assigned ratings based on the most recent data from ratings agencies depending on the availability of data for the security. Credit ratings of held-to-maturity debt securities, which are a significant input in calculating the expected credit loss, are reviewed on a quarterly basis.

Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses and is included in *Accrued interest receivable* on the Consolidated Balance Sheets.

Allowance for Credit Losses - Available-for-Sale Debt Securities

We follow ASC 326-30, *Financial Instruments -* Credit *Loss - Available-for-Sale Debt Securities,* which provides guidance related to the recognition of and expanded disclosure requirements for expected credit losses on available-for-sale debt securities. For available-for-sale debt securities in an unrealized loss position, the Corporation first evaluates whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is reduced to fair value and recognized as a reduction to *Noninterest income* in the Consolidated Statements of Income.

For debt securities available-for-sale which the Corporation does not intend to sell, or it is not likely the security would be required to be sold before recovery, we evaluate whether a decline in fair value has resulted from credit losses or other adverse factors, such as a change in the security's credit rating. In assessing whether a credit loss exists, the Corporation compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance is recorded, limited to the fair value of the security.

Management performs this analysis on a quarterly basis to review the conditions and risks associated with the individual securities. Credit losses on an impaired security shall continue to be measured using the present value of expected future cash flows. Any impairment not recorded through an allowance for credit loss is included in other comprehensive income (loss), net of the tax effect. We are required to use our judgment in determining impairment in certain circumstances. For additional detail regarding debt securities, see Note 3.

Unfunded Lending Commitments

For unfunded lending commitments, the Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The estimate includes consideration of the probability of default and utilization rate at default to calculate expected credit losses on commitments expected to be funded over its estimated life of one year, based on historical losses, and qualitative adjustment factors.

The allowance for credit losses for off-balance sheet exposures is included in Other liabilities on the Consolidated Balance Sheets and the provision for credit losses for off-balance sheet exposure is included in the provision for credit losses on the Consolidated Statements of Income for the periods ended September 30, 2023, and in other non-interest expense for periods prior to the adoption of ASU-2016-13 on January 1, 2023. The allowance for credit losses for off-balance sheet exposures was $1.0 million and $173 thousand as of September 30, 2023 and December 31, 2022, respectively.

Pronouncements Adopted in 2023

FASB ASU 2016-13 (Topic 326), “Measurement of Credit Losses on Financial Instruments”

The Corporation adopted ASU 2016-13, as amended, on January 1, 2023, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, net of fees and costs, securities HTM, unfunded lending commitments (including loan commitments on loans held for investment, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842. In addition, ASC 326 made changes to the accounting for securities AFS which now requires credit losses to be presented as an allowance rather than as an other-than-temporary impairment on securities AFS management does not intend to sell or believes that it is more likely than not they will be required to sell.

We applied the modified retrospective method for all financial assets measured at amortized cost and securities AFS. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a one-time decrease to retained earnings of $2.2 million on January 1, 2023 for the cumulative effect of adopting ASC 326, net of tax. The transition adjustment includes $1.2 million and $974 thousand post-tax impacts for loans, net of fees and costs and unfunded loan commitments, respectively, due to higher expected credit losses compared to the incurred loss methodology primarily driven by longer duration commercial and consumer real estate loans.

FASB ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments”

Issued in April 2019, ASU 2019-04 clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments (addressed by ASUs 2016-13, 2017-12, and 2016-01, respectively). The amendments to estimating expected credit losses (ASU 2016-13), in particular, how a company considers recoveries and extension options when estimating expected credit losses, are the most relevant to the Corporation. The ASU clarifies that (1) the estimate of expected credit losses should include expected recoveries of financial assets, including recoveries of amounts expected to be written off and those previously written off, and (2) that contractual extension or renewal options that are not unconditionally cancellable by the lender are considered when determining the contractual term over which expected credit losses are measured. The Corporation adopted ASU 2019-04 at the same time ASU 2016-13 was adopted.

FASB ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures."

In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted CECL and enhance the disclosure requirements for modifications of receivables made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current period gross write-offs by year of origination for financing receivables and net investment in leases in the existing vintage disclosures. The Corporation adopted ASU 2022-02 at the same time ASU 2016-13 was adopted, as of January 1, 2023. The adoption of this ASU resulted in updated disclosures within our financial statements but otherwise did not have a material impact on the Corporation's financial statements. See Note 5.

Pronouncements Not Yet Effective as of September 30, 2023:

FASB ASU 2020-04 (Topic 848), “Reference Rate Reform (“ASC 848”): Facilitation of the Effects of Reference Rate Reform on Financial Reporting”

Issued in March 2020, ASU 2020-04 contains optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The Corporation does not have a significant concentration of loans, derivative contracts, borrowings or other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The Corporation expects to adopt the LIBOR transition relief allowed under this standard. 2024

FASB ASU 2020-06, “Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity”

This ASU clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update reduce the number of accounting models for convertible debt instruments and convertible preferred stock by removing the cash conversion model and the beneficial conversion feature models. For public business entities that meet the definition of an SEC filer (excluding smaller reporting entities), the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, and interim periods within. Early adoption is permitted, but no earlier than for fiscal years beginning after Dec. 15, 2020. The Corporation does Adoption of this standard did not expect this to have a material impact on our consolidated financial statements.

FASB ASU 2023-02, "Investments Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"

In March 2023, the FASB issued ASU 2023-02, Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits. If certain conditions are met,

a reporting entity may elect to account for its tax equity investments by using the proportional amortization method regardless of the program from which it receives income tax credits, instead of only LIHTC structures. This amendment also eliminates certain LIHTC specific guidance aligning the accounting with other equity investments in tax credit structures. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. We are evaluating the accounting and disclosure requirements Adoption of ASU 2023-02 and do this standard did not expect them to have a material effect on our consolidated financial statements.

Pronouncements Not Yet Effective as of March 31, 2024:

FASB ASU 2020-04 (Topic 848), “Reference Rate Reform (“ASC 848”): Facilitation of the Effects of Reference Rate Reform on Financial Reporting”

Issued in March 2020, ASU 2020-04 contains optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The Corporation does not have a significant concentration of loans, derivative contracts, borrowings or other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The Corporation expects to adopt the LIBOR transition relief allowed under this standard throughout 2024.

FASB ASU 2023-07, “Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures”

The amendments in this update improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more decision-useful financial analyses. The amendments in this update also do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Corporation is currently evaluating the impact on its results of operation, financial position, liquidity, and disclosures.

FASB ASU 2023-09, “Income Taxes (Topic 740) Improvements to Income Tax Disclosures”

The amendments in this update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This update also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments in this update are effective for fiscal years beginning after December 15, 2024 and are to be applied on a prospective basis. Early adoption is permitted.The Corporation is currently evaluating the impact on its disclosures.

FASB ASU 2024-01 Stock Compensation - Scope Application of Profits Interest and Similar Awards

The amendments in this update improve the understandability of paragraph 718-10-15-3 apply to all entities that enter into share-based payments transactions. The amendments in this update are effective for fiscal years beginning after December 15, 2024 and are to be applied on a prospective basis. The Corporation is currently evaluating the impact on its disclosures.

(2) Earnings per Common Share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period reduced by unearned ESOP Plan shares and treasury shares. Diluted earnings per common share takes into account the potential dilution computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock, and if restricted stock awards were vested, and if SERP plan liabilities were satisfied with common shares. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive.

		Three months ended September 30,		Nine months ended September 30,	
		Three months ended March 31,			
		Three months ended March 31,			
		Three months ended March 31,			
(dollars in thousands, except per share data)					
(dollars in thousands, except per share data)					
(dollars in thousands, except per share data)	*(dollars in thousands, except per share data)*	**2023**	**2022**	**2023**	**2022**
Numerator for earnings per share:	**Numerator for earnings per share:**				
Numerator for earnings per share:					
Numerator for earnings per share:					
Net income available to common stockholders					
Net income available to common stockholders					
Net income available to common stockholders	Net income available to common stockholders	$ 4,005	$ 5,798	$ 12,673	$ 17,268
Denominators for earnings per share:	**Denominators for earnings per share:**				
Denominators for earnings per share:					
Denominators for earnings per share:					
Weighted average shares outstanding					
Weighted average shares outstanding					
Weighted average shares outstanding	Weighted average shares outstanding	11,228	11,936	11,307	12,076
Average unearned ESOP shares	Average unearned ESOP shares	(170)	(200)	(178)	(148)
Average unearned ESOP shares					
Average unearned ESOP shares					
Basic weighted averages shares outstanding					

Basic weighted averages shares outstanding					
Basic weighted averages shares outstanding	Basic weighted averages shares outstanding	11,058	11,736	11,129	11,928
Dilutive effects of assumed exercises of stock options	Dilutive effects of assumed exercises of stock options	119	232	149	274
Dilutive effects of assumed exercises of stock options					
Dilutive effects of assumed exercises of stock options					
Dilutive effects of SERP shares	Dilutive effects of SERP shares	186	150	171	142
Dilutive effects of SERP shares					
Dilutive effects of SERP shares					
Diluted weighted averages shares outstanding					
Diluted weighted averages shares outstanding					
Diluted weighted averages shares outstanding	Diluted weighted averages shares outstanding	11,363	12,118	11,449	12,344
Basic earnings per share	Basic earnings per share	$ 0.36	$ 0.49	$ 1.14	$ 1.45
Basic earnings per share					
Basic earnings per share					
Diluted earnings per share					
Diluted earnings per share					
Diluted earnings per share	Diluted earnings per share	$ 0.35	$ 0.48	$ 1.11	$ 1.40
Antidilutive shares excluded from computation of average dilutive earnings per share	Antidilutive shares excluded from computation of average dilutive earnings per share	490	474	490	472
Antidilutive shares excluded from computation of average dilutive earnings per share					
Antidilutive shares excluded from computation of average dilutive earnings per share					

(3) Securities

The following tables presents the amortized cost, allowance for credit losses, and fair value of securities at the dates indicated:

		September 30, 2023					
		March 31, 2024					
(dollars in thousands)	*(dollars in thousands)*	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Allowance for Credit Losses**	**Fair value**	**# of Securities in unrealized loss position**
Securities available-for-sale:	**Securities available-for-sale:**						

	March 31, 2024					
(dollars in thousands)	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Allowance for credit losses**	**Fair value**	**# of Securities in unrealized loss position**

U.S. asset backed securities

U.S. asset backed securities

U.S. asset backed securities	U.S. asset backed securities	$ 11,580	$ 98	$ (202)	$ —	$ 11,476	9
U.S. government agency MBS	U.S. government agency MBS	11,744	—	(610)	—	11,134	13
U.S. government agency CMO	U.S. government agency CMO	22,226	—	(2,854)	—	19,372	30
State and municipal securities	State and municipal securities	40,275	—	(6,890)	—	33,385	31
U.S. Treasuries	U.S. Treasuries	32,982	—	(3,453)	—	29,529	25
Non-U.S. government agency CMO	Non-U.S. government agency CMO	11,007	1	(788)	—	10,220	13
Corporate bonds	Corporate bonds	8,200	—	(1,098)	—	7,102	13
Total securities available-for-sale	Total securities available-for-sale	$ 138,014	$ 99	$ (15,895)	$ —	$122,218	134

Amortized cost

Amortized cost

	Amortized cost	**Gross unrecognized gains**	**Gross unrecognized losses**	**Allowance for credit losses**	**Fair value**	**# of Securities in unrecognized loss position**

Securities held to maturity: **Securities held to maturity:**

State and municipal securities

State and municipal securities

State and municipal securities	State and municipal securities	$ 36,232	$ —	$ (5,567)	$ —	$ 30,665	24
Total securities held-to-maturity	Total securities held-to-maturity	$ 36,232	$ —	$ (5,567)	$ —	$ 30,665	24

	December 31, 2022				
(dollars in thousands)	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	**# of Securities in unrealized loss position**

December 31, 2023 **Decembe**

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	Amortized cost	Gross unrealized gains	Gross unrealized losses	Allowance for credit losses	Fair value	
Securities available-for-sale:						
U.S. asset backed securities	$ 15,581	$ 14	$ (314)		$ 15,281	12
U.S. government agency MBS	12,272	5	(538)		11,739	12
U.S. government agency CMO	25,520	40	(2,242)		23,318	29
State and municipal securities	44,700	—	(5,862)		38,838	34
U.S. Treasuries	32,980	—	(3,457)		29,523	25
Non-U.S. government agency CMO	9,722	—	(633)		9,089	11
Corporate bonds	8,201	—	(643)		7,558	12
Total securities available-for-sale	$ 148,976	$ 59	$ (13,689)		$ 135,346	135

U.S. asset backed securities

U.S. asset backed securities

Securities held-to-maturity:

Amortized cost

Amortized cost

	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Allowance for credit losses	Fair value	# Secu unrec loss p
Securities held to maturity:						
State and municipal securities	$ 37,479	$ —	$ (4,394)		$ 33,085	25

State and municipal securities

State and municipal securities

Total securities held-to-maturity

Although the Corporation's investment portfolio overall is in a net unrealized loss position at September 30, 2023 March 31, 2024, the temporary impairment in the above noted securities is primarily the result of changes in market interest rates subsequent to purchase and it is more likely than not that the Corporation will not be required to sell these securities prior to recovery to satisfy liquidity needs, and therefore, no securities are deemed to be other-than-temporarily impaired.

The following table shows the Corporation's investment gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at the dates indicated:

	March 31, 2024					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available-for-sale:						
U.S. asset backed securities	$ 5,729	$ (32)	$ 5,207	$ (143)	$ 10,936	$ (175)
U.S. government agency MBS	3,653	(70)	8,255	(373)	11,908	(443)
U.S. government agency CMO	4,837	(57)	18,282	(2,264)	23,119	(2,321)
State and municipal securities	—	—	35,731	(4,180)	35,731	(4,180)
U.S. Treasuries	—	—	30,318	(2,665)	30,318	(2,665)
Non-U.S. government agency CMO	2,438	(14)	5,937	(521)	8,375	(535)
Corporate bonds	907	(94)	6,360	(839)	7,267	(933)
Total securities available-for-sale	$ 17,564	$ (267)	$ 110,090	$ (10,985)	$ 127,654	$ (11,252)
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
Securities held-to-maturity:						
State and municipal securities	$ 1,067	$ (2)	$ 29,631	$ (3,172)	$ 30,698	$ (3,174)
Total securities held-to-maturity	$ 1,067	$ (2)	$ 29,631	$ (3,172)	$ 30,698	$ (3,174)

	December 31, 2023					
	Less than 12 Months		12 Months or more		Total	
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available-for-sale:						
U.S. asset backed securities	$ 4,981	$ (25)	$ 6,195	$ (188)	$ 11,176	$ (213)
U.S. government agency MBS	4,864	(35)	8,170	(445)	13,034	(480)
U.S. government agency CMO	2,687	(36)	16,886	(2,241)	19,573	(2,277)
State and municipal securities	—	—	36,216	(3,877)	36,216	(3,877)
U.S. Treasuries	—	—	30,422	(2,560)	30,422	(2,560)
Non-U.S. government agency CMO	1,127	(4)	6,065	(548)	7,192	(552)
Corporate bonds	907	(93)	6,288	(912)	7,195	(1,005)
Total securities available-for-sale	$ 14,566	$ (193)	$ 110,242	$ (10,771)	$ 124,808	$ (10,964)
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
Securities held-to-maturity:						
State and municipal securities	$ 1,021	$ (6)	$ 29,404	$ (3,097)	$ 30,425	$ (3,103)
Total securities held-to-maturity	$ 1,021	$ (6)	$ 29,404	$ (3,097)	$ 30,425	$ (3,103)

The amortized cost and carrying value of securities are shown below by contractual maturities at the dates indicated. Actual maturities may differ from contractual maturities as issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	March 31, 2024							
	Available-for-sale				Held-to-maturity			
(dollars in thousands)	Amortized cost		Fair value		Amortized cost		Fair value	
Due in one year or less	$	—	$	—	$	—	$	—
Due after one year through five years		32,983		30,318		3,334		3,212
Due after five years through ten years		16,509		15,036		4,337		3,677
Due after ten years		50,887		47,115		27,486		25,114
Subtotal		100,379		92,469		35,157		32,003
Mortgage-related securities		61,486		58,527		—		—
Total	$	161,865	$	150,996	$	35,157	$	32,003

There were no sales of investment securities available for sale for the three month ended March 31, 2024, or 2023.

ACL on Securities AFS and HTM

We use credit ratings quarterly and the most recent financial information of securities' issuers annually to help evaluate the credit quality of our securities AFS and HTM portfolios on a quarterly basis. The securities portfolio consists primarily of U.S. government treasuries and U.S. government agency asset backed securities which have no probability of default. The remaining portfolio consists of highly rated municipal bonds, non-agency CMO, and corporate bonds that have a low probability of default.

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we had no significant ACL or provision expense and no charge-offs or recoveries on AFS or HTM securities.

The following table shows the Corporation's investment gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at the dates indicated:

	September 30, 2023											
	Less than 12 Months				12 Months or more				Total			
(dollars in thousands)	Fair value		Unrealized losses		Fair value		Unrealized losses		Fair value		Unrealized losses	
Securities available-for-sale:												
U.S. asset backed securities	$	1,345	$	—	$	6,489	$	(202)	$	7,834	$	(202)
U.S. government agency mortgage-backed securities		3,092		(32)		8,042		(578)		11,134		(610)
U.S. government agency collateralized mortgage obligations		2,728		(76)		16,644		(2,778)		19,372		(2,854)
State and municipal securities		—		—		33,385		(6,890)		33,385		(6,890)
U.S. Treasuries		—		—		29,529		(3,453)		29,529		(3,453)
Non-U.S. government agency collateralized mortgage obligations		3,229		(22)		6,400		(766)		9,629		(788)
Corporate bonds		907		(93)		6,195		(1,005)		7,102		(1,098)
Total securities available-for-sale	$	11,301	$	(223)	$	106,684	$	(15,672)	$	117,985	$	(15,895)
Securities held-to-maturity:												
State and municipal securities	$	2,966	$	(155)	$	27,245	$	(5,412)	$	30,211	$	(5,567)
Total securities held-to-maturity	$	2,966	$	(155)	$	27,245	$	(5,412)	$	30,211	$	(5,567)

	December 31, 2022											
	Less than 12 Months				12 Months or more				Total			
(dollars in thousands)	Fair value		Unrealized losses		Fair value		Unrealized losses		Fair value		Unrealized losses	
Securities available-for-sale:												
U.S. asset backed securities	$	6,531	$	(80)	$	4,863	$	(234)	$	11,394	$	(314)
U.S. government agency MBS		6,022		(230)		4,637		(308)		10,659		(538)
U.S. government agency CMO		9,859		(821)		9,549		(1,421)		19,408		(2,242)
State and municipal securities		7,487		(726)		31,351		(5,136)		38,838		(5,862)

U.S. Treasuries		1,902		(97)		27,622		(3,360)		29,524		(3,457)
Non-U.S. government agency CMO		8,423		(464)		666		(169)		9,089		(633)
Corporate bonds		5,019		(431)		1,538		(212)		6,557		(643)
Total securities available-for-sale	$	45,243	$	(2,849)	$	80,226	$	(10,840)	$	125,469	$	(13,689)
Securities held-to-maturity:												
State and municipal securities	$	10,130	$	(364)	$	22,543	$	(4,030)	$	32,673	$	(4,394)
Total securities held-to-maturity	$	10,130	$	(364)	$	22,543	$	(4,030)	$	32,673	$	(4,394)

The amortized cost and carrying value of securities are shown below by contractual maturities at the dates indicated. Actual maturities may differ from contractual maturities as issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	September 30, 2023				December 31, 2022			
	Available-for-sale		Held-to-maturity		Available-for-sale		Held-to-maturity	
(dollars in thousands)	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Due after one year through five years	30,793	27,666	4,226	4,147	18,865	17,289	4,275	4,238
Due after five years through ten years	19,161	17,047	2,901	2,326	28,647	25,459	2,998	2,683
Due after ten years	43,083	36,780	29,105	24,192	53,950	48,453	30,206	26,164
Subtotal	93,037	81,493	36,232	30,665	101,462	91,201	37,479	33,085
Mortgage-related securities	44,977	40,725	—	—	47,514	44,145	—	—
Total	$ 138,014	$ 122,218	$ 36,232	$ 30,665	$ 148,976	$ 135,346	$ 37,479	$ 33,085

The following table presents the gross loss on sale of investment securities available for sale on the dates indicated:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Proceeds from sale of investment securities	$ 155	$ —	$ 13,514	$ —
Gross gain on sale of available for sale investments	—	—	—	—
Gross loss on sale of available for sale investments	3	—	58	—

Pledged Securities

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, securities having a fair carrying value of $51.8 million $57.8 million and $78.4 million $60.1 million, respectively, were specifically pledged as collateral for public funds, the FRB discount window program, FHLB borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

(4) Loans and Other Finance Receivables

The following table presents loans and other finance receivables detailed by category at the dates indicated:

(dollars in thousands)	*(dollars in thousands)*	September 30, 2023	December 31, 2022	*(dollars in thousands)*	March 31, 2024	December 31, 2023
Real estate loans:	Real estate loans:					
Commercial mortgage						
Commercial mortgage						
Commercial mortgage	Commercial mortgage	$ 696,124	$ 565,400			
Home equity lines and loans	Home equity lines and loans	73,844	59,399			
Residential mortgage	Residential mortgage	256,343	221,837			
Construction	Construction	276,590	271,955			

Total real estate loans	Total real estate loans	1,302,901	1,118,591
Commercial and industrial	Commercial and industrial	299,861	341,378
Small business loans	Small business loans	141,265	136,155
Consumer	Consumer	434	488
Leases, net	Leases, net	138,963	138,986
Total loans	Total loans	$1,883,424	$1,735,598
Balances included in loans, net of fees and costs:	**Balances included in loans, net of fees and costs:**		

Balances included in loans, net of fees and costs:

Balances included in loans, net of fees and costs:

Residential mortgage real estate loans accounted under fair value option, at fair value

Residential mortgage real estate loans accounted under fair value option, at fair value

Residential mortgage real estate loans accounted under fair value option, at fair value	Residential mortgage real estate loans accounted under fair value option, at fair value	$ 13,231	$ 14,502
Residential mortgage real estate loans accounted under fair value option, at amortized cost	Residential mortgage real estate loans accounted under fair value option, at amortized cost	16,508	16,930
Unearned lease income included in leases, net	Unearned lease income included in leases, net	(22,385)	(25,715)
Unamortized net deferred loan origination costs	Unamortized net deferred loan origination costs	$ 2,205	$ 8,084

Fair Value Option for Residential Mortgage Real Estate Loans

Residential mortgage real estate loans that were originated by the Corporation and intended for sale in the secondary market to permanent investors, but were either repurchased or unsalable due to defect, and that the Corporation has the ability and intent to hold for the foreseeable future or until maturity or payoff are carried at fair value pursuant to the Corporation's election of the fair value option for these loans. The remaining loans, net of fees and costs are stated at their outstanding unpaid principal balances, net of deferred fees or costs, since the original intent for these loans was to hold them until payoff or maturity.

Nonaccrual and Past Due Loans

The following tables present an aging of the Corporation’s loans at the dates indicated:

September 30, 2023

March 31, 2024

March 31, 2024

March 31, 2024

(dollars in thousands)	(dollars in thousands)	30-89 days past due	90+ days past due and still accruing	Total past due	Current	Total Accruing Loans and leases	Nonaccrual loans and leases	Total loans portfolio and leases	% Delinquent
Commercial mortgage	Commercial mortgage	$ 574	$ —	$ 574	$ 695,550	$ 696,124	$ —	$ 696,124	0.08 %
Home equity lines and loans	Home equity lines and loans	216	—	216	72,699	72,915	929	73,844	1.55
Residential mortgage (1)	Residential mortgage (1)	5,525	—	5,525	247,721	253,246	3,097	256,343	3.36
Construction	Construction	—	—	—	275,384	275,384	1,206	276,590	0.44
Commercial and industrial	Commercial and industrial	—	—	—	284,286	284,286	15,575	299,861	5.19
Small business loans	Small business loans	1,842	—	1,842	132,186	134,028	7,237	141,265	6.43
Consumer	Consumer	—	—	—	434	434	—	434	—
Leases, net	Leases, net	2,346	—	2,346	135,550	137,896	1,067	138,963	2.46 %
Total	Total	$10,503	$ —	$10,503	$1,843,810	$1,854,313	$ 29,111	$1,883,424	2.10 %

(dollars in thousands)	30-89 days past due			Total past due		Current		To accr loa an lea
Commercial mortgage	$ —	$	$ —	$	$ 762,785	$	$ 762,785	$
Leases, net	1,707	1,707	1,707		105,201	105,201	106,908	106
Total	$7,979	$	$7,979	$	$1,903,812	$	$1,911,791	$

(1) Includes $13,231$13.1 million of loans at fair value of which $12,108 $12.4 million are current, $376 $— are 30-89 days past due and $747 $771 thousand are nonaccrual.

December 31, 2022

December 31, 2023

December 31, 2023

December 31, 2023

(dollars in thousands)	(dollars in thousands)	30-89 days past due	90+ days past due and still accruing	Total past due	Current	Total Accruing Loans and leases	Nonaccrual loans and leases	Total loans portfolio and leases	% Delinquent
Commercial mortgage	Commercial mortgage	$ —	$ —	$ —	$ 565,260	$ 565,260	$ 140	$ 565,400	0.02 %
Home equity lines and loans	Home equity lines and loans	146	—	146	58,156	58,302	1,097	59,399	2.09
Residential mortgage (1)	Residential mortgage (1)	4,262	—	4,262	215,490	219,752	2,085	221,837	2.86
Construction	Construction	1,206	—	1,206	270,749	271,955	—	271,955	0.44
Commercial and industrial	Commercial and industrial	101	—	101	328,730	328,831	12,547	341,378	3.70
Small business loans	Small business loans	939	—	939	130,751	131,690	4,465	136,155	3.97
Consumer	Consumer	—	—	—	488	488	—	488	—
Leases, net	Leases, net	1,173	—	1,173	136,911	138,084	902	138,986	1.49 %
Total	Total	$7,827	$ —	$7,827	$1,706,535	$1,714,362	$ 21,236	$1,735,598	1.67 %

(dollars in thousands)	30-89 days past due			Total past due		Current		Tota accrui loans and lease
Commercial mortgage	$ 571	$	$ 571	$	$ 737,292	$	$ 737,863	$
Leases, net	2,197	2,197	2,197		117,304	117,304	119,501	119,5
Total	$5,936	$	$5,936	$	$1,848,749	$	$1,854,685	$

(1) Includes $14,502 $13.7 million of loans at fair value of which $13,760 $12.9 million are current, $184 $— are 30-89 days past due and $558 $786 thousand are nonaccrual.

There were no loans in the tables above as of March 31, 2024 or December 31, 2023 that were 90+days past due and still accruing interest.

Foreclosed and Repossessed Assets

At September 30, 2023 both March 31, 2024 and December 31, 2023, there were 4 consumer mortgage loans secured by residential real estate properties (included in loans, net of fees and costs on the Consolidated Balance Sheets) totaling $937 thousand for which formal foreclosure proceedings were in process.

Risks and Uncertainties

We have no particular credit concentration. Our commercial loans have been proactively managed in an effort to achieve a balanced portfolio with no unusual exposure to one industry. Additionally, most of our lending activity occurs within our primary market areas which are concentrated in southeastern Pennsylvania, Delaware, and Maryland as well as other contiguous markets and represents a geographic concentration. Additionally, our loan portfolio is concentrated in commercial loans. Commercial loans are generally viewed as having more inherent risk of default than residential real estate loans or other consumer loans. Also, the commercial loan balance per borrower is typically larger than that for residential real estate loans and consumer loans, implying higher potential losses on an individual loan basis.

Past Due and Nonaccrual Status

The following table tables presents the amortized costs basis of loans and leases on nonaccrual status and loans 90 days or more past due and still accruing, net of fees and costs as of September 30, 2023 March 31, 2024 and December 31, 2023. As of this date here were no loans 90 days or more past due and still accruing.

		September 30, 2023									
		March 31, 2024				March 31, 2024					December 31, 2023
(dollars in thousands)	*(dollars in thousands)*	Nonaccrual Without ACL	Nonaccrual With ACL	Total Nonaccrual	*(dollars in thousands)*	Nonaccrual without ACL	Nonaccrual with ACL	Total nonaccrual	Nonaccrual without ACL	Nonaccrual with ACL	Total nonaccrual
Commercial mortgage											
Home equity lines and loans	Home equity lines and loans	$ 929	$ —	$ 929							
Residential mortgage	Residential mortgage	3,097	—	3,097							
Construction	Construction	1,206	—	1,206							
Commercial and industrial	Commercial and industrial	3,346	12,229	15,575							
Commercial and industrial											
Commercial and industrial											
Small business loans	Small business loans	3,457	3,780	7,237							
Leases, net	Leases, net	1,067	—	1,067							
Total	Total	$ 13,102	$ 16,009	$ 29,111							

Collateral-dependent Loans

The following table tables presents the amortized cost basis of non-accruing collateral-dependent loans by class or loans as of September 30, 2023 March 31, 2024 and December 31, 2023 under the current expected credit loss model:

	September 30, 2023		
(dollars in thousands)	Real Estate	Equipment and Other	Total
Home equity lines and loans	$ 929	$ —	$ 929
Residential mortgage	3,097	—	3,097
Construction	1,206	—	1,206
Commercial and industrial	1,893	13,682	15,575

Small business loans	5,347	1,890	7,237
Leases, net	—	1,067	1,067
Total	$ 12,472	$ 16,639	$ 29,111

	March 31, 2024			December 31, 2023		
(dollars in thousands)	**Real estate**	**Equipment and other**	**Total**	**Real estate**	**Equipment and other**	**Total**
Commercial mortgage	$ 571	$ —	$ 571	$ —	$ —	$ —
Home equity lines and loans	1,181	—	1,181	1,037	—	1,037
Residential mortgage	4,672	—	4,672	4,536	—	4,536
Construction	1,784	—	1,784	1,206	—	1,206
Commercial and industrial	1,888	13,419	15,307	1,890	13,523	15,413
Small business loans	8,543	4,203	12,746	6,320	3,120	9,440
Leases, net	—	1,984	1,984	—	2,131	2,131
Total	$ 18,639	$ 19,606	$ 38,245	$ 14,989	$ 18,774	$ 33,763

(5) Allowance for Credit Losses

The ACL is maintained at a level considered adequate to provide for estimated expected credit losses within the loan portfolio over the contractual life of an instrument that considers our historical loss experience, current conditions and forecasts of future economic conditions as of the balance sheet date. Management’s periodic evaluation of the adequacy of the ACL is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available.

Roll-Forward of ACL by Portfolio Segment

The following tables provide the activity of our allowance for credit losses for the three and nine months ended September 30, 2023March 31, 2024 and March 31, 2023 under the CECL model in accordance with ASC 326 (as adopted on January 1, 2023):

Three Months Ended September 30, 2023

	Three Months Ended March 31, 2024											Three Months Ended March 31, 2024
(dollars in thousands)	***(dollars in thousands)***	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision (recovery of provision) for credit losses**	**Ending balance**	***(dollars in thousands)***	**Beginning balance**	**Charge-offs**	**Recoveries**	**Provision (recovery of provision) for credit losses**	**Ending balance**
Commercial mortgage	Commercial mortgage	$ 3,249	$ —	$ —	$ 916	$ 4,165						
Home equity lines and loans	Home equity lines and loans	790		2	153	945						
Residential mortgage	Residential mortgage	1,047	—	—	157	1,204						
Construction	Construction	1,294	—	—	(453)	841						
Commercial and industrial	Commercial and industrial	2,241	(130)	1	267	2,379						
Small business loans	Small business loans	6,868	(272)	1	(511)	6,086						
Consumer	Consumer	—	(1)	1	—	—						
Leases	Leases	4,753	(606)	90	(174)	4,063						
Total	Total	$ 20,242	$ (1,009)	$ 95	$ 355	$ 19,683						

	Three Months Ended March 31, 2023

(dollars in thousands)	Beginning Balance	Adjustment to initially apply ASU No. 2016-13 for CECL	Charge-offs	Recoveries	Provision (recovery of provision) for credit losses	Ending balance
Commercial mortgage	$ 4,095	$ (526)	$ —	$ —	$ (94)	$ 3,475
Home equity lines and loans	188	439	(33)	2	19	615
Residential mortgage	948	17	—	—	(97)	868
Construction	3,075	(1,763)	—	—	(193)	1,119
Commercial and industrial	4,012	(1,023)	—	39	(295)	2,733
Small business loans	4,909	1,110	—	—	297	6,316
Consumer	3	(3)	—	—	—	—
Leases	1,598	3,345	(1,464)	3	1,834	5,316
Total	$ 18,828	$ 1,596	$ (1,497)	$ 44	$ 1,471	$ 20,442

	Nine Months Ended September 30, 2023					
(dollars in thousands)	Beginning Balance, prior to adoption of ASU No. 2016-13 for CECL	Adjustment to initially apply ASU No. 2016-13 for CECL	Charge-offs	Recoveries	Provision (recovery of provision) for credit losses	Ending balance
Commercial mortgage	$ 4,095	$ (526)	$ —	$ —	$ 596	$ 4,165
Home equity lines and loans	188	439	(87)	5	400	945
Residential mortgage	948	17	—	—	239	1,204
Construction	3,075	(1,763)	—	—	(471)	841
Commercial and industrial	4,012	(1,023)	(130)	57	(537)	2,379
Small business loans	4,909	1,110	(598)	1	664	6,086
Consumer	3	(3)	(1)	3	(2)	—
Leases	1,598	3,345	(2,845)	242	1,723	4,063
Total	$ 18,828	$ 1,596	$ (3,661)	$ 308	$ 2,612	$ 19,683

The following tables provide the activity of the allowance for loan and lease losses for the three and nine months ended September 30, 2022 under the incurred loss model:

	Three Months Ended September 30, 2022				
(dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (Reversal)	Ending balance
Commercial mortgage	$ 4,327	$ —	$ —	$ (238)	$ 4,089
Home equity lines and loans	240	(12)	34	(25)	237
Residential mortgage	489	—	—	217	706
Construction	2,481	—	—	378	2,859
Commercial and industrial	6,287	—	39	(657)	5,669
Small business loans	3,681	—	—	319	4,000
Consumer	3	—	1	(1)	3
Leases	1,297	(419)	—	533	1,411
Total	$ 18,805	$ (431)	$ 74	$ 526	$ 18,974

	Nine Months Ended September 30, 2022				
(dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (Reversal)	Ending balance
Commercial mortgage	$ 4,950	$ —	$ —	$ (861)	$ 4,089
Home equity lines and loans	224	(12)	42	(17)	237
Residential mortgage	283	—	2	421	706
Construction	2,042	—	—	817	2,859
Commercial and industrial	6,533	—	58	(922)	5,669

Small business loans	3,737	—	—	263	4,000
Consumer	3	—	3	(3)	3
Leases	986	(1,682)	62	2,045	1,411
Total	$ 18,758	$ (1,694)	$ 167	$ 1,743	$ 18,974

Reconciliation of Provision for Credit Losses

The following table provides a reconciliation of the provision for credit losses on the consolidated statements of income between the funded and unfunded components at the dates indicated:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Provision for credit losses - funded	$ 355	$ 526	$ 2,612	$ 1,743
Recovery of provision for credit losses - unfunded	(273)	—	(426)	—
Total provision for credit losses	$ 82	$ 526	$ 2,186	$ 1,743

Three Months Ended March 31,

Three Months Ended March 31,

Three Months Ended March 31,

(dollars in thousands)

(dollars in thousands)

(dollars in thousands)

Provision for credit losses - funded

Provision for credit losses - funded

Provision for credit losses - funded

Recovery of provision for credit losses - unfunded

Recovery of provision for credit losses - unfunded

Recovery of provision for credit losses - unfunded

Total provision for credit losses

Total provision for credit losses

Total provision for credit losses

Allowance Allocated by Portfolio Segment

The following tables detail the allocation of the ACL and the carrying value for loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases at the dates indicated:

	September 30, 2023					
	Allowance for credit losses			Carrying value of loans and leases		
(dollars in thousands)	Individually evaluated	Collectively evaluated	Total	Individually evaluated	Collectively evaluated	Total
Commercial mortgage	$ —	$ 4,165	$ 4,165	$ —	$ 696,124	$ 696,124
Home equity lines and loans	—	945	945	929	72,915	73,844

	March 31, 2024					
	Allowance for credit losses			Carrying value of loans and leases		
(dollars in thousands)	Individually evaluated	Collectively evaluated	Total	Individually evaluated	Collectively evaluated	Total

March 31, 2024

Allowance for credit losses

(dollars in thousands)

(dollars in thousands)

Commercial mortgage

Home equity lines and loans

Residential mortgage	Residential mortgage	—	1,204	1,204	2,164	240,948	243,112
Construction	Construction	—	841	841	1,206	275,384	276,590
Commercial and industrial	Commercial and industrial	1,145	1,234	2,379	15,575	284,286	299,861
Small business loans	Small business loans	1,393	4,693	6,086	7,237	134,028	141,265
Consumer	Consumer	—	—	—	—	434	434
Leases, net	Leases, net	—	4,063	4,063	1,067	137,896	138,963
Total (1)	Total (1)	$ 2,538	$ 17,145	$ 19,683	$ 28,178	$ 1,842,015	$ 1,870,193

(1) Excludes deferred fees and loans carried at fair value.

The following table details the pre-CECL allocation of the allowance for loan and lease losses and the carrying value for loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment at the dates indicated:

		December 31, 2022					
		Allowance on loans and leases			Carrying value of loans and leases		
	December 31, 2023						
	Allowance for credit losses						
(dollars in thousands)	*(dollars in thousands)*	Individually evaluated	Collectively evaluated	Total	Individually evaluated	Collectively evaluated	Total
Commercial mortgage	Commercial mortgage	$ —	$ 4,095	$ 4,095	$ 2,445	$ 562,955	$ 565,400
Home equity lines and loans	Home equity lines and loans	—	188	188	1,097	58,302	59,399
Residential mortgage	Residential mortgage	—	948	948	1,454	205,881	207,335
Construction	Construction	—	3,075	3,075	1,206	270,749	271,955
Commercial and industrial	Commercial and industrial	776	3,236	4,012	12,547	328,831	341,378
Small business loans	Small business loans	1,449	3,460	4,909	4,527	131,628	136,155
Consumer	Consumer	—	3	3	—	488	488
Leases, net	Leases, net	—	1,598	1,598	902	138,084	138,986
Total (1)	Total (1)	$ 2,225	$ 16,603	$ 18,828	$ 24,178	$ 1,696,918	$ 1,721,096

	December 31, 2023					
	Allowance for credit losses			Carrying value of loans and leases		
(dollars in thousands)	Individually evaluated	Collectively evaluated	Total	Individually evaluated	Collectively evaluated	Total

(1) Excludes deferred fees and loans carried at fair value.

Credit Quality Indicators

As part of the process of determining the ACL to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by Management. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

- **Pass** – Loans considered to be satisfactory with no indications of deterioration.
- **Special mention –** Loans classified as special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard –** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- **Doubtful –** Loans classified as doubtful 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. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

The following tables detail the carrying value of loans and leases by portfolio segment based on the credit quality indicators used to determine the allowance for credit losses at the dates indicated:

	September 30, 2023								
	Term Loans						Revolving Loans Converted to Term Loans	Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior			
	March 31, 2024						March 31, 2024		
	Term Loans						Revolving Loans Converted to Term Loans	Revolving Loans	Total
(dollars in thousands)									
Commercial mortgage									
Pass/Watch	$ 82,314	$137,909	$161,963	$ 96,103	$51,149	$136,069	$ 511	$ 426	$ 666,444
Special Mention	—	4,625	—	—	9,291	10,060	667	—	24,643
Substandard	200	—	574	—	1,648	2,287	—	328	5,037
Total	$ 82,514	$142,534	$162,537	$ 96,103	$62,088	$148,416	$ 1,178	$ 754	$ 696,124
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction									
Pass/Watch	$ 53,495	$101,776	$ 29,115	$ 47,458	$ 4,548	$ 2,120	$ 123	$ 24,083	$ 262,718
Special Mention	—	—	1,084	—	511	8,934	—	2,137	12,666
Substandard	—	—	—	—	—	1,206	—	—	1,206
Total	$ 53,495	$101,776	$ 30,199	$ 47,458	$ 5,059	$ 12,260	$ 123	$ 26,220	$ 276,590
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial									
Pass/Watch	$ 18,566	$ 35,631	$ 26,734	$ 8,891	$ 4,579	$ 37,658	$ —	$126,466	$ 258,525
Special Mention	1,000	4,766	—	—	—	1,665	—	2,816	10,247

Substandard	Substandard	—	—	2,906	—	300	9,730	—	18,153	31,089
Total	Total	$ 19,566	$ 40,397	$ 29,640	$ 8,891	$ 4,879	$ 49,053	$ —	$ 147,435	$ 299,861
Total										
Total										
Current period gross charge-offs	Current period gross charge-offs	$ (73)	$ (55)	$ —	$ (2)	$ —	$ —	$ —	$ —	$ (130)
Small business loans	**Small business loans**									
Small business loans										
Small business loans										
Pass/Watch										
Pass/Watch										
Pass/Watch	Pass/Watch	$ 39,356	$ 19,977	$ 39,053	$ 13,148	$ 6,996	$ 1,018	$ —	$ 13,102	$ 132,650
Special Mention	Special Mention	—	—	—	—	—	—	—	100	100
Substandard	Substandard	—	673	5,038	1,914	890	—	—	—	8,515
Total	Total	$ 39,356	$ 20,650	$ 44,091	$ 15,062	$ 7,886	$ 1,018	$ —	$ 13,202	$ 141,265
Total										
Total										
Current period gross charge-offs	Current period gross charge-offs	$ —	$ —	$ —	$ (411)	$ (187)	$ —	$ —	$ —	$ (598)
Total by risk rating	**Total by risk rating**									
Total by risk rating										
Total by risk rating										
Pass/Watch										
Pass/Watch										
Pass/Watch	Pass/Watch	$193,731	$295,293	$256,865	$165,600	$67,272	$176,865	$ 634	$ 164,077	$1,320,337
Special Mention	Special Mention	1,000	9,391	1,084	—	9,802	20,659	667	5,053	47,656
Substandard	Substandard	200	673	8,518	1,914	2,838	13,223	—	18,481	45,847
Total	Total	$194,931	$305,357	$266,467	$167,514	$79,912	$210,747	$ 1,301	$ 187,611	$1,413,840
Total										
Total										
Total current period gross charge-offs	Total current period gross charge-offs	$ (73)	$ (55)	$ —	$ (413)	$ (187)	$ —	$ —	$ —	$ (728)

	December 31, 2023								
	Term Loans						Revolving Loans Converted to Term Loans	Revolving Loans	Total
(dollars in thousands)	2023	2022	2021	2020	2019	Prior			
Commercial mortgage									
Pass/Watch	$ 106,341	$ 160,302	$ 158,647	$ 97,535	$ 56,382	$ 133,349	$ 511	$ 423	$ 713,490
Special Mention	—	—	—	4,425	4,341	9,975	667	—	19,408
Substandard	200	—	571	—	1,635	2,233	—	326	4,965
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 106,541	$ 160,302	$ 159,218	$ 101,960	$ 62,358	$ 145,557	$ 1,178	$ 749	$ 737,863
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction									
Pass/Watch	$ 67,776	$ 88,737	$ 21,793	$ 27,336	$ 2,307	$ 2,093	$ 123	$ 25,976	$ 236,141

Special Mention	—	—	1,329	—	511	4,329	—	2,924	9,093
Substandard	—	—	—	—	—	1,206	—	—	1,206
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 67,776	$ 88,737	$ 23,122	$ 27,336	$ 2,818	$ 7,628	$ 123	$ 28,900	$ 246,440
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial									
Pass/Watch	$ 26,314	$ 38,748	$ 24,523	$ 8,449	$ 4,148	$ 33,726	$ —	$ 131,304	$ 267,212
Special Mention	500	9	—	—	—	1,361	—	6,440	8,310
Substandard	—	—	2,906	—	300	9,469	—	14,694	27,369
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 26,814	$ 38,757	$ 27,429	$ 8,449	$ 4,448	$ 44,556	$ —	$ 152,438	$ 302,891
Current period gross charge-offs	$ (209)	$ (55)	$ —	$ (2)	$ —	$ —	$ —	$ —	$ (266)
Small business loans									
Pass/Watch	$ 35,764	$ 26,621	$ 37,278	$ 11,687	$ 6,672	$ 920	$ —	$ 12,507	$ 131,449
Special Mention	—	—	—	909	—	—	—	314	1,223
Substandard	49	1,523	5,090	2,122	—	—	—	886	9,670
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 35,813	$ 28,144	$ 42,368	$ 14,718	$ 6,672	$ 920	$ —	$ 13,707	$ 142,342
Current period gross charge-offs	$ —	$ —	$ —	$ (11)	$ (912)	$ —	$ —	$ (565)	$ (1,488)
Total by risk rating									
Pass/Watch	$ 236,195	$ 314,408	$ 242,241	$ 145,007	$ 69,509	$ 170,088	$ 634	$ 170,210	$ 1,348,292
Special Mention	500	9	1,329	5,334	4,852	15,665	667	9,678	38,034
Substandard	249	1,523	8,567	2,122	1,935	12,908	—	15,906	43,210
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 236,944	$ 315,940	$ 252,137	$ 152,463	$ 76,296	$ 198,661	$ 1,301	$ 195,794	$ 1,429,536
Total current period gross charge-offs	$ (209)	$ (55)	$ —	$ (13)	$ (912)	$ —	$ —	$ (565)	$ (1,754)

The Corporation had no loans with a risk rating of Doubtful included within recorded investment in loans and leases held for investment at September 30, 2023 March 31, 2024 and December 31, 2023.

In addition to credit quality indicators as shown in the above tables, allowance allocations for residential mortgages, consumer loans and leases are also applied based on their performance status at the dates indicated:

	September 30, 2023							
	Term Loans						Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior		
	March 31, 2024							
	Term Loans							
	March 31, 2024						Revolving Loans	Total
(dollars in thousands)								
(dollars in thousands)								
(dollars in thousands)								
Home equity lines and loans	**Home equity lines and loans**							
Home equity lines and loans								
Home equity lines and loans								
Performing								
Performing								
Performing	Performing $ 52	$ 801	$ 318	$ 359	$2,289	$ 2,375	$ 66,721	$ 72,915

Nonperforming	Nonperforming	—	—	—	—	—	—	929	929
Total	Total	$ 52	$ 801	$ 318	$ 359	$2,289	$ 2,375	$ 67,650	$ 73,844
Current period gross charge-offs	Current period gross charge-offs	$ —	$ —	$ —	$ (54)	$ —	$ (33)	$ —	$ (87)
Residential mortgage (1)	**Residential mortgage** (1)								
Residential mortgage (1)									
Residential mortgage (1)									
Performing									
Performing									
Performing	Performing	$42,601	$157,600	$21,967	$ 7,353	$ 461	$11,408	$ —	$241,390
Nonperforming	Nonperforming	—	—	—		—	1,722	—	1,722
Total	Total	$42,601	$157,600	$21,967	$ 7,353	$ 461	$13,130	$ —	$243,112
Current period gross charge-offs	Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer	**Consumer**								
Consumer									
Consumer									
Performing									
Performing									
Performing	Performing	$ 41	$ 35	$ —	$ —	$ 34	$ 248	$ 76	$ 434
Nonperforming	Nonperforming	—	—	—	—	—	—	—	—
Total	Total	$ 41	$ 35	$ —	$ —	$ 34	$ 248	$ 76	$ 434
Current period gross charge-offs	Current period gross charge-offs	$ —	$ (1)	$ —	$ —	$ —	$ —	$ —	$ (1)
Leases, net	**Leases, net**								
Leases, net									
Leases, net									
Performing									
Performing									
Performing	Performing	$25,583	$ 64,581	$35,930	$11,802	$ —	$ —	$ —	$137,896
Nonperforming	Nonperforming	—	499	385	183	—	—	—	1,067
Total	Total	$25,583	$ 65,080	$36,315	$11,985	$ —	$ —	$ —	$138,963
Current period gross charge-offs	Current period gross charge-offs	$ (3)	$ (1,438)	$ (1,268)	$ (136)	$ —	$ —	$ —	$ (2,845)
Total by Payment Performance	**Total by Payment Performance**								
Total by Payment Performance									
Total by Payment Performance									
Performing									
Performing									
Performing	Performing	$68,277	$223,017	$58,215	$19,514	$2,784	$14,031	$ 66,797	$452,635
Nonperforming	Nonperforming	—	499	385	183	—	1,722	929	3,718
Total	Total	$68,277	$223,516	$58,600	$19,697	$2,784	$15,753	$ 67,726	$456,353
Total current period gross charge-offs	Total current period gross charge-offs	$ (3)	$ (1,439)	$ (1,268)	$ (190)	$ —	$ (33)	$ —	$ (2,933)

(1) Excludes $14,403 of loans at fair value.

(1) Excludes $13.1 million of loans at fair value.

Commercial and industrial loans classified as substandard totaled $31.1 million as of September 30, 2023, a decrease of $8.2 million, from $39.3 million as of December 31, 2022. This decrease was the result of the payoff of one credit in the amount of $3 million, combined with the upgrade of several loan relationships that make up the remainder of the decrease. The majority of commercial and industrial substandard loans is comprised of 15 different loan relationships with no specific industry concentration and an $11.0 million commercial loan relationship in the advertising industry that became a non-performing loan relationship late in 2021.

	December 31, 2022									
(dollars in thousands)	Pass		Special mention		Substandard		Doubtful		Total	
Commercial mortgage	$	536,705	$	25,309	$	3,386	$	—	$	565,400
Home equity lines and loans		57,822		—		1,577		—		59,399
Construction		260,085		11,870		—		—		271,955
Commercial and industrial		295,502		6,587		39,289		—		341,378
Small business loans		131,690		—		4,465		—		136,155
Total	$	1,281,804	$	43,766	$	48,717	$	—	$	1,374,287

In addition to credit quality indicators as shown in the above tables, allowance allocations for residential mortgages, consumer loans and leases are also applied based on their performance status at the dates indicated:

	December 31, 2022					
(dollars in thousands)	Performing		Non-performing		Total	
Residential mortgage (1)	$	205,881	$	1,454	$	207,335
Consumer		488		—		488
Leases, net		138,084		902		138,986
Total	$	344,453	$	2,356	$	346,809

	December 31, 2023															
	Term Loans															
(dollars in thousands)	2023		2022		2021		2020		2019		Prior		**Revolving Loans**		**Total**	
Home equity lines and loans																
Performing	$	343	$	795	$	314	$	352	$	2,191	$	2,295	$	68,600	$	74,890
Nonperforming		—		—		—		—		—		—		1,397		1,397
Total	$	343	$	795	$	314	$	352	$	2,191	$	2,295	$	69,997	$	76,287
Current period gross charge-offs	$	—	$	—	$	—	$	—	$	(33)	$	—	$	(54)	$	(87)
Residential mortgage (1)																
Performing	$	48,576	$	154,219	$	22,237	$	6,260	$	456	$	11,380	$	—	$	243,128
Nonperforming		—		1,350		—		1,043		—		1,357		—		3,750
Total	$	48,576	$	155,569	$	22,237	$	7,303	$	456	$	12,737	$	—	$	246,878
Current period gross charge-offs	$	—	$	—	$	—	$	—	$	—	$	—	$	—	$	—
Consumer																
Performing	$	39	$	35	$	—	$	—	$	32	$	234	$	49	$	389
Nonperforming		—		—		—		—		—		—		—		—
Total	$	39	$	35	$	—	$	—	$	32	$	234	$	49	$	389
Current period gross charge-offs	$	—	$	—	$	—	$	—	$	—	$	—	$	(2)	$	(2)
Leases, net																
Performing	$	23,054	$	55,940	$	30,876	$	9,718	$	—	$	—	$	—	$	119,588
Nonperforming		263		1,194		368		219		—		—		—		2,044
Total	$	23,317	$	57,134	$	31,244	$	9,937	$	—	$	—	$	—	$	121,632
Current period gross charge-offs	$	(128)	$	(2,165)	$	(1,450)	$	(290)	$	—	$	—	$	—	$	(4,033)

Total by Payment Performance								
Performing	$ 72,012	$ 210,989	$ 53,427	$ 16,330	$ 2,679	$ 13,909	$ 68,649	$ 437,995
Nonperforming	263	2,544	368	1,262	—	1,357	1,397	7,191
Total	$ 72,275	$ 213,533	$ 53,795	$ 17,592	$ 2,679	$ 15,266	$ 70,046	$ 445,186
Total current period gross charge-offs	$ (128)	$ (2,165)	$ (1,450)	$ (290)	$ (33)	$ —	$ (56)	$ (4,122)

(1) There were four nonperforming residential mortgage loans at September 30, 2023 and four nonperforming residential mortgage loans at December 31, 2022 with a combined outstanding principal balance Excludes $13.7 million of $550 thousand and $558 thousand, respectively, which were carried at fair value and not included in the table above.

Impaired Loans

The following table details the recorded investment and principal balance of impaired loans by portfolio segment, their related Allowance and interest income recognized at the dates indicated.

	December 31, 2022		
(dollars in thousands)	**Recorded investment**	**Principal balance**	**Related allowance**
Impaired loans with related allowance:			
Commercial and industrial	$ 11,099	$ 12,095	$ 776
Small business loans	3,730	3,730	1,449
Total	$ 14,829	$ 15,825	$ 2,225
Impaired loans without related allowance:			
Commercial mortgage	$ 2,445	$ 2,456	$ —
Commercial and industrial	1,448	1,494	—
Small business loans	797	797	—
Home equity lines and loans	1,097	1,097	—
Residential mortgage	1,454	1,454	—
Construction	1,206	1,206	—
Leases	902	902	—
Total	9,349	9,406	—
Grand Total	$ 24,178	$ 25,231	$ 2,225

The following table details the average recorded investment and interest income recognized on individually evaluated loans by portfolio segment.

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
(dollars in thousands)	**Average recorded investment**	**Interest income recognized**	**Average recorded investment**	**Interest income recognized**
Individually evaluated loans with related allowance:				
Commercial and industrial	$ 16,195	$ —	$ 16,363	$ —
Small business loans	666	—	666	—
Total	$ 16,861	$ —	$ 17,029	$ —
Individually evaluated loans without related allowance:				
Commercial mortgage	4,212	29	4,257	77
Commercial and industrial	286	—	293	—
Small business loans	819	2	835	7
Home equity lines and loans	878	15	878	39
Residential mortgage	1,468	22	1,478	190
Construction	1,206	20	1,206	51
Leases	500	—	510	—
Total	$ 9,369	$ 88	$ 9,457	$ 364
Grand Total	$ 26,230	$ 88	$ 26,486	$ 364

Troubled Debt Restructuring

As result of the adoption of guidance related to CECL effective as of January 1, 2023, the Corporation had no reportable balances related to TDRs as of and for the three and nine months ended September 30, 2023. See Note 1 “Summary of Significant Accounting Policies” for additional information.

The following table presents information about TDRs at the dates indicated:

(dollars in thousands)		December 31, 2022
TDRs included in nonperforming loans and leases	$	207
TDRs in compliance with modified terms		3,573
Total TDRs	$	3,780

There was 1 new modification on a commercial mortgage for $684 thousand for the year ended December 31, 2022. Total TDRs declined year-over-year, despite the new modification in 2022, as two TDRs from prior to 2021 totaling $563 thousand paid off in 2022. No modifications granted during the twelve months ended December 31, 2022 subsequently defaulted during the same time period.

Modifications to Borrowers Experiencing Financial Difficulty

An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the ACL on loans and leases, a change to the allowance for credit losses is generally not recorded upon modification. However, when principal forgiveness is provided, the amortized cost basis of the asset is written off against the ACL on loans and leases. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

The following presents, by class of loans, information regarding accruing and nonaccrual modified loans to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023 March 31, 2024.

	Three Months Ended September 30, 2023					
(dollars in thousands)	Number of Loans	Amortized Cost Basis		% of Total Class of Financing Receivable	Related Reserve	
Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:						
Small business loans	3	$	1,517	1.1%	$	—
Total	3	$	1,517		$	—
Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:						
Small business loans	2	$	306	0.2%	$	77
Total	2	$	306		$	77

There were no modifications granted to debtors experiencing financial difficulty for the three months ended March 31, 2023.

	Nine Months Ended September 30, 2023			
	Number of Loans	Amortized Cost Basis	% of Total Class of Financing Receivable	Related Reserve

Three Months Ended March 31, 2024

Three Months Ended March 31, 2024

Three Months Ended March 31, 2024

Number of Loans

Number of Loans

Number of Loans

(dollars in thousands)

(dollars in thousands)

(dollars in thousands) *(dollars in thousands)*

Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:	**Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:**	Number of Loans	Amortized Cost Basis	% of Total Class of Financing Receivable	Related Reserve

Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:

Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:

Small business loans

Small business loans

Small business loans	Small business loans	3	$	1,517	1.1%	$	—
Commercial & industrial	Commercial & industrial	1		2,407	0.8%		—

Commercial & industrial

Commercial & industrial

Total

Total

Total	Total	4	$	3,924		$	—
Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:	**Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:**						

Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:

Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:

Small business loans	Small business loans	2	$	306	0.2%	$	77
Commercial & industrial		1		1,406	0.5%		422

Small business loans

Small business loans

Total	Total	3	$	1,712		$	499

Total

Total

The following presents, by class of loans, information regarding accruing and nonaccrual modified loans to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023 March 31, 2024.

	Three Months Ended March 31, 2024	
(dollars in thousands)	**Number of Loans**	**Financial Effect**
Accruing Modified Loans to Borrowers Experiencing Financial Difficulty:		
Small business loans	3 2	Extend maturity date
Commercial & industrial	1 2	Extend maturity date and allow additional lender funding
Total	4	
Nonaccrual Modified Loans to Borrowers Experiencing Financial Difficulty:		
Small business loans	2	Extend term and allow additional lender funding
Commercial & industrial	1	Extend term and allow additional lender funding
Total	3 1	

There were 5 and no modifications granted to borrowers experiencing financial difficulty for the three months ended September 30, 2023. March 31, 2024 and March 31, 2023, respectively. There were no loans that had a payment default during the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023 that were modified in the 12 months before default to borrowers experiencing financial difficulty. There were no commitments to lend additional funds to the borrowers experiencing financial difficulty that had modifications during the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023.

(6) Short-Term Borrowings and Long-Term Debt

The Corporation's short-term borrowings generally consist of federal funds purchased and short-term borrowings extended under agreements with the FHLB or other correspondent banks. The Corporation has one three unsecured Federal funds borrowing facility with a correspondent bank for up to $15 million $49 million. Federal funds purchased generally represent one-day borrowings. The Corporation had $0 in Federal funds purchased at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The Corporation also has a facility with the Federal Reserve Bank discount window of $7.7 million $6.5 million. This facility is fully secured by investment securities. There were no borrowings under this at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Additionally, the Corporation has a The Corporation's facility with the Federal Reserve's BTFP in the amount of $33 million. This facility was created by the Federal Reserve expired in March 2023 and is fully secured by United States Treasury Bonds. There were $33 million in borrowings under this facility at September 30, 2023. 2024.

The following table presents short-term borrowings at the dates indicated:

(dollars in thousands)	*(dollars in thousands)*	**Maturity date**	**Interest rate**	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands)*	**Maturity date**	**Interest rate**	**March 31, 2024**	**December 31, 2023**
FHLB Open Repo Plus Weekly	FHLB Open Repo Plus Weekly	06/10/2024	5.68%	$ 117,348	$ 113,147					
FRB BTFP Advances	FRB BTFP Advances	03/29/2024	4.76%	33,000	—					
FHLB Mid-term Repo Fixed										
FHLB Mid-term Repo Fixed										
FHLB Mid-term Repo Fixed										
FHLB Mid-term Repo Fixed										
Total Short-Term Borrowings	Total Short-Term Borrowings			$ 150,348	$ 113,147					

The following table presents long-term borrowings at the dates indicated:

(dollars in thousands)	(dollars in thousands)	Maturity date	Interest rate	September 30, 2023	December 31, 2022	(dollars in thousands)	Maturity date	Interest rate	March 31, 2024	December 31, 2023
FHLB Mid-term Repo Fixed	FHLB Mid-term Repo Fixed	12/22/2025	4.23%	$ 8,935	$ 8,935					
FHLB Mid-term Repo Fixed	FHLB Mid-term Repo Fixed	9/30/2024	4.60%	3,432	—					
FHLB Mid-term Repo Fixed	FHLB Mid-term Repo Fixed	7/14/2026	4.57%	15,244	—					
Total Long-Term Borrowings	Total Long-Term Borrowings			$ 27,611	$ 8,935					

The FHLB has also issued $112.7 million $156.0 million of letters of credit to the Corporation for the benefit of the Corporation's public deposit funds and loan customers. These letters of credit expire throughout the remainder of 2023 and through 2024.

The Corporation has a maximum borrowing capacity with the FHLB of $637.6 million $656.0 million as of September 30, 2023 March 31, 2024 and $505.4 million $626.8 million as of December 31, 2022 December 31, 2023. All advances and letters of credit from the FHLB are secured by a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

(7) Servicing Assets

The Corporation sells certain residential mortgage loans and the guaranteed portion of certain SBA loans to third parties and retains servicing rights and receives servicing fees. All such transfers are accounted for as sales. When the Corporation sells a residential mortgage loan, it does not retain any portion of that loan and its continuing involvement in such transfers is limited to certain servicing responsibilities. While the Corporation may retain a portion of certain sold SBA loans, its continuing involvement in the portion of the loan that was sold is limited to certain servicing responsibilities. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized.

Residential Mortgage Loans

The related MSR asset is amortized over the period of the estimated future net servicing life of the underlying assets. MSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount of the MSR. The Corporation serviced $1.0 billion $932.5 million and $945.2 million of residential mortgage loans as of September 30, 2023 March 31, 2024 and December 31, 2022. December 31, 2023, respectively. During the three and nine months ended September 30, 2023 March 31, 2024, the Corporation recognized servicing fee income of $612 $586 thousand, and $1.9 million, respectively, compared to $643 $636 thousand, and $1.9 million, during the three and nine months ended September 30, 2022, respectively.

March 31, 2023.

Changes in the MSR balance are summarized as follows:

		Three months ended September 30,		Nine months ended September 30,	
		Three months ended March 31,			
		Three months ended March 31,			
		Three months ended March 31,			
(dollars in thousands)					
(dollars in thousands)					
(dollars in thousands)	(dollars in thousands)	2023	2022	2023	2022
Balance at beginning of the period	Balance at beginning of the period	$ 9,238	$ 10,610	$ 9,942	$ 10,756
Balance at beginning of the period					
Balance at beginning of the period					
Servicing rights capitalized					
Servicing rights capitalized					

Servicing rights capitalized	Servicing rights capitalized	9	65	9	648
Amortization of servicing rights	Amortization of servicing rights	(319)	(356)	(1,025)	(1,092)
Amortization of servicing rights					
Amortization of servicing rights					
Change in valuation allowance					
Change in valuation allowance					
Change in valuation allowance	Change in valuation allowance	—	(4)	2	3
Balance at end of the period	Balance at end of the period	$ 8,928	$ 10,315	$ 8,928	$ 10,315
Balance at end of the period					
Balance at end of the period					

Activity in the valuation allowance for MSRs was as follows:

		Three months ended September 30,		**Nine months ended September 30,**	
		Three months ended March 31,			
		Three months ended March 31,			
		Three months ended March 31,			
(dollars in thousands)					
(dollars in thousands)					
(dollars in thousands)	*(dollars in thousands)*	**2023**	**2022**	**2023**	**2022**
Valuation allowance, beginning of period	Valuation allowance, beginning of period	$ —	$ (1)	$ (2)	$ (8)
Valuation allowance, beginning of period					
Valuation allowance, beginning of period					
Impairment					
Impairment					
Impairment	Impairment	—	(4)	—	(4)
Recovery	Recovery	—	—	2	7
Recovery					
Recovery					
Valuation allowance, end of period	Valuation allowance, end of period	$ —	$ (5)	$ —	$ (5)
Valuation allowance, end of period					
Valuation allowance, end of period					

The Corporation uses assumptions and estimates in determining the fair value of MSRs. These assumptions include prepayment speeds and discount rates. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At September 30, 2023 March 31, 2024, the key assumptions used to determine the fair value of the Corporation's MSRs included a lifetime constant prepayment rate equal to 8.73% 8.29% and a discount rate equal to 9.50%. At December 31, 2022 December 31, 2023, the key assumptions used to determine the fair value of the Corporation's MSRs included a lifetime constant prepayment rate equal to 8.05% 8.57%

and a discount rate equal to 9.50%. Due in part to market volatility as interest rates increased, the prepayment speed assumption has decreased from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024. As interest rates have started to increase and the number of mortgage refinancings have started to decline, model inputs have been adjusted to align the MSRs fair value with market conditions.

The sensitivity of the current fair value of the residential mortgage servicing rights to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table.

(dollars in thousands)	(dollars in thousands)	September 30, 2023	December 31, 2022	(dollars in thousands)	March 31, 2024		December 31, 2023	
Fair value of residential mortgage servicing rights	Fair value of residential mortgage servicing rights	$ 11,977	$ 11,567					
Weighted average life (months)	Weighted average life (months)	28	22					
				Weighted average life (months)				
				Weighted average life (months)	28		28	
Prepayment speed	Prepayment speed	8.73 %	8.05 %					
				Prepayment speed				
				Prepayment speed	8.29	%	8.57	%
Impact on fair value:	Impact on fair value:							
				10% adverse change				
				10% adverse change				
10% adverse change	10% adverse change	$ (512)	$ (268)					
20% adverse change	20% adverse change	(986)	(525)					
Discount rate	Discount rate	9.50 %	9.50 %					
				Discount rate				
				Discount rate	9.50	%	9.50	%
Impact on fair value:	Impact on fair value:							
10% adverse change	10% adverse change	$ (460)	$ (404)					
				10% adverse change				
				10% adverse change				
20% adverse change	20% adverse change	(889)	(777)					

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a articular assumption on the fair value of the MSRs is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

SBA Loans

SBA loan servicing assets are amortized over the period of the estimated future net servicing life of the underlying assets. SBA loan servicing assets are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount of the SBA loan servicing asset. The Corporation serviced $211.1 million $236.6 million and $166.1 million $225.8 million of SBA loans, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Changes in the SBA loan servicing asset balance are summarized as follows:

	Three months ended September 30,	Nine months ended September 30,
	Three months ended March 31,	

Three months ended March 31,

Three months ended March 31,

(dollars in thousands)

(dollars in thousands)

(dollars in thousands)	2023	2022	2023	2022
Balance at beginning of the period	$ 2,955	$ 2,250	$ 2,404	$ 2,009
Servicing rights capitalized	373	306	1,099	1,146
Amortization of servicing rights	(243)	(173)	(690)	(523)
Change in valuation allowance	(178)	109	94	(140)
Balance at end of the period	$ 2,907	$ 2,492	$ 2,907	$ 2,492

Balance at beginning of the period
Balance at beginning of the period
Servicing rights capitalized
Servicing rights capitalized
Amortization of servicing rights
Amortization of servicing rights
Change in valuation allowance
Change in valuation allowance
Balance at end of the period
Balance at end of the period

Activity in the valuation allowance for SBA loan servicing assets was as follows:

Three months ended March 31,
Three months ended March 31,
Three months ended March 31,
(dollars in thousands)
(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Valuation allowance, beginning of period	$ (92)	$ (345)	$ (364)	$ (96)
Impairment	(178)	—	(178)	(280)
Recovery	—	109	272	140

Valuation allowance, beginning of period
Valuation allowance, beginning of period
Impairment
Impairment
Recovery
Recovery

Valuation allowance, end of period	Valuation allowance, end of period	$ (270)	$ (236)	$ (270)	$ (236)
Valuation allowance, end of period					
Valuation allowance, end of period					

The Corporation uses assumptions and estimates in determining the fair value of SBA loan servicing rights. These assumptions include prepayment speeds, discount rates, and other assumptions. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At September 30, 2023 March 31, 2024, the key assumptions used to determine the fair value of the Corporation's SBA loan servicing rights included a lifetime constant prepayment rate equal to 15.21% and a discount rate equal to 13.93%. At December 31, 2023, the key assumptions used to determine the fair value of the Corporation's SBA loan servicing rights included a lifetime constant prepayment rate equal to 13.79% 14.70% and a discount rate equal to 17.06%. At December 31, 2022, the key assumptions used to determine the fair value of the Corporation's SBA loan servicing rights included a lifetime constant prepayment rate equal to 12.73% and a discount rate equal to 18.96% 14.66%.

The sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table.

(dollars in thousands)	*(dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Fair value of SBA loan servicing rights	Fair value of SBA loan servicing rights	$ 3,009	$ 2,422			
Weighted average life (years)	Weighted average life (years)	3.5	3.8			
Weighted average life (years)						
Weighted average life (years)					3.3	3.8
Prepayment speed	Prepayment speed	13.79 %	12.73 %			
Prepayment speed						
Prepayment speed					15.21 %	14.70 %
Impact on fair value:	Impact on fair value:					
10% adverse change						
10% adverse change						
10% adverse change	10% adverse change	$ (102)	$ (73)			
20% adverse change	20% adverse change	(196)	(141)			
Discount rate	Discount rate	17.06 %	18.96 %			
Discount rate						
Discount rate					13.93 %	14.66 %
Impact on fair value:	Impact on fair value:					
10% adverse change	10% adverse change	$ (64)	$ (53)			
10% adverse change						
10% adverse change						
20% adverse change	20% adverse change	(125)	(104)			

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the fair value of the SBA servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

(8) Fair Value Measurements and Disclosures

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

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

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis.

Securities

The fair value of securities available-for-sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Mortgage Loans Held for Sale

The fair value of loans held for sale is based on secondary market prices.

Mortgage Loans Held for Investment

The fair value of mortgage loans held for investment is based on the price secondary markets are currently offering for similar loans using observable market data.

Derivative Financial Instruments

The fair values of forward commitments and interest rate swaps are based on market pricing and therefore are considered Level 2. Derivatives classified as Level 3 consist of interest rate lock commitments related to mortgage loan commitments. The determination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption. A significant increase or decrease in the external market price would result in a significantly higher or lower fair value measurement.

The following table presents the fair value of financial assets measured at fair value on a recurring basis by level within the fair value hierarchy at the dates indicated:

	September 30, 2023			
(dollars in thousands)	Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale:				
U.S. asset backed securities	$ 11,476	$ —	$ 11,476	$ —
U.S. government agency MBS	11,134	—	11,134	—
U.S. government agency CMO	19,372	—	19,372	—

		September 30, 2023								
		March 31, 2024								March 31, 2024
(dollars in thousands)	*(dollars in thousands)*	**Total**	**Level 1**	**Level 2**	**Level 3**	*(dollars in thousands)*	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets										
Securities available for sale:										

Securities available for sale:					
Securities available for sale:					
U.S. asset backed securities					
U.S. asset backed securities					
U.S. asset backed securities					
U.S. government agency MBS					
U.S. government agency CMO					
State and municipal securities	State and municipal securities	33,385	—	33,385	—
U.S. Treasuries	U.S. Treasuries	29,529	29,529	—	—
Non-U.S. government agency CMO	Non-U.S. government agency CMO	10,220	—	10,220	
Corporate bonds	Corporate bonds	7,102	—	7,102	—
Equity investments	Equity investments	2,019	—	2,019	—
Mortgage loans held for sale	Mortgage loans held for sale	23,144	—	23,144	—
Mortgage loans held for investment	Mortgage loans held for investment	13,231	—	13,231	—
Interest rate lock commitments	Interest rate lock commitments	229	—	—	229
Forward commitments	Forward commitments	50	—	50	—
Customer derivatives - interest rate swaps	Customer derivatives - interest rate swaps	4,387	—	4,387	—
Interest rate swaps	Interest rate swaps	1,023	—	1,023	—
Total	Total	$166,303	$29,529	$136,545	$229
Liabilities	**Liabilities**				
Liabilities					
Liabilities					
Interest rate lock commitments	Interest rate lock commitments	$ 83	$ —	$ —	$ 83
Forward commitments		—	—	—	—
Interest rate lock commitments					

Non-U.S. government agency CMO	13,061	—	—	13,061	13,061

Interest rate lock commitments					
Customer derivatives - interest rate swaps					
Customer derivatives - interest rate swaps					
Customer derivatives - interest rate swaps	Customer derivatives - interest rate swaps	4,321	—	4,321	—
Risk Participation Agreements	Risk Participation Agreements	6	—	6	—
Total	Total	$ 4,410	$ —	$ 4,327	$ 83

(dollars in thousands)	December 31, 2022 Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale:				
U.S. asset backed securities	$ 15,281	$ —	$ 15,281	$ —
U.S. government agency MBS	11,739	—	11,739	—
U.S. government agency CMO	23,318	—	23,318	—
State and municipal securities	38,838	—	38,838	—
U.S. Treasuries	29,523	29,523	—	—
Non-U.S. government agency CMO	9,089	—	9,089	—
Corporate bonds	7,558	—	7,558	—
Equity investments	2,086	—	2,086	—
Mortgage loans held for sale	22,243	—	22,243	—
Mortgage loans held for investment	14,502	—	14,502	—
Interest rate lock commitments	87	—	—	87
Customer derivatives - interest rate swaps	3,846	—	3,846	—
Total	$ 178,110	$ 29,523	$ 148,500	$ 87
Liabilities				
Interest rate lock commitments	$ 79	$ —	$ —	$ 79
Customer derivatives - interest rate swaps	3,799	—	3,799	—
Risk Participation Agreements	17	—	17	—
Total	$ 3,895	$ —	$ 3,816	$ 79

(dollars in thousands)	December 31, 2023 Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale:				
U.S. asset backed securities	$ 16,824	$ —	$ 16,824	$ —
U.S. government agency MBS	22,634	—	22,634	—
U.S. government agency CMO	19,573	—	19,573	—
State and municipal securities	36,216	—	36,216	—
U.S. Treasuries	30,422	30,422	—	—
Non-U.S. government agency CMO	13,155	—	13,155	—

Corporate bonds	7,195	—	7,195	—
Equity investments	2,121	—	2,121	—
Mortgage loans held for sale	24,816	—	24,816	—
Mortgage loans held for investment	13,726	—	13,726	—
Interest rate lock commitments	214	—	—	214
Customer derivatives - interest rate swaps	3,528	—	3,528	—
Total	$ 190,424	$ 30,422	$ 159,788	$ 214
Liabilities				
Interest rate lock commitments	$ 17	$ —	$ —	$ 17
Forward commitments	41	—	41	—
Customer derivatives - interest rate swaps	3,544	—	3,544	—
Risk Participation Agreements	11	—	11	—
Total	$ 3,613	$ —	$ 3,596	$ 17

The following table presents assets measured at fair value on a nonrecurring basis at the dates indicated:

(dollars in thousands)	*(dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Mortgage servicing rights	Mortgage servicing rights	$ 8,928	$ 9,942			
SBA loan servicing rights	SBA loan servicing rights	2,907	2,404			
Individually evaluated loans (1)	Individually evaluated loans (1)					
Commercial and industrial	Commercial and industrial	12,371	—			
Commercial and industrial						
Commercial and industrial					7,905	9,818
Small business loans	Small business loans	2,456	2,281	Small business loans	5,735	3,134
Total	Total	$ 26,662	$ 14,627			

(1) Individually evaluated loans are those in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. The increase in individually evaluated commercial and industrial loans noted above was due to reassessing how we evaluate the impairment on a loan relationship to now be based on the fair value of collateral.

The following table details the valuation techniques for Level 3 individually evaluated loans.

(dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Range of Inputs
September 30, 2023 March 31, 2024	$ 14,827 13,640	Appraisal of collateral	Management adjustments on appraisals for property type and recent activity	2%-33% discount
December 31, 2022 2023	2,281 12,952	Appraisal of collateral	Management adjustments on appraisals for property type and recent activity	2%-15% -33% discount

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on the Corporation's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Corporation's financial instruments:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Loans Receivable

The fair value of loans receivable is estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value below is reflective of an exit price.

Servicing Assets

The Corporation estimates the fair value of mortgage servicing rights and SBA loan servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. These servicing rights are classified within Level 3 in the fair value hierarchy based upon management's assessment of the inputs. The Corporation reviews the servicing rights portfolios on a quarterly basis for impairment.

Individually Evaluated Loans

Individually evaluated loans are those in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third- third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. Individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the Allowance policy.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities

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

Short-Term Borrowings

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt

Fair values of FHLB advances and the acquisition purchase note payable are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt

Fair values of junior subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Financial Instruments

Off-balance sheet instruments are primarily comprised of loan commitments, which are generally priced at market at the time of funding. Fees on commitments to extend credit and stand-by letters of credit are deemed to be immaterial and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments and as a result they are not included in the table below. Fair values assigned to the notional value of interest rate lock commitments and forward sale contracts are based on market quotes.

Derivative Financial Instruments

The fair value of forward commitments and interest rate swaps is based on market pricing and therefore are considered Level 2. Derivatives classified as Level 3 consist of interest rate lock commitments related to mortgage loan commitments. The determination of fair value includes assumptions related to the likelihood that a commitment will ultimately result in a closed loan, which is a significant unobservable assumption. A significant increase or decrease in the external market price would result in a significantly higher or lower fair value measurement.

The following table presents the estimated fair values of the Corporation's financial instruments at the dates indicated:

		September 30, 2023		**December 31, 2022**	
(dollars in thousands)	**Fair Value Hierarchy Level**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Cash and cash equivalents	Level 1	$ 59,759	$ 59,759	$ 38,391	$ 38,391
Mortgage loans held for sale	Level 2	23,144	23,144	22,243	22,243
Loans receivable, net of the allowance for credit losses	Level 3	1,872,398	1,827,125	1,729,180	1,679,955
Mortgage loans held for investment	Level 2	13,231	13,231	14,502	14,502
Financial liabilities:					
Deposits	Level 2	1,808,645	1,780,200	1,712,479	1,575,600

March 31, 2024	**March 31, 2024**	**December 31, 2023**

(dollars in thousands)	(dollars in thousands)	Fair Value Hierarchy Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Cash and cash equivalents						
Cash and cash equivalents						
Cash and cash equivalents						
Mortgage loans held for sale						
Loans receivable, net of the allowance for credit losses						
Mortgage loans held for investment						
Financial liabilities:						
Financial liabilities:						
Financial liabilities:						
Deposits						
Deposits						
Deposits						
Borrowings	Borrowings	Level 2	177,959	179,000	122,082	122,082
Subordinated debentures	Subordinated debentures	Level 2	50,079	50,218	40,346	40,020

The following table includes a rollforward of interest rate lock commitments for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the periods indicated.

		Three months ended September 30,		**Nine months ended September 30,**	
		Three months ended March 31,			
		Three months ended March 31,			
		Three months ended March 31,			
(dollars in thousands)					
(dollars in thousands)					
(dollars in thousands)	*(dollars in thousands)*	**2023**	**2022**	**2023**	**2022**
Balance at beginning of the period	Balance at beginning of the period	$ 261	$ 374	$ 87	$ 1,122
(Decrease) increase in value		(32)	(237)	142	(985)
Balance at beginning of the period					
Balance at beginning of the period					
Increase in value					
Increase in value					
Increase in value					
Balance at end of the period	Balance at end of the period	$ 229	$ 137	$ 229	$ 137
Balance at end of the period					
Balance at end of the period					

The following table details the valuation techniques for Level 3 interest rate lock commitments.

(dollars in thousands)	Fair Value		Valuation Technique	Significant Unobservable Input	Range of Inputs	Weighted Average
September 30, 2023	$	229	Market comparable pricing	Pull through	1 - 99%	84.12%
December 31, 2022		87	Market comparable pricing	Pull through	1 - 99%	84.05

(dollars in thousands)	Fair Value		Valuation Technique	Significant Unobservable Input	Range of Inputs	Weighted Average
March 31, 2024	$	288	Market comparable pricing	Pull through	1 - 99%	79.83%
December 31, 2023		214	Market comparable pricing	Pull through	1 - 99%	79.48

(9) Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Corporation is exposed to certain risk arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Corporation enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash receipts and its known or expected cash payments principally related to the Corporation's loan portfolio.

Interest Rate Swaps

The Corporation uses interest rate swap agreements to modify interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. The Corporation's credit exposure on interest rate swaps includes changes in fair value and any collateral that is held by a third party.

In June 2023, the Corporation entered into three interest rate swaps classified as cash flow hedges with notional amounts of $25 million each, to hedge the interest payments received on short term borrowings. Under the terms of the three swap agreements, the Corporation pays average fixed rates of 4.070%, 4.027% and 4.117%, and receives variable rates in return indexed to SOFR. The swaps mature between May, June, and December 2026. The Corporation performed an assessment of the hedge for effectiveness at the inception of the hedge and performs an assessment on a recurring basis and determined that the derivative currently is and is expected to be highly effective in offsetting changes in cash flows of the hedged item. For the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023, approximately $497 $749 thousand and $825 thousand zero respectively, net of tax, is recorded in total comprehensive income as unrealized gains. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations and the addition of other hedges subsequent to September 30, 2023 March 31, 2024. At September 30, 2023 March 31, 2024 and December 31, 2023, the combined notional amount of the interest rate swaps was $75 million $75.0 million and $75.0 million and the fair value was an asset of $1.0 million. $437 thousand and a liability of $539 thousand, respectively.

Mortgage Banking Derivatives

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation may enter into forward commitments for the future sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans or interest rate locks at a fixed price at a future date. The amount necessary to settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Interest rate lock commitments and forward commitments are recorded within other assets/liabilities on the consolidated balance sheets, with changes in fair values during the period recorded within net change in the fair value of derivative instruments on the consolidated statements of income.

Customer Derivatives – Interest Rate Swaps

Derivatives not designated as hedges are not speculative and result from a service the Corporation provides to certain customers to swap a fixed rate product for a variable rate product, or vice versa. The Corporation executes interest rate derivatives with commercial banking customers to facilitate their respective risk management strategies. Those interest rate derivatives are simultaneously hedged by offsetting derivatives that the Corporation executes with a third party, such that the Corporation minimizes its net interest rate risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

The following table presents a summary of notional amounts and fair values of derivative financial instruments at the dates indicated:

			September 30, 2023		December 31, 2022							
			March 31, 2024							March 31, 2024		December 31, 2023
(dollars in thousands)	(dollars in thousands)	Balance Sheet Line Item	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value	(dollars in thousands)	Balance Sheet Line Item	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
Interest Rate Lock Commitments												
Positive fair values	Positive fair values	Other assets	$ 40,015	$ 229	$ 16,590	$ 87						
Negative fair values	Negative fair values	Other liabilities	21,260	(83)	16,108	(79)						
Total	Total		$ 61,275	$ 146	$ 32,698	$ 8						
Forward Commitments	**Forward Commitments**											

Forward Commitments

Forward Commitments

Positive fair values

Positive fair values

Positive fair values	Positive fair values	Other assets	$ 6,750	$ 50	$ —	$ —
Negative fair values	Negative fair values	Other liabilities	—	—	—	—
Total	Total		$ 6,750	$ 50	$ —	$ —
Customer Derivatives - Interest Rate Swaps						
Customer Derivatives - Interest Rate Swaps						
Customer Derivatives - Interest Rate Swaps						
Positive fair values	Positive fair values	Other assets	$ 46,337	$ 4,387	$ 43,779	$ 3,846
Negative fair values	Negative fair values	Other liabilities	46,337	(4,321)	43,779	(3,799)
Total	Total		$ 92,674	$ 66	$ 87,558	$ 47
Risk Participation Agreements						
Risk Participation Agreements						
Risk Participation Agreements						
Positive fair values	Positive fair values	Other assets	$ —	$ —	$ —	$ —
Negative fair values	Negative fair values	Other liabilities	7,111	(6)	7,200	(17)
Total	Total		$ 7,111	$ (6)	$ 7,200	$ (17)
Interest Rate Swaps	**Interest Rate Swaps**					
Interest Rate Swaps						
Interest Rate Swaps						
Positive fair values						
Positive fair values						
Positive fair values	Positive fair values	Other assets	$ 75,000	$ 1,023	$ —	$ —
Negative fair values	Negative fair values	Other liabilities	—	—	—	—
Total	Total		$ 75,000	$ 1,023	$ —	$ —
Total derivative financial instruments	Total derivative financial instruments		$242,810	$ 1,279	$127,456	$ 38
Total derivative financial instruments						
Total derivative financial instruments						

Interest rate lock commitments are considered Level 3 in the fair value hierarchy, while the forward commitments and interest rate swaps are considered Level 2 in the fair value hierarchy.

The following table presents a summary of the fair value gains and (losses) on derivative financial instruments:

	Three months ended September 30,	Nine months ended September 30,
	Three months ended March 31,	
	Three months ended March 31,	

		Three months ended March 31,			
(dollars in thousands)					
(dollars in thousands)					
(dollars in thousands)	*(dollars in thousands)*	**2023**	**2022**	**2023**	**2022**
Interest Rate Lock Commitments	Interest Rate Lock Commitments	$ 29	$ (405)	$ 138	$ (1,380)
Interest Rate Lock Commitments					
Interest Rate Lock Commitments					
Forward Commitments					
Forward Commitments					
Forward Commitments	Forward Commitments	37	485	50	516
Customer Derivatives - Interest Rate Swaps	Customer Derivatives - Interest Rate Swaps	33	47	19	151
Customer Derivatives - Interest Rate Swaps					
Customer Derivatives - Interest Rate Swaps					
Risk Participation Agreements					
Risk Participation Agreements					
Risk Participation Agreements	Risk Participation Agreements	6	—	11	—
Interest Rate Swaps	Interest Rate Swaps	588	—	1,023	—
Interest Rate Swaps					
Interest Rate Swaps					
Net fair value gains (losses) on derivative financial instruments	Net fair value gains (losses) on derivative financial instruments	$ 693	$ 127	$ 1,241	$ (713)
Net fair value gains (losses) on derivative financial instruments					
Net fair value gains (losses) on derivative financial instruments					

Net realized gains losses on derivative hedging activities were $82 $19 thousand and $81 thousand $0 for the three and nine months ended September 30, 2023, respectively, March 31, 2024 and net realized gains on derivative hedging activities were $399 thousand and $4.9 million for the three and nine months ended September 30, 2022, 2023, respectively, and are included in non-interest income in the consolidated statements of income.

(10) Segments

ASC Topic 280 – Segment Reporting identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Operating Decision Maker, our Chief Executive Officer, in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in this codification to the results of its operations.

Our Banking segment ("Bank") consists of commercial and retail banking. The Banking segment generates interest income from its lending and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives revenues from other sources including gains on the sale of available for sale investment securities, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income, title insurance fees, and other less significant non-interest income.

Meridian Wealth ("Wealth"), a registered investment advisor and wholly-owned subsidiary of the Bank, provides a comprehensive array of wealth management services and products and the trusted guidance to help its clients and our banking customers prepare for the future. The unit generates non-interest income through advisory fees.

Meridian's mortgage banking segment ("Mortgage") consists of 12 8 loan production offices throughout suburban Philadelphia and Maryland. The Mortgage segment originates 1 – 4 family residential mortgages and sells nearly all of its production to third party investors. The unit generates net interest income on the loans it originates and holds temporarily, then earns fee income (primarily gain on sales) at the time of the sale. The unit also recognizes income from document preparation fees, changes in portfolio pipeline fair values and net hedging gains (losses), if any.

The table below summarizes income and expenses, directly attributable to each business line, which have been included in the statement of operations. Total assets for each segment is also provided.

	Segment Information	
	Three Months Ended September 30, 2023	**Three Months Ended September 30, 2022**
	Segment Information	**Segment Information**

	Three Months Ended March 31, 2024														Three Months Ended March 31, 2024			Three Months Ended March 31, 2023
(Dollars in thousands)	(Dollars in thousands)	Bank	Wealth	Mortgage	Total	Bank	Wealth	Mortgage	Total	(Dollars in thousands)	Bank	Wealth	Mortgage	Total	Bank	Wealth	Mortgage	Total
Net interest income	Net interest income	$ 17,205	$ (15)	$ 34	$ 17,224	$ 17,664	$ 218	$ 144	$ 18,026									
Provision for credit losses	Provision for credit losses	82	—	—	82	526	—	—	526									
Net interest income after provision	Net interest income after provision	17,123	(15)	34	17,142	17,138	218	144	17,500									
Non-interest Income	Non-interest Income																	
Non-interest Income																		
Non-interest Income																		
Mortgage banking income																		
Mortgage banking income																		
Mortgage banking income	Mortgage banking income	80	—	4,739	4,819	72	—	7,257	7,329									
Wealth management income	Wealth management income	—	1,258	—	1,258	—	1,114	—	1,114									
SBA loan income	SBA loan income	982	—	—	982	989	—	—	989									
Net change in fair values	Net change in fair values	38	—	(394)	(356)	47	—	(1,043)	(996)									
Net gain on hedging activity	Net gain on hedging activity	—	—	82	82	—	—	399	399									
Other	Other	658	—	643	1,301	622	—	767	1,389									
Non-interest income	Non-interest income	1,758	1,258	5,070	8,086	1,730	1,114	7,380	10,224									
Non-interest expense	Non-interest expense	12,564	826	6,628	20,018	11,354	780	8,127	20,261									
Income (loss) before income taxes	Income (loss) before income taxes	$ 6,317	$ 417	$ (1,524)	$ 5,210	$ 7,514	$ 552	$ (603)	$ 7,463									
Total Assets	Total Assets	$2,177,145	$8,833	$ 44,993	$2,230,971	$1,858,770	$7,927	$ 55,227	$1,921,924									
Total Assets																		
Total Assets																		

	Segment Information							
	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
(Dollars in thousands)	Bank	Wealth	Mortgage	Total	Bank	Wealth	Mortgage	Total
Net interest income	$ 51,928	$ (12)	$ 85	$ 52,001	$ 50,197	$ 628	$ 785	$ 51,610
Provision for credit losses	2,186	—	—	2,186	1,743	—	—	1,743
Net interest income after provision	49,742	(12)	85	49,815	48,454	628	785	49,867
Non-interest Income								

Mortgage banking income	221	—	12,922	13,143	394	—	20,973	21,367
Wealth management income	—	3,689	—	3,689	—	3,672	—	3,672
SBA loan income	3,463	—	—	3,463	3,946	—	—	3,946
Net change in fair values	30	—	(574)	(544)	151	—	(4,457)	(4,306)
Net gain on hedging activity	—	—	81	81	—	—	4,941	4,941
Other	1,982	—	2,034	4,016	1,776	(1)	2,333	4,108
Non-interest income	5,696	3,689	14,463	23,848	6,267	3,671	23,790	33,728
Non-interest expense	35,608	2,704	19,110	57,422	32,186	2,480	26,734	61,400
Income (loss) before income taxes	$ 19,830	$ 973	$ (4,562)	$ 16,241	$ 22,535	$ 1,819	$ (2,159)	$ 22,195
Total Assets	$ 2,177,145	$ 8,833	$ 44,993	$ 2,230,971	$ 1,858,770	$ 7,927	$ 55,227	$ 1,921,924

(11) Subordinated Debentures

In September, Meridian Corporation raised $9.7 million in subordinated debt at 8.00% with a term of 10 years, the 2023 Debentures. The issuance of this subordinated debt improved tier 2 capital, as well as tangible book value of the Corporation. The funds will be used for general corporate purposes, including providing capital to the Corporation's bank subsidiary, Meridian Bank, and supporting organic growth. The subordinated debt also helped to improve Meridian Bank's tier 1 capital.

The following table presents subordinated debentures at the dates indicated:

(dollars in thousands)	Maturity date	Interest rate	September 30, 2023	December 31, 2022
2023 Debentures	8/31/2033	8.00%	$ 9,740	$ —
2019 Debentures	12/30/2029	5.38%	40,000	40,000
2013 Debentures	12/31/2028	6.50%	596	653
2011 Debentures	12/31/2026	6.00%	463	463
2008 Debentures	12/18/2023	6.00%	56	56
Debt Origination Costs			(776)	(826)
Total Subordinated Debentures			$ 50,079	$ 40,346

The Corporation issued the 2023 and 2019 Debentures, while the Bank issued the 2013, 2011 and 2008 Debentures. Upon formation of the bank holding company, the Corporation assumed the 2013, 2011 and 2008 Debentures.

Interest is paid semi-annually on the 2023 and 2019 Debentures, and paid quarterly on the 2013, 2011 and 2008 debentures. The 2013, 2011 and 2008 Debentures are includable as Tier 2 capital for determining the Bank's compliance with regulatory capital requirements. The 2019 and 2023 Debentures are included as Tier 2 capital for the Corporation and as Tier 1 capital for the Bank.

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

You should read the following discussion and analysis in conjunction with the unaudited consolidated interim financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2022 December 31, 2023 included in Meridian Corporation's Annual Report on Form 10-K filed with the SEC.

Forward-Looking Statements

Meridian Corporation may from time to time make written or oral "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements with respect to Meridian Corporation's strategies, goals, beliefs, expectations, estimates, intentions, capital raising efforts, financial condition and results of operations, future performance and business. Statements preceded by, followed by, or that include the words "may," "could," "should," "pro forma," "looking forward," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or similar expressions generally indicate a forward-looking statement. These forward-looking statements involve risks and uncertainties that are subject to change based on various important factors (some of which, in whole or in part, are beyond Meridian Corporation's control). Numerous competitive, economic, regulatory, legal and technological factors, risks and uncertainties that could cause actual results to differ materially include, without limitation: credit losses and the credit risk of our commercial and consumer loan products; changes in the level of charge-offs and changes in estimates of the adequacy of the allowance for credit losses, or ACL; cyber-security concerns; rapid technological developments and changes; increased competitive pressures; changes in spreads on interest-earning assets and interest-bearing liabilities; changes in general economic conditions and conditions within the securities markets; unanticipated changes in our liquidity position; unanticipated changes in regulatory and governmental policies impacting interest rates and financial markets; legislation affecting the financial services industry as a whole, and Meridian Corporation, in particular; changes in accounting policies, practices or guidance; developments affecting the industry and the soundness of financial institutions and further disruption to the economy and U.S. banking system; among others, could cause Meridian Corporation's financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements.

Meridian Corporation cautions that the foregoing factors are not exclusive, and neither such factors nor any such forward-looking statement takes into account the impact of any future events. All forward-looking statements and information set forth herein are based on management's current beliefs and assumptions as of the date hereof and speak only as of the date they are made. For a more complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review Meridian Corporation's filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 and subsequently filed quarterly reports on Form 10-Q and current reports on Form 8-K that update or provide information in addition to the information included in the Form 10-K and Form 10-Q filings, if any. Meridian Corporation does not undertake to update any forward-looking statement whether written or oral, that may be made from time to time by Meridian Corporation or by or on behalf of Meridian Bank.

Critical Accounting Policies and Estimates

Our critical accounting policies are described in detail in the "Critical Accounting Policies" section within Item 7 of our 2022 2023 Annual Form Form 10-K. The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. See Note 1, "Summary of Significant Accounting Policies" for additional information on the adoption of ASC 326, which changes the methodology under which management calculates its reserve for loans and leases, now referred to as the allowance for credit losses. Management considers the measurement of the allowance for credit losses to be a critical accounting policy.

Executive Overview

The following items highlight the Corporation's changes in its financial condition as of September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023 and the results of operations for the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022. 2023. More detailed information related to these highlights can be found in the sections that follow.

Bank Sector Considerations

Meridian is a regional community bank with loans and deposits that are well diversified in size, type, location and industry. We manage this diversification carefully, while avoiding concentrations in business lines. Meridian's model continues to build on our strong and stable financial position, which serves our regional customers and communities with the banking products and services needed to help build their prosperity.

As a commercial bank, the majority of Meridian's deposit base is comprised of business deposits (58% (52%), with consumer deposits amounting to 12% 14% at September 30, 2023 March 31, 2024. Municipal deposits (8% (10%) and brokered deposits (22% (24%) provide growth funding. Historically, business deposits lag loan fundings. A typical business relationship maintains operating accounts, investment accounts or sweep accounts and business owners may also have personal savings or wealth accounts. Deposit balances in business accounts have a tendency to be higher on average than consumer accounts. At September 30, 2023 March 31, 2024, 63% 65% of business accounts and 88% 89% of consumer accounts were fully insured by the FDIC. The municipal deposits are 100% collateralized and brokered deposits are 100% FDIC insured. The level of uninsured deposits for the entire deposit base was 23% 19% at September 30, 2023 March 31, 2024.

Meridian also maintains borrowing arrangements with various correspondent banks to meet short-term liquidity needs and has access to approximately $1.0 billion in liquidity from numerous sources including its borrowing capacity with the FHLB and other financial institutions, as well as funding through the CDARS program or through brokered CD arrangements. In addition, the Bank is eligible to receive funds under the new BTFP announced by the Federal Reserve. Meridian elected to secure borrowings from the Federal Reserve under the BTFP due to the favorable rate and as of September 30, 2023 had a balance of $33 million. Management believes that the above sources of liquidity provide Meridian with the necessary resources to meet its short-term and long-term funding requirements.

Changes in Financial Condition - September 30, 2023 March 31, 2024 Compared to December 31, 2022 December 31, 2023

- Total assets increased $168.7 million $46.7 million, or 8.2% 2.1%, to $2.2 billion $2.3 billion as of September 30, 2023 March 31, 2024.
- Portfolio loans increased $147.8 million $61.6 million, or 8.5% 3.3%, to $1.9 billion $2.0 billion as of September 30, 2023 March 31, 2024.
- Mortgage loans held for sale increased $901 thousand, $4.3 million, or 4.1% 17.4%, to $23.1 million $29.1 million at September 30, 2023.
- Upon adoption ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326) ("CECL") effective January 1, 2023, we recorded an increase to our allowance for credit losses of $1.6 million and an adjustment to the reserve for unfunded commitments of $1.3 million. The after-tax retained earnings impact of this adoption was $2.2 million March 31, 2024.
- Total deposits increased $96.2 million $77.2 million or 5.6% 4.2% to $1.8 billion $1.9 billion at September 30, 2023 March 31, 2024.
- Non-interest bearing deposits decreased $57.1 million $18.7 million, or 18.9% 7.8%, to $244.7 million $220.6 million as of September 30, 2023 March 31, 2024.
- The Corporation returned $4.2 million $1.4 million of capital to Meridian shareholders during the nine three months ended September 30, 2023 March 31, 2024 through a $0.125 quarterly dividend in each of the first three quarters of 2023, and also purchased $4.3 million or 312,447 shares of treasury stock. dividend.

Three Month Results of Operations - September 30, 2023 March 31, 2024 Compared to the Same Period in 2022 2023

- Net income was $4.0 million $2.7 million, or $0.35 $0.24 per diluted share, down $1.8 million $1.3 million, or 30.9% 33.4%, driven by a decline an increase in non-interest income, interest expense and to a lesser degree a decline in net interest income, the provision for credit losses, partially offset by lower operating expenses. increases in interest income and non-interest income.
- The return on average assets and return on average equity were 0.73% 0.47% and 10.17% 6.73%, respectively, for the third first quarter 2023, 2024, compared to 1.23% 0.78% and 14.59% 10.65%, respectively, for the third first quarter 2022. 2023.
- Net interest margin decreased to 3.29% 3.09% from 4.01% 3.61% due to the impact of deposit and borrowing repricing outpacing the repricing of interest earnings assets, mainly loans.
- On January 1, 2023, the Corporation adopted the new accounting standard, referred to as CECL, which transitioned from the incurred loss model based on historical loss experience and economic and market conditions to the expected loss model. Expected credit losses are estimated over the contractual term, adjusted for expected prepayments and recoveries, and take into account macroeconomic forecasts. The overall provision for credit losses decreased $444 thousand increased $1.5 million when comparing the third first quarter 2023 2024 to the third first quarter 2022. 2023. The reduction increase was due in part to a decline $2.0 million increase in the overall exposure to unfunded specific reserves, mainly on small business loans and existing non-accrual loans, combined with provisioning for loan

balances at the end of the third quarter, causing growth and charge-offs, partially offset by a reduction in the unfunded reserve of $273 thousand. The decrease $508 thousand in provision was also due to favorable changes in some baseline loss rates and certain macroeconomic factors underlying the funded loss model. In addition, the provision for credit losses is impacted by the change in expected loss rates under CECL. unfunded loans.

- Non-interest income decreased $2.1 million increased $1.3 million, or 20.9% 20.3%, to $8.1 million $8.0 million driven by a $2.5 million decrease $362 thousand increase in mortgage banking income, a $273 thousand increase in SBA loan income, a $121 thousand of an increase in wealth management fee income, and a $317 increase of $743 thousand decrease in net gains on hedging activities. other income.
- Non-interest expense decreased $243 increased $385 thousand, or 1.2% 2.2%, to $20.0 million $18.2 million due to increases of $675 thousand in professional fees and $385k in other expense, partially offset by a $940 $488 thousand decrease in salaries and employee benefits, largely offset by increases in professional fees ($205 thousand), data processing ($210 thousand), and other expenses ($564 thousand).

Nine Month Results of Operations - September 30, 2023 Compared to the Same Period in 2022

- Net income was $12.7 million, or $1.11 per diluted share, down $4.6 million, or 26.6%, driven by a decline in non-interest income, partially offset by an increase in net interest income and lower operating expenses.
- The return on average assets and return on average equity was 0.79% and 10.96%, respectively, for the nine months ended September 30, 2023, compared to 1.28% and 14.49%, respectively, for the nine months ended September 30, 2022.
- Net interest margin decreased to 3.40% from 3.99% due to the impact of deposit and borrowing repricing outpacing the repricing of interest earnings assets, mainly loans.
- Provision for credit losses increased $443 thousand to cover for increased loan growth period over period, combined with providing for the $1.8 million increase in net charge-offs period over period. As noted above, the provision for credit losses is impacted by the change in expected loss rates under CECL.
- Non-interest income decreased $9.9 million, or 29.3%, to $23.8 million driven by a $8.2 million decrease in mortgage banking income, combined with decreased net gains on hedging activity of $4.9 million.
- Non-interest expense decreased $4.0 million, or 6.5%, to $57.4 million as salaries and employee benefits decreased $6.0 million. benefits.

Key Performance Ratios

The following table presents key financial performance ratios for the periods indicated:

		Three months ended September 30,				Nine months ended September 30,			
		2023		2022		2023		2022	
		Three months ended March 31, Three months ended March 31, Three months ended March 31,							
		2024 2024 2024							
Return on average assets, annualized									
Return on average assets, annualized									
Return on average assets, annualized	Return on average assets, annualized	0.73	%	1.23	%	0.79	%	1.28	%
Return on average equity, annualized	Return on average equity, annualized	10.17	%	14.59	%	10.96	%	14.49	%
Return on average equity, annualized									
Return on average equity, annualized									
Net interest margin (tax effected yield)									
Net interest margin (tax effected yield)									
Net interest margin (tax effected yield)	Net interest margin (tax effected yield)	3.29	%	4.01	%	3.40	%	3.99	%
Basic earnings per share	Basic earnings per share	$ 0.36		$ 0.49		$ 1.14		$ 1.45	
Basic earnings per share									
Basic earnings per share									
Diluted earnings per share	Diluted earnings per share	$ 0.35		$ 0.48		$ 1.11		$ 1.40	
Diluted earnings per share									
Diluted earnings per share									

The following table presents certain key period-end balances and ratios at the dates indicated:

(dollars in thousands, except per share amounts)	(dollars in thousands, except per share amounts)	September 30, 2023	December 31, 2022
Book value per common share	Book value per common share	$ 13.88	$ 13.37
Tangible book value per common share (1)	Tangible book value per common share (1)	$ 13.53	$ 13.01
Allowance as a percentage of loans and leases held for investment	Allowance as a percentage of loans and leases held for investment	1.04 %	1.08 %
Allowance as a percentage of loans and leases held for investment (excl. loans at fair value and PPP loans) (1)	Allowance as a percentage of loans and leases held for investment (excl. loans at fair value and PPP loans) (1)	1.05 %	1.09 %
Tier I capital to risk weighted assets	Tier I capital to risk weighted assets	8.43 %	8.77 %
Tangible common equity to tangible assets ratio (1)	Tangible common equity to tangible assets ratio (1)	6.79 %	7.25 %
Loans and other finance receivables, net of fees and costs	Loans and other finance receivables, net of fees and costs	$1,885,629	$1,743,682
Total assets		$2,230,971	$2,062,228
Total stockholders’ equity		$ 155,114	$ 153,280

(dollars in thousands, except per share amounts)	March 31, 2024	December 31, 2023
Allowance as a percentage of loans and leases held for investment	1.18 %	1.17 %
Allowance as a percentage of loans and leases held for investment (excl. loans at fair value and PPP loans) (1)	1.19 %	1.17 %
Tier I capital to risk weighted assets	7.65 %	7.90 %
Tangible common equity to tangible assets ratio (1)	6.82 %	6.87 %
Total assets	$ 2,292,923	$ 2,246,193
Total stockholders’ equity	$ 159,936	$ 158,022

(1) Non-GAAP financial measure. See “Non-GAAP Financial Measures” below for Non-GAAP to GAAP reconciliation.

Components of Net Income

Net income is comprised of five major elements:

- **Net Interest Income**, or the difference between the interest income earned on loans, leases and investments and the interest expense paid on deposits and borrowed funds;
- **Provision For Credit Losses**, or the amount added to the Allowance to provide for current expected credit losses on portfolio loans and leases;
- **Non-interest Income,** which is made up primarily of mortgage banking income, wealth management income, SBA loan sale income, fair value adjustments, gains and losses from the sale of loans, gains and losses from the sale of investment securities available for sale and other fees from loan and deposit services;
- **Non-interest Expense**, which consists primarily of salaries and employee benefits, occupancy, professional fees, advertising & promotion, data processing, information technology, loan expenses, and other operating expenses; and
- **Income Taxes**, which include state and federal jurisdictions.

NET INTEREST INCOME

Net interest income is an integral source of the Corporation’s revenue. The tables table below present a summary for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, of the Corporation’s average balances and yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities. The net interest margin is the net interest income as a percentage of average interest-earning assets. The net interest spread is the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The difference between the net interest margin and the net interest spread is the result of net free funding sources such as non-interest bearing deposits and stockholders’ equity.

Analyses of Interest Rates and Interest Differential

The tables table below present the major asset and liability categories on an average daily balance basis for the periods presented, along with interest income, interest expense and key rates and yields on a tax equivalent basis.

		For the Three Months Ended September 30,					
		For the Three Months Ended March 31,					
		For the Three Months Ended March 31,					
		For the Three Months Ended March 31,					
		2023			2022		
(dollars in thousands)	*(dollars in thousands)*	**Average Balance**	**Interest Income/ Expense**	**Yields/ Rates**	**Average Balance**	**Interest Income/ Expense**	**Yields/ Rates**
(dollars in thousands)							
Average Balance							
Average Balance							
Assets:	**Assets:**						
Due from banks		$ 17,356	$ 244	5.58 %	$ 15,678	$ 92	2.33 %
Assets:							
Assets:							
Cash and cash equivalents							
Cash and cash equivalents							
Cash and cash equivalents							
Federal funds sold							
Federal funds sold							
Federal funds sold	Federal funds sold	44	1	9.02	219	1	1.81
Investment securities - taxable	Investment securities - taxable	106,369	901	3.36	107,929	648	2.38
Investment securities - taxable							
Investment securities - taxable							
Investment securities - tax exempt (1)							
Investment securities - tax exempt (1)							

Investment securities - tax exempt (1)	Investment securities - tax exempt (1)	58,196	410	2.80	63,711	450	2.80
Loans held for sale	Loans held for sale	27,718	456	6.53	37,857	479	5.02
Loans held for sale							
Loans held for sale							
Loans held for investment (1)							
Loans held for investment (1)							
Loans held for investment (1)	Loans held for investment (1)	1,876,648	33,526	7.09	1,565,861	21,371	5.41
Total loans	Total loans	1,904,366	33,982	7.08	1,603,718	21,850	5.41
Total loans							
Total loans							
Total interest-earning assets							
Total interest-earning assets							
Total interest-earning assets	Total interest-earning assets	2,086,331	35,538	6.76 %	1,791,255	23,041	5.10 %
Noninterest earning assets	Noninterest earning assets	98,054			76,939		
Noninterest earning assets							
Noninterest earning assets							
Total assets							
Total assets							
Total assets	Total assets	$ 2,184,385			$ 1,868,194		
Liabilities and stockholders' equity:	**Liabilities and stockholders' equity:**						
Liabilities and stockholders' equity:							
Liabilities and stockholders' equity:							
Interest-bearing demand deposits							
Interest-bearing demand deposits							
Interest-bearing demand deposits	Interest-bearing demand deposits	$ 160,886	$ 1,488	3.67 %	$ 221,402	$ 798	1.43 %
Money market and savings deposits	Money market and savings deposits	719,123	6,755	3.73	718,744	2,075	1.15
Money market and savings deposits							
Money market and savings deposits							
Time deposits	Time deposits	648,646	7,300	4.46	361,527	1,202	1.32
Total deposits		1,528,655	15,543	4.03	1,301,673	4,075	1.24
Time deposits							
Time deposits							
Total interest - bearing deposits							
Total interest - bearing deposits							
Total interest - bearing deposits							
Borrowings							
Borrowings							
Borrowings	Borrowings	167,889	2,086	4.93	41,313	266	2.55
Subordinated debentures	Subordinated debentures	41,311	606	5.82	40,578	591	5.78
Subordinated debentures							
Subordinated debentures							
Total interest-bearing liabilities							
Total interest-bearing liabilities							

Total interest-bearing liabilities	Total interest-bearing liabilities	1,737,855	18,235	4.16	1,383,564	4,932	1.41
Noninterest-bearing deposits	Noninterest-bearing deposits	253,485			295,975		
Noninterest-bearing deposits							
Noninterest-bearing deposits							
Other noninterest-bearing liabilities							
Other noninterest-bearing liabilities							
Other noninterest-bearing liabilities	Other noninterest-bearing liabilities	36,774			31,041		
Total liabilities	Total liabilities	2,028,114			1,710,580		
Total liabilities							
Total liabilities							
Total stockholders' equity							
Total stockholders' equity							
Total stockholders' equity	Total stockholders' equity	156,271			157,614		
Total stockholders' equity and liabilities	Total stockholders' equity and liabilities	$ 2,184,385			$ 1,868,194		
Total stockholders' equity and liabilities							
Total stockholders' equity and liabilities							
Net interest income and spread (1)							
Net interest income and spread (1)							
Net interest income and spread (1)	Net interest income and spread (1)		$ 17,303	2.60		$ 18,109	3.69
Net interest margin (1)	Net interest margin (1)			3.29 %			4.01 %
Net interest margin (1)							
Net interest margin (1)							

(1) Yields and net interest income are reflected on a tax-equivalent basis.

	For the Nine Months Ended September 30,					
	2023			2022		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Yields/ Rates**	**Average Balance**	**Interest Income/ Expense**	**Yields/ Rates**
Assets:						
Due from banks	$ 19,358	$ 735	5.08 %	$ 23,612	$ 153	0.87 %
Federal funds sold	156	6	5.14	1,440	4	0.37
Investment securities - taxable	111,884	2,853	3.41	105,624	1,599	2.02
Investment securities - tax exempt (1)	60,042	1,266	2.82	63,848	1,240	2.60
Loans held for sale	23,459	1,080	6.16	52,495	1,580	4.02 %
Loans held for investment (1)	1,836,244	94,538	6.88	1,489,345	56,614	5.08
Total loans	1,859,703	95,618	6.87	1,541,840	58,194	5.05
Total interest-earning assets	2,051,143	100,478	6.55 %	1,736,364	61,190	4.71 %
Noninterest earning assets	95,740			74,313		
Total assets	$ 2,146,883			$ 1,810,677		
Liabilities and stockholders' equity:						
Interest-bearing demand deposits	$ 198,599	$ 5,184	3.49 %	$ 242,863	$ 1,183	0.65 %

Money market and savings deposits	673,540	16,603	3.30	702,696	4,003	0.76
Time deposits	628,419	19,226	4.09	319,927	1,996	0.83
Total deposits	1,500,558	41,013	3.65	1,265,486	7,182	0.76
Borrowings	143,955	5,450	5.06	24,621	391	2.12
Subordinated debentures	40,662	1,779	5.85	40,548	1,775	5.85
Total interest-bearing liabilities	1,685,175	48,242	3.83	1,330,655	9,348	0.94
Noninterest-bearing deposits	271,909			291,261		
Other noninterest-bearing liabilities	35,234			29,452		
Total liabilities	1,992,318			1,651,368		
Total stockholders' equity	154,565			159,309		
Total stockholders' equity and liabilities	$ 2,146,883			$ 1,810,677		
Net interest income and spread (1)		$ 52,236	2.72		$ 51,842	3.77
Net interest margin (1)			3.40 %			3.99 %

(1) Yieldsand net interest income are reflected on a tax-equivalent basis.

Rate / Volume Analysis

The rate/volume analysis table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the three and nine months ended September 30, 2023 March 31, 2024 as compared to the same periods period in 2022, 2023, allocated by rate and volume. Changes in interest income and/or expense attributable to both rate and volume have been allocated proportionately based on the relationship of the absolute dollar amount of the change in each category.

		2023 Compared to 2022					
		Three Months Ended September 30,			Nine Months Ended September 30,		
		Three Months Ended March 31,					
		Three Months Ended March 31,					
		Three Months Ended March 31,					
		2024 Compared to 2023					
		2024 Compared to 2023					
		2024 Compared to 2023					
(dollars in thousands)	*(dollars in thousands)*	**Rate**	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Interest income:	**Interest income:**						
Due from banks		$ 141	$ 11	$ 152	$ 617	$ (35)	$ 582
Interest income:							
Interest income:							
Cash and cash equivalents							
Cash and cash equivalents							
Cash and cash equivalents							
Federal funds sold							
Federal funds sold							
Federal funds sold	Federal funds sold	1	(1)	—	10	(8)	2
Investment securities - taxable	Investment securities - taxable	262	(9)	253	1,154	100	1,254
Investment securities - taxable							
Investment securities - taxable							
Investment securities - tax exempt (1)							
Investment securities - tax exempt (1)							
Investment securities - tax exempt (1)	Investment securities - tax exempt (1)	(1)	(39)	(40)	103	(77)	26
Loans held for sale	Loans held for sale	123	(146)	(23)	610	(1,110)	(500)
Loans held for sale							
Loans held for sale							

Loans held for investment (1)							
Loans held for investment (1)							
Loans held for investment (1)	Loans held for investment (1)	7,401	4,754	12,155	22,884	15,040	37,924
Total loans	Total loans	7,524	4,608	12,132	23,494	13,930	37,424
Total loans							
Total loans							
Total interest income							
Total interest income							
Total interest income	Total interest income	$ 7,927	$ 4,570	$ 12,497	$ 25,378	$ 13,910	$ 39,288
Interest expense:	**Interest expense:**						
Interest expense:							
Interest expense:							
Interest-bearing demand deposits							
Interest-bearing demand deposits							
Interest-bearing demand deposits	Interest-bearing demand deposits	$ 959	$ (269)	$ 690	$ 4,254	$ (253)	$ 4,001
Money market and savings deposits	Money market and savings deposits	4,679	1	4,680	12,773	(173)	12,600
Money market and savings deposits							
Money market and savings deposits							
Time deposits	Time deposits	4,575	1,523	6,098	13,817	3,413	17,230
Total deposits		10,213	1,255	11,468	30,844	2,987	33,831
Time deposits							
Time deposits							
Total interest - bearing deposits							
Total interest - bearing deposits							
Total interest - bearing deposits							
Borrowings							
Borrowings							
Borrowings	Borrowings	424	1,396	1,820	1,124	3,935	5,059
Subordinated debentures	Subordinated debentures	4	11	15	(1)	5	4
Subordinated debentures							
Subordinated debentures							
Total interest expense							
Total interest expense							
Total interest expense	Total interest expense	$ 10,641	$ 2,662	$ 13,303	$ 31,967	$ 6,927	$ 38,894
Interest differential	Interest differential	$ (2,714)	$ 1,908	$ (806)	$ (6,589)	$ 6,983	$ 394
Interest differential							
Interest differential							

(1) Yields and net interest income are reflected on a tax-equivalent basis.

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Same Period in 2022 2023

For the three months ended September 30, 2023 March 31, 2024 as compared to the same period in 2022, 2023, tax-equivalent interest income increased $12.5 million $6.3 million as favorable rate and volume changes contributed $7.9 million $3.3 million, and $4.6 million $3.0 million, respectively. respectively, to interest income. The favorable change in rates led to increased yields on loans held for sale (up 151 95 basis points) and loans held for investment (up 168 60 basis points) that favorably impact interest income by $7.5 million $3.1 million, overall. The loans held for investment average balances increased $310.8 million $160.9 million, leading to a favorable volume impact on interest income of $4.8 million $2.8 million, while the decline increase in loans held for sale average balances of $10.1 million $4.1 million had an unfavorable small but favorable impact to interest income of $146 $64 thousand. Growth in the loans held for investment portfolio was led by average balance increases in commercial real estate ($125.2 179.0 million), residential real estate ($121.9 29.7 million), construction home equity loans ($59.2 15.3 million), commercial loans ($8.6 million), and SBA loans ($17.6 7.6 million).

On the funding side, overall interest expense increased $13.3 million $7.3 million, largely driven by the continuing impact from that the Fed's rate hikes issued by have had on the Fed. cost of deposits and borrowings. The cost of deposits were up across the board, leading to a $11.5 million $5.9 million increase to interest expense. The cost of interest-bearing demand deposits, money market and savings accounts and time deposits increased 224 71 basis points, 258 129 basis points and 314 129 basis points, respectively, while the cost of borrowings increased 238 decreased slightly by 4 basis points. Time deposits Money market/savings accounts were the largest drivers of the interest expense increase due to volume as average balances on such accounts increased $287.1 million $124.2 million, while money market/savings accounts time deposit average balances increased only $379 thousand, $95.4 million, and the average balances on interest-bearing demand deposits decreased $60.5 million $92.9 million, while borrowings increased $126.6 million $96.9 million on average.

Overall, the $806 thousand $1.1 million decrease in net interest income over this period was driven by rate changes as the cost of interest bearing liabilities outpaced the increase in the yield on interest earning assets.

Nine Months Ended September 30, 2023 Compared to the Same Period in 2022

For the nine months ended September 30, 2023 as compared to the same period in 2022, tax-equivalent interest income increased $39.3 million as favorable rate and volume changes contributed $25.4 million, and $13.9 million, respectively. The favorable change in rates led to increased yields on loans held for investment (up 180 basis points) and loans held for sale (up 214 basis points), that favorably impact interest income by $23.5 million, overall. The loans held for investment average balances increased $346.9 million, leading to a favorable volume impact on interest income of $15.0 million, while the decline in loans held for sale average balances of $29.0 million had an unfavorable impact to interest income of $1.1 million. Within the loans held for investment portfolio, average balances on commercial loans, SBA loans, and leases increased $1.3 million, $24.4 million, and $34.2 million, respectively, construction loans were up $71.9 million, and residential real estate loans average balances increased $145.8 million, while the average balance of PPP loans decreased $38.9 million as such loans are nearly fully forgiven now by the SBA.

On the funding side, overall interest expense increased $38.9 million, largely driven by the impact from rate hikes issued by the Fed. The cost of deposits were up across the board, leading to a $33.8 million increase to interest expense. The cost of interest-bearing demand deposits, money market and savings accounts and time deposits increased 284 basis points, 254 basis points and 326 basis points, respectively, while the cost of borrowings increased 294 basis points. Time deposit average balances increased $308.5 million, while money market/savings accounts average balances and interest-bearing demand deposits decreased $29.2 million, and $44.3 million, respectively, and borrowings increased $119.3 million on average.

Overall, the $0.4 million increase in net interest income was derived by the volume changes as the impact from increased average earning assets, particularly loans held for investment, overcame the unfavorable impact from the funding costs.

PROVISION FOR CREDIT LOSSES

Three and Nine Months Ended September 30, 2023 March 31, 2024 Compared to the Same Periods Period in 2022 2023

The overall provision for credit losses decreased $444 thousand increased $1.5 million on a net basis for the three months ended September 30, 2023, and increased $443 thousand for the nine months ended September 30, 2023 March 31, 2024. The provision decrease on funded loans increased $2.0 million over the three month comparable period was in 2023driven by an increase in specific reserves, mainly on small business loans and existing non-accrual loans, combined with provisioning for loan growth and charge-offs. The provision on unfunded loan commitments decreased over this period due in part to a decline in the overall exposure to unfunded loan balances at the end of the third quarter, causing a reduction in the unfunded reserve. The remaining decrease in provisioning was due largely to favorable changes in the some baseline loss rates rate and certain economic macroeconomic factors. The provision increase over the nine month comparable periods was to help provide for loan growth over the period, in addition to helping to cover for the increased level of charge-offs, largely over small equipment leases.

Asset Quality Summary

The ratio of non-performing assets to total assets was 1.38% 1.74% as of September 30, 2023 March 31, 2024, up from 1.11% 1.58% reported as of December 31, 2022. There was $1.7 million in other real estate owned included in non-performing assets, the result of taking possession of a well collateralized residential real estate property in the quarter end December 31, 2022 December 31, 2023. Total non-performing loans of $29.1 million $38.2 million as of September 30, 2023 March 31, 2024, increased $7.9 million $4.5 million from $21.2 million $33.8 million as December 31, 2022 due to December 31, 2023. The changes were the result of risk rating downgrades of 6 several SBA loans 1 shared national credit loan, 3 commercial loan relationships, and several small balance ticket equipment leases, during this period. partially offset by charge-offs as of March 31, 2024.

Meridian realized net charge-offs of 0.18% 0.12% of total average loans for the nine three months ending September 30, 2023 March 31, 2024, which was up from 0.10% 0.08% reported for the same period in 2022. 2023. Net charge-offs for the quarter ended September 30, 2023 March 31, 2024 were $914 thousand, $2.3 million, compared to net charge-offs of $1.5 million for the quarter ended March 31, 2023. Net charge-offs for the current quarter comprised of $1.0 million $2.4 million in charge-offs, with $95 $133 thousand in recoveries for the quarter. While a recoveries. A large percentage of charge-offs for the quarter ended September 30, 2023 March 31, 2024 continue to be from small ticket equipment leases, as the level of charge-offs in this portfolio declined increased by $169 $684 thousand compared to the prior year comparable period, while we also realized $90 $126 thousand of recoveries related to the small ticket equipment lease portfolio. There were also charge-offs of $272 $87 thousand on SBA loans that had previously been classified as non-performing loans in a for the current quarter, while there were no SBA charge-offs from the prior year comparable period.

The ratio of allowance for credit losses to total loans held for investment, excluding loans at fair value and PPP loans (a non-GAAP measure, see reconciliation in the Appendix), was 1.05% 1.19% as of September 30, 2023 March 31, 2024 and 1.09% 1.17% as of December 31, 2022 December 31, 2023. As of September 30, 2023 March 31, 2024 there were specific reserves of $2.5 million $8.5 million against non-performing loans, an increase from $2.2 million $6.5 million as of December 31, 2022 due to December 31, 2023. During the establishment of a quarter $1.6 million in specific reserve on a reserves were established for SBA loan relationships along with smaller increases in specific reserves for other commercial loan that was classified as a non-performing loan, partially offset by a decline in the specific reserve on another commercial loan relationship. loans.

The Corporation continues to be diligent in its credit underwriting process and proactive with its loan review process, including the engagement of the services of an independent outside loan review firm, which helps identify developing credit issues. Proactive steps that are taken include the procurement of additional collateral (preferably outside the current loan structure) whenever possible and frequent contact with the borrower. The Corporation believes that timely identification of credit issues and appropriate actions early in the process serve to mitigate overall risk of loss.

Nonperforming Assets and Related Ratios

The following table presents nonperforming assets and related ratios for the periods indicated:

(dollars in thousands)	*(dollars in thousands)*	September 30, 2023	December 31, 2022	*(dollars in thousands)*	March 31, 2024	December 31, 2023
Non-performing assets:	**Non-performing assets:**					
Nonaccrual loans:	Nonaccrual loans:					
Nonaccrual loans:						
Nonaccrual loans:						
Real estate loans:	Real estate loans:					
Real estate loans:						
Real estate loans:						
Commercial mortgage						
Commercial mortgage						
Commercial mortgage	Commercial mortgage	$ —	$ 140			
Home equity lines and loans	Home equity lines and loans	929	1,097			
Residential mortgage	Residential mortgage	3,097	2,085			
Construction	Construction	1,206	—			
Total real estate loans	Total real estate loans	5,232	3,322			
Commercial and industrial	Commercial and industrial	15,575	12,547			
Small business loans	Small business loans	7,237	4,465			
Leases	Leases	1,067	902			
Total nonaccrual loans	Total nonaccrual loans	29,111	21,236			
Other real estate owned	Other real estate owned	1,703	1,703			
Total non-performing assets	Total non-performing assets	$ 30,814	$ 22,939			
Asset quality ratios:	**Asset quality ratios:**					
Asset quality ratios:						
Asset quality ratios:						
Non-performing assets to total assets						
Non-performing assets to total assets						
Non-performing assets to total assets	Non-performing assets to total assets	1.38 %	1.11 %		1.74 %	1.58 %
Non-performing loans to:	Non-performing loans to:					
Total loans and leases						

Total loans and leases								
Total loans and leases	Total loans and leases	1.53 %	1.20 %		1.93	%	1.76	%
Total loans held-for-investment	Total loans held-for-investment	1.54 %	1.22 %	Total loans held-for-investment	1.95	%	1.78	%
Total loans held-for-investment (excluding loans at fair value) (1)	Total loans held-for-investment (excluding loans at fair value) (1)	1.55 %	1.23 %	Total loans held-for-investment (excluding loans at fair value) (1)	1.97	%	1.79	%
Allowance for credit losses to (2):	Allowance for credit losses to (2):							
Total loans and leases								
Total loans and leases								
Total loans and leases	Total loans and leases	1.03 %	1.07 %		1.17	%	1.15	%
Total loans held-for-investment	Total loans held-for-investment	1.04 %	1.08 %	Total loans held-for-investment	1.18	%	1.17	%
Total loans held-for-investment (excluding loans at fair value) (1)	Total loans held-for-investment (excluding loans at fair value) (1)	1.05 %	1.09 %	Total loans held-for-investment (excluding loans at fair value) (1)	1.19	%	1.17	%
Non-performing loans	Non-performing loans	67.61 %	88.66 %	Non-performing loans	60.59	%	65.48	%
Total loans and leases	Total loans and leases	$1,908,773	$1,765,925					
Total loans and leases								
Total loans and leases								
Total loans and leases held-for-investment	Total loans and leases held-for-investment	$1,885,629	$1,743,682					
Total loans and leases held-for-investment (excluding loans at fair value)	Total loans and leases held-for-investment (excluding loans at fair value)	$1,872,109	$1,724,601					
Allowance for credit losses (2)		$ 19,683	$ 18,828					
Allowance for credit losses								

(1) The allowance for credit losses to total loans held-for-investment (excluding loans at fair value) ratio is a non-GAAP financial measure. See "Non-GAAP Financial Measures" for a reconciliation of this measure to its most comparable GAAP measure.

(2) See Note 1, "Summary of Significant Accounting Policies - Pronouncements Adopted in 2023.

NON-INTEREST INCOME

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Same Period in 2022 2023

The following table presents the components of non-interest income for the periods indicated:

		Quarter Ended											
		Quarter Ended											
(Dollars in thousands)													
(Dollars in thousands)													
(Dollars in thousands)	*(Dollars in thousands)*	**September 30, 2023**	**September 30, 2022**	**$ Change**	**% Change**	**March 31, 2024**			**March 31, 2023**		**$ Change**		**% Change**
Mortgage banking income	Mortgage banking income	$ 4,819	$ 7,329	$ (2,510)	(34.2)%	Mortgage banking income	$ 3,634	$	$ 3,272	$	$ 362	11.1	11.1 %
Wealth management income	Wealth management income	1,258	1,114	144	12.9 %	Wealth management income	1,317	1,196	1,196	121	121	10.1	10.1 %
SBA loan income	SBA loan income	982	989	(7)	(0.7)%	SBA loan income	986	713	713	273	273	38.3	38.3 %
Earnings on investment in life insurance	Earnings on investment in life insurance	201	138	63	45.7 %	Earnings on investment in life insurance	207	192	192	15	15	7.8	7.8 %
Net change in the fair value of derivative instruments	Net change in the fair value of derivative instruments	103	127	(24)	(18.9)%	Net change in the fair value of derivative instruments	75	(69)	(69)	144	144	(208.7)	(208.7)%
Net change in the fair value of loans held-for-sale	Net change in the fair value of loans held-for-sale	111	(237)	348	(146.8)%	Net change in the fair value of loans held-for-sale	(2)	(1)	(1)	(1)	(1)	100.0	100.0 %
Net change in the fair value of loans held-for-investment	Net change in the fair value of loans held-for-investment	(570)	(886)	316	(35.7)%	Net change in the fair value of loans held-for-investment	(175)	117	117	(292)	(292)	(249.6)	(249.6)%
Net gain on hedging activity		82	399	(317)	(79.4)%								
Net loss on sale of investment securities available-for-sale		(3)	—	(3)	(100.0)%								
Net (loss) gain on hedging activity						Net (loss) gain on hedging activity	(19)		—		(19)		#DIV/0!
Other													
Other													
Other	Other	1,103	1,251	(148)	(11.8)%		1,961	1,218	1,218	743	743	61.0	61.0 %
Total non-interest income	Total non-interest income	$ 8,086	$ 10,224	$ (2,138)	(20.9)%	Total non-interest income	$ 7,984	$	$ 6,638	$	$ 1,346	20.3	20.3 %

Total non-interest income decreased $2.1 million increased $1.3 million due primarily largely to lower improved income from our mortgage segment, which continues to be impacted by lower levels despite the continued impact of mortgage loan originations in a rising the higher rate environment and a lack of housing inventory. Mortgage loan originations decreased $104.0 million increased $4.0 million to $187.1 million $146.8 million when comparing the quarter ended September 30, 2023 March 31, 2024 to the quarter ended September 30, 2022 March 31, 2023. SBA loan income increased $273 thousand over this period as the value of SBA loans sold for the quarter-ended March 31, 2024 was $4.6 million, or 42.3%, higher than the quarter-ended March 31, 2023, the gross margin on sale was 8.1% for the quarter-ended March 31, 2024 compared to 7.7% for the quarter-ended March 31, 2023, helping to generate nearly $1 million in SBA loan income for the quarter.

The net change in the fair value of loans held-for-investment improved declined to a loss of $570 $175 thousand for the quarter ended September 30, 2023 March 31, 2024, compared to a loss gain of $886 $117 thousand for the comparable prior year quarter, due to the negative impact the rising interest rate environment had on the fair value of the loans in portfolio that are held at fair value.

Nine Months Ended September 30, 2023 Compared to the Same Period in 2022

The following table presents the components of Other non-interest income for the periods indicated:

(Dollars in thousands)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
Mortgage banking income	$ 13,143	$ 21,367	$ (8,224)	(38.5)%
Wealth management income	3,689	3,672	17	0.5 %
SBA loan income	3,463	3,946	(483)	(12.2)%
Earnings on investment in life insurance	585	413	172	41.6 %
Net change in the fair value of derivative instruments	217	(713)	930	(130.4)%
Net change in the fair value of loans held-for-sale	(88)	(1,094)	1,006	(92.0)%
Net change in the fair value of loans held-for-investment	(673)	(2,499)	1,826	(73.1)%
Net (loss) gain on hedging activity	81	4,941	(4,860)	(98.4)%
Net loss on sale of investment securities available-for-sale	(58)	—	(58)	(100.0)%
Other	3,489	3,695	(206)	(5.6)%
Total non-interest income	$ 23,848	$ 33,728	$ (9,880)	(29.3)%

Total non-interest increased due to an increase in FHLB stock income, decreased $9.9 million due primarily to lower income from our increases in broker fees and other mortgage segment which was impacted related income, partially offset by lower levels of mortgage loan originations in a rising rate environment and a lack of housing inventory. Mortgage loan originations decreased $392.0 million to $531.4 million when comparing the nine months ended September 30, 2023 to the nine months ended September 30, 2022. Driven by the decline in mortgage banking swap fee income over the nine month comparable periods, the net changes as no new swaps were entered into in the fair value of derivative instruments and loans held-for-sale, along with changes in net gains on hedging activity decreased $2.9 million, combined. current quarter.

SBA loan income decreased $483 thousand as a lower volume of SBA loans were sold into the secondary market for the nine months ending September 30, 2023 ($64.9 million of loans sold at an average gross margin of 6.8%), compared to the nine months ending September 30, 2022 ($75.9 million in loans sold at an average gross margin of 7.4%).

NON-INTEREST EXPENSE

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Same Period in 2022 2023

The following table presents the components of non-interest expense for the periods indicated:

Quarter Ended

Quarter Ended

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)	*(Dollars in thousands)*	September 30, 2023	September 30, 2022	$ Change	% Change		March 31, 2024		March 31, 2023			$ Change			% Change	
Salaries and employee benefits	Salaries and employee benefits	$ 12,420	$ 13,360	$ (940)	(7.0)%	Salaries and employee benefits	$ 10,573	$	$	11,061	$	$	(488)	(4.4)		(4.4) %
Occupancy and equipment	Occupancy and equipment	1,226	1,191	35	2.9 %	Occupancy and equipment	1,233	1,244		1,244	(11)		(11)	(0.9)		(0.9)%
Professional fees	Professional fees	1,104	899	205	22.8 %	Professional fees	1,498	823		823	675		675	82.0		82.0 %
Advertising and promotion	Advertising and promotion	848	1,165	(317)	(27.2)%	Advertising and promotion	748	861		861	(113)		(113)	(13.1)		(13.1)%
Data processing and software	Data processing and software	1,652	1,442	210	14.6 %	Data processing and software	1,532	1,432		1,432	100		100	7.0		7.0 %

Pennsylvania bank shares tax						Pennsylvania bank shares tax	274		245		29		11.8 %
Other	Other	2,768	2,204	564	25.6 %	Other	2,316	2,123	2,123	193	193	9.1	9.1 %
Total non-interest expense	Total non-interest expense	$ 20,018	$ 20,261	$ (243)	(1.2)%	Total non-interest expense	$ 18,174	$	$ 17,789	$	$ 385	2.2	2.2 %

Total non-interest expense decreased $243 increased $385 thousand, or 1.2% 2.2%, largely attributable to an increase in professional fees, data processing and software expense, and other non-interest expense, partially offset by a decrease in salaries and employee benefits expense in the mortgage segment, which had reduced fixed and variable based compensation due to the overall decline in mortgage banking income. expense.

Professional fees increased $205 $675 thousand over this period largely due to an increase in loan and lease workout expenses which has helped lead to an increase in recoveries when compared to recoveries in the prior year. expenses. Professional fees were also impacted by system conversion fees for a new loan servicing platform for our mortgage segment. Advertising segment and promotion expense decreased $317 thousand over this period as a result of a decrease in business development expense other mortgage segment related consulting and certain advertising expenses' seasonality.

legal expense. Data processing and software expense increased $210 $100 thousand due to cybersecurity improvements, cloud-based costs, other software upgrades, and an increase in customer account volume, all as a result of growth.

Salaries and employee benefits decreased $488 thousand due largely to cost reduction efforts in the mortgage segment over the last few quarters combined with the impact of lower mortgage loan originations and sales volume. Other non-interest expense increased $564

$193 thousand due largely to an increase in FDIC insurance expense, which reflected the new 2 basis point increase in assessment, and an increase in certain commercial and consumer related loan expenses due to portfolio growth.

Nine Months Ended September 30, 2023 Compared to the Same Period in 2022

The following table presents the components of non-interest expense for the periods indicated:

	Nine Months Ended			
(Dollars in thousands)	September 30, 2023	September 30, 2022	$ Change	% Change
Salaries and employee benefits	$ 35,633	$ 41,585	$ (5,952)	(14.3)%
Occupancy and equipment	3,610	3,619	(9)	(0.2)%
Professional fees	2,930	2,659	271	10.2 %
Advertising and promotion	2,799	3,340	(541)	(16.2)%
Data processing and software	4,764	3,939	825	20.9 %
Other	7,686	6,258	1,428	22.8 %
Total non-interest expense	$ 57,422	$ 61,400	$ (3,978)	(6.5)%

Total non-interest expense decreased $4.0 million largely attributable to a decrease in salaries and employee benefits expense at the mortgage segment, which recognized decreased fixed and variable compensation. Partially offsetting this decrease was an increase in salaries & benefits expense for the bank and wealth segments due to an increase in FTEs and a higher level of stock-based compensation expense year-over-year.

Advertising and promotion expense decreased $541 thousand as the result of a reduction in mortgage segment advertising and leads expense as mortgage origination volume was down significantly from the prior year. Data processing and software expense increased $825 thousand due to cybersecurity improvements, cloud-based costs and other software upgrades, all as a result of growth. Other non-interest expense increased $1.4 million over the period due largely to an increase in FDIC insurance expense, which reflected the new 2 basis point increase in assessment, and the adjustment of the unfunded allowance for credit losses which increased nearly $1 million due to the adoption of ASC 326 as of January 1, 2023.

INCOME TAX EXPENSE

Income tax expense for the three months ended September 30, 2023 March 31, 2024 was $1.2 million, $877 thousand, as compared to $1.7 million $1.1 million for the same period in 2022. The decrease in income tax expense was attributable to the decrease in earnings, period over period. 2023. Our effective tax rate was 23.1% 24.7% for the three months ended September 30, 2023 March 31, 2024 and 22.3% 21.6% for the three months ended September 30, 2022 March 31, 2023.

Income tax expense for the nine months ended September 30, 2023 was $3.6 million, as compared to $4.9 million for the same period in 2022. The decrease in While income tax expense was attributable decreased primarily due to the decrease in earnings, period over period. Our income before income taxes, the effective tax rate was 22.0% for increased slightly due to the nine months ended September 30, 2023 and 22.2% for the nine months ended September 30, 2022. impact of additional nondeductible expense, partially offset by an increase in tax-free bank owned life insurance income.

BALANCE SHEET ANALYSIS

As of September 30, 2023 March 31, 2024, total assets were $2.2 billion $2.3 billion which increased $168.7 million $46.7 million, or 8.2% 2.1%, from December 31, 2022 December 31, 2023. This growth in assets over the prior period was due primarily to loan portfolio growth, as detailed in the following table:

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change	(Dollars in thousands)	March 31, 2024		December 31, 2023		$ Change		% Change
Mortgage loans held for sale	Mortgage loans held for sale	$ 23,144	$ 22,243	$ 901	4.1 %	Mortgage loans held for sale	$ 29,124	$	$ 24,816	$	$ 4,308	17.4	17.4 %
Real estate loans:	Real estate loans:												
Commercial mortgage													
Commercial mortgage													
Commercial mortgage	Commercial mortgage	696,124	565,400	130,724	23.1								
Home equity lines and loans	Home equity lines and loans	73,844	59,399	14,445	24.3								
Residential mortgage	Residential mortgage	256,343	221,837	34,506	15.6								
Construction	Construction	276,590	271,955	4,635	1.7								
Total real estate loans	Total real estate loans	1,302,901	1,118,591	184,310	16.5								
Commercial and industrial	Commercial and industrial	299,861	341,378	(41,517)	(12.2)								
Commercial and industrial													
Commercial and industrial													
Small business loans	Small business loans	141,265	136,155	5,110	3.8								
Consumer	Consumer	434	488	(54)	(11.1)								
Leases, net	Leases, net	138,963	138,986	(23)	—								
Total portfolio loans and leases	Total portfolio loans and leases	$1,883,424	$1,735,598	$147,826	8.5								
Total loans and leases	Total loans and leases	$1,906,568	$1,757,841	$148,727	8.5 %	Total loans and leases	$ 1,979,160	$	$ 1,913,264	$	$ 65,896	3.4	3.4 %

Portfolio loans increased $147.8 million $61,588, to $2.0 billion as of March 31, 2024, to from $1.9 billion as of September 30, 2023, from $1.8 billion as of December 31, 2022 December 31, 2023. Overall portfolio loan growth was 8.5% 3.3% since December 31, 2022 December 31, 2023, or 11.4% 13.0% on an annualized basis for 2023. 2024. Commercial real estate loans increased $130.7 million $25.5 million, or 23.1% 3.5%, residential real estate commercial and industrial loans held in portfolio increased $34.5 million $25.3 million, or 15.6% 8.3%, and construction loans increased $4.6 million $16.6 million, or 1.7%, and small business loans increased $5.1 million, or 3.8% 6.7%.

The following table presents the major categories of deposits at the dates indicated:

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change	(Dollars in thousands)	March 31, 2024		December 31, 2023		$ Change		% Change
Noninterest-bearing deposits	Noninterest-bearing deposits	$ 244,668	$ 301,727	$ (57,059)	(18.9) %	Noninterest-bearing deposits	$ 220,581	$	$ 239,289	$	$ (18,708)	(7.8)	(7.8) %
Interest-bearing deposits:	Interest-bearing deposits:												
Interest-bearing demand deposits	Interest-bearing demand deposits	156,537	219,838	(63,301)	(28.8) %								

Interest-bearing demand deposits													
Interest-bearing demand deposits							121,204		150,898		(29,694)		(19.7) %
Money market and savings deposits	Money market and savings deposits	746,599	697,564	49,035	7.0 %	Money market and savings deposits	797,525	747,803	747,803	49,722	49,722	6.6	6.6 %
Time deposits	Time deposits	660,841	493,350	167,491	33.9 %	Time deposits	761,386	685,472	685,472	75,914	75,914	11.1	11.1 %
Total interest-bearing deposits	Total interest-bearing deposits	$1,563,977	$1,410,752	$153,225	10.9 %	Total interest-bearing deposits	$1,680,115	$	$ 1,584,173	$	$ 95,942	6.1	6.1 %
Total deposits	Total deposits	$1,808,645	$1,712,479	$ 96,166	5.6 %	Total deposits	$1,900,696	$	$ 1,823,462	$	$ 77,234	4.2	4.2 %

Total deposits increased $96.2 million $77.2 million, or 5.6% 4.2%, since December 31, 2022 December 31, 2023. Noninterest-bearing deposits and interest-bearing accounts decreased $57.1 million $18.7 million, and $63.3 million $29.7 million, respectively, during the period. This decline was largely due to customer preference for money market deposits which carry higher interest rates than interest-bearing demand deposits. Time deposits grew $167.5 million $75.9 million, or 33.9% 11.1%, from retail and wholesale efforts as customers prefer the higher term interest rates. Included in time deposits as of September 30, 2023 March 31, 2024, and December 31, 2022 December 31, 2023, are $401.3 million $476.0 million and $409.3 million $429.9 million of brokered deposits, respectively, which comprise 22.2% 26.3% and 21.9% of total deposits as of these dates.

Capital

Consolidated stockholders' equity of the Corporation was $155.1 million $159.9 million, or 7.0% of total assets as of September 30, 2023 March 31, 2024, as compared to $153.3 million $158.0 million, or 7.4% 7.0% of total assets as of December 31, 2022 December 31, 2023. On October 26, 2023 April 25, 2024, the Board of Directors declared a quarterly cash dividend of $0.125 per common share payable November 20, 2023 May 20, 2024 to shareholders of record as of November 13, 2023 May 13, 2024.

In September, Meridian Corporation raised $9.7 million in subordinated debt at 8.00% with a term of 10 years. The issuance of this subordinated debt improved tier 2 capital, as well as tangible book value of the Corporation. The funds will be used for general corporate purposes, including providing capital to the Corporation's bank subsidiary, Meridian Bank, and supporting organic growth. The subordinated debt also helped to improve Meridian Bank's tier 1 capital.

The September 30, 2023 March 31, 2024 tangible common equity to tangible assets ratio (a non-GAAP measure) was 6.8% for the Corporation and 8.9% for the Bank, compared to 7.2% for the Corporation and 8.8% for the Bank 8.94% at December 31, 2022 December 31, 2023. Tangible book value per share (a non-GAAP measure) was $13.53 $13.96 as of September 30, 2023 March 31, 2024, compared with $13.01 $13.78 as of December 31, 2022 December 31, 2023. A reconciliation of these non-GAAP measures is below.

The following table presents the Corporation's capital ratios and the minimum capital requirements to be considered "well capitalized" by regulators at the periods indicated:

		Corporation		Bank					
		September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	Well-capitalized minimum			
			Bank						
			Bank						
			Bank						
		March 31, 2024							Well-capitalized minimum
Tier 1 leverage ratio									
Tier 1 leverage ratio									
Tier 1 leverage ratio	Tier 1 leverage ratio	7.52 %	8.13 %	9.65 %	9.95 %	5.00 %	9.42 %	9.46 %	5.00 %

Common tier 1 risk-based capital ratio	Common tier 1 risk-based capital ratio	8.43 %	8.77 %	10.82 %	10.73 %	6.50 %	Common tier 1 risk-based capital ratio	9.87 %	10.10 %	6.50 %
Tier 1 risk-based capital ratio	Tier 1 risk-based capital ratio	8.43 %	8.77 %	10.82 %	10.73 %	8.00 %	Tier 1 risk-based capital ratio	9.87 %	10.10 %	8.00 %
Total risk-based capital ratio	Total risk-based capital ratio	11.96 %	12.05 %	11.85 %	11.87 %	10.00 %	Total risk-based capital ratio	10.95 %	11.17 %	10.00 %

Under the Community Bank Leverage Ratio framework, a community banking organization that is less than $10 billion in total consolidated assets, and has limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9% can elect to report a single regulatory capital ratio. The Corporation has elected to be measured under this framework for Bank capital adequacy and had ratios of 9.65% 9.42% and 9.95% 9.46% at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The Corporation is exempt from CBLR.

In December 2018, the Federal Reserve announced that a banking organization that experiences a reduction in retained earnings due to the CECL adoption as of the beginning of the fiscal year in which CECL is adopted may elect to phase in the regulatory capital impact of adopting CECL. Transitional amounts are calculated for the following items: retained earnings, temporary difference deferred tax assets and credit loss allowances eligible for inclusion in regulatory capital. When calculating regulatory capital ratios, 25% of the transitional amounts are phased in during the first year. An additional 25% of the transitional amounts are phased in over each of the next two years and at the beginning of the fourth year, the day-one effects of CECL are completely reflected in regulatory capital.

Liquidity

Management maintains liquidity to meet depositors' needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Meridian's foundation for liquidity is a stable and loyal customer deposit base, cash and cash equivalents, and a marketable investment portfolio that provides periodic cash flow through regular maturities and amortization or that can be used as collateral to secure funding.

In addition, Meridian maintains borrowing arrangements with various correspondent banks, the FHLB and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs and has access to approximately $1.0 billion in liquidity from these sources. Through its relationship at the Federal Reserve, Meridian had available credit of approximately $7.7 million $6.5 million at September 30, 2023 March 31, 2024. At September 30, 2023, Meridian had $33 million in borrowings from the Federal Reserve under the BTFP. As a member of the FHLB, we are eligible to borrow up to a specific credit limit, which is determined by the amount of our residential mortgages, commercial mortgages and other loans that have been pledged as collateral. As of September 30, 2023 March 31, 2024, Meridian's maximum borrowing capacity with the FHLB was $637.6 million $656.0 million. At September 30, 2023 March 31, 2024, Meridian had borrowed $145.0 million $145.8 million and the FHLB had issued letters of credit, on Meridian's behalf, totaling $112.7 million $156.0 million against its available credit lines. At September 30, 2023 March 31, 2024, Meridian also had available $15.0 million $49.0 million of unsecured federal funds lines of credit with other financial institutions as well as $137.5 million $149.0 million of available short or long term funding through the CDARS program and $379.4 million $326.5 million of available short or long term funding through brokered CD arrangements. Management believes that Meridian has adequate resources to meet its short-term and long-term funding requirements.

Discussion of Segments

As of September 30, 2023 March 31, 2024, the Corporation has three principal segments as defined by FASB ASC 280, "*Segment Reporting.*" The segments are Banking, Mortgage Banking and Wealth Management (see Note 10 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Banking Segment recorded income before tax of $6.3 million $3.5 million and $19.8 million $7.0 million for the three and nine months ended September 30, 2023 as compared to income before tax of $7.5 million March 31, 2024 and $22.5 million for the same periods in 2022. 2023, respectively. The Banking Segment provided

121.2% 99.6% and 122.1% 135.7% of the Corporation's pre-tax profit for the three months ended March 31, 2024, and nine month periods ended September 30, 2023, as compared to 100.7% and 101.5% for the same periods in 2022. 2023, respectively.

The Wealth Management Segment recorded income before tax of $417 $478 thousand and $973 $231 thousand for the three and nine months ended September 30, 2023 as compared to income before tax of $552 thousand March 31, 2024 and $1.8 million for the same periods in 2022. 2023, respectively. The decrease increase in income in this segment was the result of declines in improved market conditions over the period.

The Mortgage Banking Segment recorded a loss losses before tax of $1.5 million $465 thousand and $4.6 million $2.1 million for the three and nine months ended September 30, 2023 as compared to a loss before tax of $603 thousand March 31, 2024 and $2.2 million for the same periods in 2022. 2023, respectively. Mortgage Banking income and expenses related to loan originations and sales decreased due to lower origination volume in the higher rate environment. Originations have been significantly impacted by a lack of homes for sale.

Off Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and loan repurchase commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Total commitments to extend credit at September 30, 2023 March 31, 2024 were $517.7 million $540.3 million as compared to $506.2 million $517.7 million at December 31, 2022 December 31, 2023.

Standby letters of credit are conditional commitments issued by the Corporation to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in granting loan facilities to customers. The Corporation's obligation under standby letters of credit at September 30, 2023 March 31, 2024 amounted to $10.7 million $10.9 million as compared to $19.0 million $10.9 million at December 31, 2022 December 31, 2023.

Estimated fair values of the Corporation's off-balance sheet instruments are based on fees and rates currently charged to enter into similar loan agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Since fees and rates charged for off-balance sheet items are at market levels when set, there is no material difference between the stated amount and the estimated fair value of off-balance sheet instruments.

In certain circumstances the Corporation may be required to repurchase residential mortgage loans from investors under the terms of loan sale agreements. Generally, these circumstances include the breach of representations and warranties made to investors regarding borrower default or early payment, as well as a violation of the applicable federal, state, or local lending laws. The Corporation agrees to repurchase loans if the representations and warranties made with respect to such loans are breached. Based on the obligations described above, the Corporation repurchased two 3 loans totaling $730 thousand for the three and nine months ended September 30, 2023, while we repurchased one loan totaling $126 $589 thousand for the three months ended September 30, 2022 March 31, 2024, and seven while we did not repurchase any loans totaling $1.6 million for the nine three months ended September 30, 2022 March 31, 2023.

Non-GAAP Financial Measures

Meridian believes that non-GAAP measures are meaningful because they reflect adjustments commonly made by management, investors, regulators and analysts to evaluate performance trends and the adequacy of common equity. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for performance and financial condition measures determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of Meridian's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Our management used the measure of the tangible common equity ratio to assess our capital strength. We believe that this non-GAAP financial measure is useful to investors because, by removing the impact of our goodwill and other intangible assets, it allows investors to more easily assess our capital adequacy. This non-GAAP financial measure should not be considered a substitute for any regulatory capital ratios and may not be comparable to other similarly titled measures used by other companies.

The table below provides the non-GAAP reconciliation for our tangible common equity ratio and tangible book value per common share:

(dollars in thousands, except share data)	*(dollars in thousands, except share data)*	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands, except share data)*	**March 31, 2024**	**December 31, 2023**
Total stockholders' equity (GAAP)	Total stockholders' equity (GAAP)	$ 155,114	$ 153,280			
Less: Goodwill and intangible assets	Less: Goodwill and intangible assets	3,921	4,074			
Tangible common equity (non-GAAP)	Tangible common equity (non-GAAP)	151,193	149,206			
Total assets (GAAP)	Total assets (GAAP)	2,230,971	2,062,228			
Total assets (GAAP)						
Total assets (GAAP)						
Less: Goodwill and intangible assets	Less: Goodwill and intangible assets	3,921	4,074			
Tangible assets (non-GAAP)	Tangible assets (non-GAAP)	$ 2,227,050	$ 2,058,154			
Stockholders' equity to total assets (GAAP)						
Stockholders' equity to total assets (GAAP)						
Stockholders' equity to total assets (GAAP)					6.98 %	7.04 %

Tangible common equity to tangible assets (non-GAAP)	Tangible common equity to tangible assets (non-GAAP)	6.82	%	6.87	%
Shares outstanding					
Shares outstanding					
Shares outstanding					
Book value per share (GAAP)					
Book value per share (GAAP)					
Book value per share (GAAP)					
Tangible book value per share (non-GAAP)					

(dollars in thousands, except share data)	**September 30, 2023**	**December 31, 2022**
Stockholders' equity to total assets (GAAP)	6.95 %	7.43 %
Tangible common equity to tangible assets (non-GAAP)	6.79 %	7.25 %
Shares outstanding	11,178	11,466
Book value per share (GAAP)	$ 13.88	$ 13.37
Tangible book value per share (non-GAAP)	$ 13.53	$ 13.01

The following is a reconciliation of the allowance for credit losses to total loans held for investment ratio at September 30, 2023 March 31, 2024. This is considered a non-GAAP measure as the calculation excludes the impact of loans held for investment that are fair valued and the impact of PPP loans as these loan types are not included in the allowance for credit losses calculation.

(dollars in thousands)	*(dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Allowance for credit losses	Allowance for credit losses	$ 19,683	$ 18,828			
Loans, net of fees and costs (GAAP)	Loans, net of fees and costs (GAAP)	1,885,629	1,743,682			
Less: PPP loans		(289)	(4,579)			
Loans, net of fees and costs (GAAP)						
Loans, net of fees and costs (GAAP)						
Less: Loans fair valued	Less: Loans fair valued	(13,231)	(14,502)			
Loans, net of fees and costs, excluding PPP and fair valued loans (non-GAAP)		$1,872,109	$1,724,601			

Less: Loans fair valued					
Less: Loans fair valued					
Loans, net of fees and costs, excluding loans at fair value (non-GAAP)					
Allowance for credit losses, net of fees and costs (GAAP)	Allowance for credit losses, net of fees and costs (GAAP)	1.04 %	1.08 %		
Allowance for credit losses, net of fees and costs, excluding PPP and fair valued loans (non-GAAP)		1.05 %	1.09 %		
Allowance for credit losses, net of fees and costs (GAAP)					
Allowance for credit losses, net of fees and costs (GAAP)				1.18 %	1.17 %
Allowance for credit losses, net of fees and costs, excluding loans at fair value (non-GAAP)	Allowance for credit losses, net of fees and costs, excluding loans at fair value (non-GAAP)			1.19 %	1.17 %

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Simulations of Net Interest Income

We use a simulation model on a quarterly basis to measure and evaluate potential changes in our net interest income resulting from various hypothetical interest rate scenarios. Our model incorporates various assumptions that management believes to be reasonable, but which may have a significant impact on results such as:

- The timing of changes in interest rates;
- Shifts or rotations in the yield curve;
- Repricing characteristics for market rate sensitive instruments on the balance sheet;
- Differing sensitivities of financial instruments due to differing underlying rate indices;
- Varying timing of loan prepayments for different interest rate scenarios;
- The effect of interest rate floors, periodic loan caps and lifetime loan caps;
- Overall growth rates and product mix of interest-earning assets and interest-bearing liabilities.

Because of the limitations inherent in any approach used to measure interest rate risk, simulated results are not intended to be used as a forecast of the actual effect of a change in market interest rates on our results, but rather as a means to better plan and execute appropriate ALM strategies.

Potential increase (decrease) to our net interest income between a flat interest rate scenario and hypothetical rising and declining interest rate scenarios, measured over a one-year period as of the dates indicated, are presented in the following table which assuming rate shifts occur upward and downward on the yield curve in even increments over the first twelve months (ramp) followed by rates held constant thereafter.

		September 30,						
	March 31,						March 31,	
Changes in Market Interest Rates	Changes in Market Interest Rates	2023	2022	Changes in Market Interest Rates	2024		2023	
+300 basis points over next 12 months	+300 basis points over next 12 months	(1.25)%	0.13 %	+300 basis points over next 12 months	1.30	%	1.58	%
+200 basis points over next 12 months	+200 basis points over next 12 months	(0.74)%	0.29 %	+200 basis points over next 12 months	1.12	%	1.21	%
+100 basis points over next 12 months	+100 basis points over next 12 months	(0.29)%	0.15 %	+100 basis points over next 12 months	0.73	%	0.76	%
No Change	No Change							
-100 basis points over next 12 months	-100 basis points over next 12 months	(1.33)%	(1.40)%					
-100 basis points over next 12 months								
-100 basis points over next 12 months					(1.85)	%	(1.80)	%
-200 basis points over next 12 months	-200 basis points over next 12 months	(2.63)%	(3.19)%	-200 basis points over next 12 months	(3.23)	%	(3.19)	%
-300 basis points over next 12 months				-300 basis points over next 12 months	(4.68)	%	(4.67)	%

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of September 30, 2023 March 31, 2024. In its current position, the table indicates that net interest income will fluctuate between (1.33%) 0.73% and (0.29% (1.85%) in an up or down 100 basis point environment over the next 12 months. The simulated exposure to a change in interest rates is manageable and well within policy guidelines. The results continue to drive our funding strategy of increasing relationship-based accounts (core deposits) and utilizing term deposits to fund short to medium duration assets.

Simulation of economic value of equity

To quantify the amount of capital required to absorb potential losses in value of our interest-earning assets and interest-bearing liabilities resulting from adverse market movements, we calculate economic value of equity on a quarterly basis. We define economic value of equity as the net present value of our balance sheet's cash flow, and we calculate economic value of equity by discounting anticipated principal and interest cash flows under the prevailing and hypothetical interest rate environments. Potential changes to our economic value of equity between a flat rate scenario and hypothetical rising and declining rate scenarios are presented in the following table. The projections assume shifts upward and downward in the yield curve of 100, 200 and 300 basis points occurring immediately.

		September 30,						
	March 31,						March 31,	
Changes in Market Interest Rates	Changes in Market Interest Rates	2023	2022	Changes in Market Interest Rates	2024		2023	
+300 basis points	+300 basis points	(10)%	5 %	+300 basis points	(5)	%	3	%
+200 basis points	+200 basis points	(6)%	6 %	+200 basis points	(2)	%	4	%
+100 basis points	+100 basis points	(2)%	4 %	+100 basis points	—	%	3	%
No Change	No Change							
-100 basis points	-100 basis points	— %	(9)%					
-100 basis points								
-100 basis points					(3)	%	(10)	%
-200 basis points	-200 basis points	(5)%	(25)%	-200 basis points	(10)	%	(25)	%
-300 basis points				-300 basis points	(23)	%	(48)	%

This economic value of equity profile at September 30, 2023 March 31, 2024 suggests that we would experience a slightly negative effect from an increase or decrease in rates, and the impact would worsen as rates continued to move in either direction. downward. While an instantaneous shift in interest rates is used in this analysis to provide an estimate of exposure, we believe that a gradual shift in interest rates would have a much more modest impact. Since economic value of equity measures the discounted present value of cash flows over the estimated lives of instruments, the change in economic value of equity does not directly correlate to the degree that earnings would be impacted over a shorter time horizon.

The results of our net interest income and economic value of equity simulation analysis are purely hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from that projected, our net interest income might vary significantly. Non-parallel yield curve shifts or changes in interest rate spreads would also cause net interest income to be different from that projected. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term interest-bearing liabilities reprice faster than expected or faster than our interest-earning assets. Actual results could differ from those projected if interest-earning assets and interest-bearing liabilities grow faster or slower than estimated, or otherwise change its mix of products. Actual results could also differ from those projected if actual repayment speeds in the loan portfolio are substantially different than those assumed in the simulation model. Furthermore, the results do not take into account the impact of changes in loan prepayment rates on loan discount accretion. If loan prepayment rates were to increase, any remaining loan discounts would be recognized into interest income. This would result in a current period offset to declining net interest income caused by higher rate loans prepaying. Finally, these simulation results do not contemplate all the actions that management may undertake in response to changes in interest rates, such as changes to loan, investment, deposit, funding or other strategies.

Management has and continues to employ strategies to mitigate risk in the Net Interest Income and Economic Value simulations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Corporation's CEO and CFO have concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2023 March 31, 2024 to ensure that the information required to be disclosed by the

Corporation in the reports that the Corporation files or submits under the Exchange Act is recorded, processed, summarized, and reported completely and accurately within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

Effective January 1, 2023, the Corporation adopted CECL. The Corporation 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 was no other changes change in the Corporation's Corporation's internal control over financial reporting (as defined in Rule 13a-15(f)) identified during the quarter ended September 30, 2023 March 31, 2024 that has materially affected, or are is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II–OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

In addition to the other information contained There have been no material changes in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously faced by the Corporation from those disclosed in the Corporation's Annual
Report on Form 10-K for the fiscal year ended December 31, 2022 as filed with the SEC. Additional risks not presently known to the Corporation, or that are currently deemed immaterial, may also adversely affect business, financial condition or results of operations of the Corporation. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause the Corporation's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of it.

Adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity, may have a material effect on our operations.

The rapid rise in interest rates starting in 2022; the resulting industry-wide reduction in the fair value of securities portfolios and capital; and several bank runs resulting in high profile bank failures, have caused a current state of volatility in the financial services industry with respect to liquidity and the health of the U.S. banking system. A financial institution's liquidity reflects its ability to meet customer demand for loans, accommodating possible outflows in deposits and accessing alternative sources of funds when needed, while at the same time taking advantage of interest rate market opportunities. The ability to manage liquidity is fundamental to a financial institution's business and success. These recent events have, and could continue to adversely impact earnings as well as the market price and volatility of the Corporation's common stock. Additionally, the cost of resolving recent bank failures prompted the FDIC to announce plans to collect additional special assessments. These recent events may also result in potentially adverse changes to laws or regulations applicable to the Corporation, which could have a material impact on the Corporation's business and result in increased costs necessary to comply with any such changes.

Weakness in the secondary residential mortgage loan markets or demand for mortgage loans may adversely affect income.

Our mortgage banking segment can provide a significant portion of our non-interest income. Mortgage activity throughout the industry decreased significantly in 2022 and our mortgage activity decreased as well. Residential mortgage lending is subject to substantial volatility due to changes in interest rates, the continued lack of housing inventory, housing demand, inflation, cash buyers, new mortgage lending regulations and other market conditions, such as the number of third-party investors and their demand to purchase mortgage loans. These factors have a direct effect on loan originations across the industry. In particular, in the current higher interest rate environment compounded by a sustained lack of housing inventory, our originations of mortgage loans decreased resulting in fewer loans available to be sold to investors, which has resulted in a decrease in non-interest income that may continue into future periods, and which may occur during other periods of rising interest rates.

Based on the above factors we may not be able to return our mortgage business to the rates of growth achieved in recent years or even grow our mortgage business from current levels. The success of our mortgage segment is dependent upon our ability to originate a high volume of loans and sell them in the secondary market to investors at a gain. In addition, our results of operations are affected by the amount of non-interest expenses (including for personnel and systems infrastructure) associated with mortgage banking activities. During periods of reduced loan demand, our results of operations are adversely affected if we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity.

December 31, 2023.

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.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	**Description**
2.1	Plan of Merger and Reorganization dated April 26, 2018 by and between Registrant, Bank and Meridian Interim Bank, filed as Exhibit 2.1 to Form 8-K on August 24, 2018 and incorporated herein by reference.
3.1	Amended Articles of Incorporation of Registrant, filed herewith.
3.2	Bylaws of Registrant, filed as Exhibit 3.2 to Form 8-K on August 24, 2018 and incorporated herein by reference.
4.2	Indenture, dated as of December 18, 2019, between Meridian Corporation, as Issuer, and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the SEC on December 18, 2019.
4.3	Form of 5.375% Subordinated Note due 2029 (included as Exhibit A-1 and Exhibit A-2 to the Indenture incorporated by reference as Exhibit 4.2 hereto), filed with the SEC on December 18, 2019.
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Executive Officer, filed herewith.
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Financial Officer, filed herewith.
32	Section 1350 Certifications, filed herewith.
101.INS	XBRL Instance Document – The instance document does not appear in the interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

SIGNATURES

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

Date: November May 9, 2023 2024

Meridian Corporation

By: /s/ Christopher J. Annas

Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Denise Lindsay

Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 31.1

RULE 13a -14(a) CERTIFICATION
OF THE PRINCIPAL EXECUTIVE OFFICER

I, Christopher J. Annas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meridian Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023 May 9, 2024

/s/ Christopher J. Annas
Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION
OF THE PRINCIPAL FINANCIAL OFFICER

I, Denise Lindsay, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meridian Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023 May 9, 2024

/s/ Denise Lindsay

Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

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 Meridian Corporation on Form 10-Q for the period ended September 30, 2023 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 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 and 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 Meridian Corporation.

/s/ Christopher J. Annas

Christopher J. Annas
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Denise Lindsay

Denise Lindsay
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: November 9, 2023 May 9, 2024

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DISCLAIMER

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