

REFINITIV

DELTA REPORT

10-Q

EVBN - EVANS BANCORP INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1004
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 CHANGES	643
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 DELETIONS	170
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 ADDITIONS	191
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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 quarterly period ended June September 30, 2023

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

For the transition period from to _____

Commission file number 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York 16-1332767

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6460 Main St. Williamsville, NY 14221

(Address of principal executive offices) (Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed
since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.50 par value	EVBN	NYSE American

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

If an emerging growth company, indicate by checkmark 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: Common Stock, \$.50 par value, 5,477,505 5,483,591 shares as of July 27, 2023 October 26, 2023.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

JUNE 30, 2023 AND DECEMBER 31, 2022

SEPTEMBER 30, 2023 AND DECEMBER 31, 2022

(in thousands, except share and per share amounts)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
ASSETS				
Cash and due from banks	\$ 15,197	\$ 16,796	\$ 17,826	\$ 16,796

Interest-bearing deposits at banks	10,334	6,258	7,468	6,258
Securities:				
Available for sale, at fair value and net of valuation allowance	351,595	364,326	334,460	364,326
(amortized cost: \$416,403 at June 30, 2023; \$428,216 at December 31, 2022)				
(amortized cost: \$411,172 at September 30, 2023; \$428,216 at December 31, 2022)				
Held to maturity, at amortized cost and net of valuation allowance	2,241	6,949	2,170	6,949
(fair value: \$2,149 at June 30, 2023; \$6,809 at December 31, 2022)				
(fair value: \$2,067 at September 30, 2023; \$6,809 at December 31, 2022)				
Federal Home Loan Bank common stock, at cost	3,939	10,437	3,348	10,437
Federal Reserve Bank common stock, at cost	3,087	3,074	3,092	3,074
Loans, net of allowance for credit losses of \$21,368 at June 30, 2023				
Loans, net of allowance for credit losses of \$21,846 at September 30, 2023				
and \$19,438 at December 31, 2022	1,649,385	1,652,931	1,682,554	1,652,931
Properties and equipment, net of accumulated depreciation of \$11,923 at June 30, 2023				
Properties and equipment, net of accumulated depreciation of \$12,360 at September 30, 2023				
and \$11,596 at December 31, 2022	16,194	16,999	15,852	16,999
Goodwill	12,702	12,702	12,702	12,702
Intangible assets	1,027	1,227	927	1,227
Bank-owned life insurance	42,288	41,826	42,528	41,826
Operating lease right-of-use asset	4,297	4,392	4,056	4,392
Other assets	42,677	40,593	47,760	40,593
TOTAL ASSETS	\$ 2,154,963	\$ 2,178,510	\$2,174,743	\$2,178,510
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Demand	\$ 442,195	\$ 493,710	\$ 447,306	\$ 493,710
NOW	303,159	273,359	324,219	273,359
Savings	726,687	801,943	698,653	801,943
Time	314,574	202,667	335,228	202,667
Total deposits	1,786,615	1,771,679	1,805,406	1,771,679
Securities sold under agreement to repurchase	19,185	7,147	13,447	7,147
Other borrowings	140,386	193,001	151,252	193,001
Operating lease liability	4,604	4,723	4,351	4,723
Other liabilities	13,563	16,892	18,200	16,892
Subordinated debt	31,126	31,075	31,152	31,075
Total liabilities	1,995,479	2,024,517	2,023,808	2,024,517
STOCKHOLDERS' EQUITY:				
Common stock, \$0.50 par value, 10,000,000 shares authorized; 5,581,183 and 5,544,339 shares issued at June 30, 2023 and December 31, 2022, respectively, and 5,477,505 and 5,437,048 shares outstanding at June 30, 2023 and December 31, 2022, respectively.	2,795	2,775		
Common stock, \$0.50 par value, 10,000,000 shares authorized; 5,587,269 and 5,544,339 shares issued at September 30, 2023 and December 31, 2022, respectively, and 5,483,591 and 5,437,048 shares outstanding at September 30, 2023 and December 31, 2022, respectively.			2,796	2,775
Capital surplus	81,777	81,031	82,017	81,031
Treasury stock, at cost, 103,678 and 107,291 shares at June 30, 2023 and				

Treasury stock, at cost, 103,678 and 107,291 shares at September 30, 2023 and December 31, 2022, respectively				
	(3,656)	(3,891)	(3,656)	(3,891)
Retained earnings	128,465	123,356	128,468	123,356
Accumulated other comprehensive income (loss), net of tax	(49,897)	(49,278)		
Accumulated other comprehensive loss (income), net of tax			(58,690)	(49,278)
Total stockholders' equity	159,484	153,993	150,935	153,993
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,154,963	\$ 2,178,510	\$2,174,743	\$2,178,510
See Notes to Unaudited Consolidated Financial Statements				

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EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED JUNE 30, 2023 AND 2022

THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Three Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME				
Loans	\$ 21,602	\$ 16,828	\$ 21,936	\$ 17,988
Interest-bearing deposits at banks	80	226	132	217
Securities:				
Taxable	2,252	1,984	2,173	2,190
Non-taxable	54	59	51	92
Total interest income	23,988	19,097	24,292	20,487
INTEREST EXPENSE				
Deposits	6,280	580	7,544	755
Other borrowings	1,486	42	1,932	83
Subordinated debt	541	423	560	461
Total interest expense	8,307	1,045	10,036	1,299
NET INTEREST INCOME	15,681	18,052	14,256	19,188
PROVISION FOR CREDIT LOSSES	(116)	267	506	1,328
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	15,797	17,785	13,750	17,860
NON-INTEREST INCOME				
Deposit service charges	645	703	665	782
Insurance service and fees	2,720	2,567	3,498	3,383
Bank-owned life insurance	238	171	239	161
Interchange fee income	528	539	516	532
Other	570	632	638	909
Total non-interest income	4,701	4,612	5,556	5,767
NON-INTEREST EXPENSE				

Salaries and employee benefits	8,649	9,436	8,735	10,450
Occupancy	1,145	1,131	1,109	1,118
Advertising and public relations	407	438	348	417
Professional services	808	843	869	839
Technology and communications	1,542	1,237	1,517	1,339
Amortization of intangibles	100	100	100	100
FDIC insurance	350	250	350	255
Other	1,171	1,349	1,379	1,273
Total non-interest expense	14,172	14,784	14,407	15,791
INCOME BEFORE INCOME TAXES	6,326	7,613	4,899	7,836
INCOME TAX PROVISION	1,394	1,879	1,281	1,972
NET INCOME	\$ 4,932	\$ 5,734	\$ 3,618	\$ 5,864
Net income per common share-basic	\$ 0.90	\$ 1.04	\$ 0.66	\$ 1.06
Net income per common share-diluted	\$ 0.90	\$ 1.03	\$ 0.66	\$ 1.06
Weighted average number of common shares outstanding	5,467,897	5,512,741	5,481,566	5,510,118
Weighted average number of diluted shares outstanding	5,474,462	5,550,436	5,490,600	5,546,764
<i>See Notes to Unaudited Consolidated Financial Statements</i>				

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EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2023 AND 2022

NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(in thousands, except share and per share amounts)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME				
Loans	\$ 42,488	\$ 32,552	\$ 64,424	\$ 50,540
Interest-bearing deposits at banks	176	296	308	513
Securities:				
Taxable	4,546	3,661	6,719	5,851
Non-taxable	143	105	194	197
Total interest income	47,353	36,614	71,645	57,101
INTEREST EXPENSE				
Deposits	10,295	1,148	17,840	1,903
Other borrowings	2,985	89	4,917	172
Subordinated debt	1,067	824	1,626	1,285
Total interest expense	14,347	2,061	24,383	3,360
NET INTEREST INCOME	33,006	34,553	47,262	53,741

PROVISION FOR CREDIT LOSSES	(770)	488	(264)	1,816
NET INTEREST INCOME AFTER				
PROVISION FOR CREDIT LOSSES	33,776	34,065	47,526	51,925
NON-INTEREST INCOME				
Deposit service charges	1,258	1,395	1,923	2,177
Insurance service and fees	5,149	4,866	8,648	8,249
Bank-owned life insurance	462	325	702	486
Interchange fee income	1,021	1,031	1,537	1,563
Other	924	1,426	1,561	2,335
Total non-interest income	8,814	9,043	14,371	14,810
NON-INTEREST EXPENSE				
Salaries and employee benefits	18,062	18,906	26,796	29,356
Occupancy	2,318	2,311	3,428	3,429
Advertising and public relations	563	617	911	1,034
Professional services	1,691	1,715	2,560	2,554
Technology and communications	2,898	2,411	4,414	3,750
Amortization of intangibles	200	200	300	300
FDIC insurance	700	520	1,050	775
Other	2,242	2,564	3,623	3,837
Total non-interest expense	28,674	29,244	43,082	45,035
INCOME BEFORE INCOME TAXES	13,916	13,864	18,815	21,700
INCOME TAX PROVISION	3,184	3,382	4,465	5,354
NET INCOME	\$ 10,732	\$ 10,482	\$ 14,350	\$ 16,346
Net income per common share-basic	\$ 1.97	\$ 1.90	\$ 2.63	\$ 2.97
Net income per common share-diluted	\$ 1.96	\$ 1.89	\$ 2.62	\$ 2.95
Weighted average number of common shares outstanding	5,456,189	5,503,811	5,464,741	5,505,936
Weighted average number of diluted shares outstanding	5,476,024	5,548,533	5,481,514	5,548,508
See Notes to Unaudited Consolidated Financial Statements				

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UNAUDITED
EVANS CONSOLIDATED
BANCORP, STATEMENTS OF
INC. AND COMPREHENSIVE
SUBSIDIARIES(LOSS) INCOME

THREE MONTHS ENDED JUNE 30, 2023 AND 2022	THREE MONTHS ENDED
THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022	SEPTEMBER 30, 2023 AND 2022
(in thousands)	

	Three Months Ended June 30, 2023 2022		Three Months Ended September 30, 2023 2022	
NET INCOME	\$ 4,932	\$ 5,734	\$ 3,618	\$ 5,864
OTHER COMPREHENSIVE (LOSS) INCOME , NET OF TAX:				
		OTHER COMPREHENSIVE		
OTHER COMPREHENSIVE LOSS, NET OF TAX:	LOSS, NET OF TAX:			
Unrealized loss on available-for-sale securities:	(4,294)	(12,033)	(8,813)	(15,581)
Defined benefit pension plans:				
Amortization of prior service cost	-	5	-	6
Amortization of actuarial loss	20	50	20	50
Total	20	55	20	56
OTHER COMPREHENSIVE (LOSS) INCOME , NET OF TAX:	(4,274)	(11,978)		
COMPREHENSIVE INCOME (LOSS)	\$ 658	\$ (6,244)		
		OTHER		
		COMPREHENSIVE		
		LOSS, NET OF		
OTHER COMPREHENSIVE LOSS, NET OF TAX:			(8,793)	(15,525)
COMPREHENSIVE LOSS			\$(5,175)	\$(9,661)
See Notes to Unaudited Consolidated Financial Statements				

		EVANS	
		BANCORP, INC.	
		AND	EVANS BANCORP, INC. AND
EVANS BANCORP, INC. AND SUBSIDIARIES		SUBSIDIARIES	SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME			
SIX MONTHS ENDED JUNE 30, 2023 AND 2022			
		UNAUDITED CONSOLIDATED	
		STATEMENTS OF	
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)		COMPREHENSIVE INCOME (LOSS)	
		NINE MONTHS ENDED	
NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022		SEPTEMBER 30, 2023 AND 2022	
(in thousands)			
		Nine Months	
		Ended	
		September 30,	
		2023 2022	
NET INCOME	\$10,732	\$ 10,482	\$14,350 \$ 16,346
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX:			
	OTHER COMPREHENSIVE		
OTHER COMPREHENSIVE LOSS, NET OF TAX:	LOSS, NET OF TAX:		
Unrealized loss on available-for-sale securities	(659)	(28,738)	(9,472) (44,319)
Defined benefit pension plans:			
Amortization of prior service cost	-	10	- 16
Amortization of actuarial loss	40	100	60 150

Total	40	110		60	166
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(619)	(28,628)			
			OTHER		
			COMPREHENSIVE		
			LOSS, NET OF		
OTHER COMPREHENSIVE LOSS, NET OF TAX			TAX	(9,412)	(44,153)
COMPREHENSIVE INCOME (LOSS)	\$10,113	\$(18,146)		\$ 4,938	\$(27,807)
See Notes to Unaudited Consolidated Financial Statements					

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EVANS BANCORP, INC. AND SUBSIDIARIES							UNAUDITED CONSOLIDATED					
UNAUDITED CONSOLIDATED STATEMENTS	UNAUDITED CONSOLIDATED STATEMENTS OF						STATEMENTS OF CHANGES IN					
OF CHANGES IN STOCKHOLDERS' EQUITY	CHANGES IN STOCKHOLDERS' EQUITY						STOCKHOLDERS' EQUITY					
THREE MONTHS ENDED JUNE 30, 2023 AND 2022												
THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022							THREE MONTHS ENDED					
							SEPTEMBER 30, 2023 AND					
(in thousands, except share and per share amounts)							2022					
	Accumulated						Accumulated					
	Other						Other					
	Common	Capital	Retained	Comprehensive	Treasury		Common	Capital	Retained	Comprehensive	Treasury	
	Stock	Surplus	Earnings	Loss	Stock	Total	Stock	Surplus	Earnings	Loss	Stock	Total
Balance, March 31, 2022	\$ 2,762	\$ 79,396	\$ 109,366	\$ (22,321)	\$	-\$169,203						
Balance, June 30, 2022							\$ 2,769	\$80,072	\$114,982	\$ (34,299)	\$(849)	\$162,675
Net Income			5,734			5,734			5,864			5,864
Other comprehensive loss				(11,978)		(11,978)				(15,525)		(15,525)
Cash dividends			(3)			(3)						
Cash dividends (\$0.64 per common share)									(3,527)			(3,527)
Stock compensation expense		291				291		328				328
Issued 3,705 shares under Dividend												
Reinvestment Plan	2	141				143						
Issued 6,902 shares in Employee Stock												
Purchase Plan	4	195				199						
Reissued 6,660 restricted shares in stock option												
exercises			(115)		249	134						
issued 2,020 shares in stock option exercises	1	49				50						
Repurchased 29,269 shares of common stock					(1,098)	(1,098)						
Forfeitures 1,186 shares of restricted stock						-						

Balance, December 31, 2021	\$	2,744	\$	78,795	\$108,024	\$	(5,671)	\$	-\$183,892	\$	2,744	\$78,795	\$108,024	\$	(5,671)	\$	-\$183,892
Net Income					10,482				10,482				16,346				16,346
Other comprehensive loss							(28,628)		(28,628)						(44,153)		(44,153)
Cash dividends (\$0.62 per common share)					(3,409)				(3,409)								
Cash dividends (\$1.26 per common share)													(6,936)				(6,936)
Stock compensation expense					624				624				952				952
Issued 18,244 restricted shares		9		(9)					-								
Issued 20,851 shares in stock option exercises		10		326					336								
Issued 18,844 restricted shares											9		(9)				-
Issued 22,270 shares in stock option exercises											11		361				372
Repurchased 29,269 shares of common stock							(1,098)		(1,098)						(1,098)		(1,098)
Reissued 6,660 restricted shares in stock option exercises					(115)			249	134				(115)			249	134
Forfeitures 1,186 shares of restricted stock									-								
Forfeitures 1,951 shares of restricted stock																	
Reissued 3,705 shares through Dividend Reinvestment Program		2		141					143		2		141				143
Issued 6,902 shares in Employee Stock Purchase Plan		4		195					199		4		195				199
Balance, June 30, 2022	\$	2,769	\$	80,072	\$114,982	\$	(34,299)	\$	(849)	\$162,675							
Balance, September 30, 2022											\$	2,770	\$80,435	\$117,319	\$	(49,824)	\$ (849)\$149,851
Balance, December 31, 2022	\$	2,775	\$	81,031	\$123,356	\$	(49,278)	\$ (3,891)	\$153,993	\$	2,775	\$81,031	\$123,356	\$	(49,278)	\$ (3,891)	\$153,993
Cumulative effect of change in accounting principle — credit losses		-		-	(2,026)		-		-	(2,026)		-		-	(2,026)		-
Beginning balance after cumulative effect adjustment	\$	2,775	\$	81,031	\$121,330	\$	(49,278)	\$ (3,891)	\$151,967	\$	2,775	\$81,031	\$121,330	\$	(49,278)	\$ (3,891)	\$151,967
Net Income					10,732				10,732				14,350				14,350
Other comprehensive loss							(619)		(619)						(9,412)		(9,412)
Cash dividends (\$0.66 per common share)					(3,597)				(3,597)								
Cash dividends (\$1.32 per common share)													(7,212)				(7,212)
Stock compensation expense					534				534				772				772
Reissued 6,228 restricted shares					(235)			235	-				(235)			235	-
Issued 12,421 shares in stock option exercises		6		114					120								
Issued 11,775 restricted shares, net of forfeitures		6		(6)					-								
Issued 12,534 shares in stock option exercises											7		116				123
Issued 14,135 restricted shares/units, net of forfeitures											6		(6)				-
Issued 4,545 shares in Dividend Reinvestment Plan		2		152					154		2		152				154
Issued 9,101 shares in Employee Stock Purchase Plan		6		187					193		6		187				193
Balance, June 30, 2023	\$	2,795	\$	81,777	\$128,465	\$	(49,897)	\$ (3,656)	\$159,484								
Balance, September 30, 2023											\$	2,796	\$82,017	\$128,468	\$	(58,690)	\$ (3,656)\$150,935
See Notes to Unaudited Consolidated Financial Statements																	

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UNAUDITED
EVANS CONSOLIDATED
BANCORP, STATEMENTS
INC. AND OF CASH
SUBSIDIARIES FLOWS

SIX MONTHS ENDED JUNE 30, 2023 AND 2022	NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022	

(in thousands)

	Six Months Ended June 30, 2023 2022		Nine Months Ended September 30, 2023 2022	
OPERATING ACTIVITIES:				
Interest received	\$ 47,051	\$ 35,332	\$ 71,171	\$ 55,607
Fees received	8,830	9,236	12,501	14,424
Interest paid	(13,634)	(2,301)	(23,372)	(3,607)
Cash paid to employees and vendors	(29,972)	(32,005)	(43,228)	(46,166)
Income taxes paid	(6,223)	(1,801)	(7,669)	(3,327)
Proceeds from sale of loans held for sale	4,591	3,529	7,498	4,719
Originations of loans held for sale	(4,503)	(3,368)	(7,341)	(4,529)
Net cash provided by operating activities	6,140	8,622	\$ 9,560	17,121
INVESTING ACTIVITIES:				
Available for sales securities:				
Purchases	-	(144,413)	\$ -	\$(144,413)
Proceeds from sales, maturities, calls, and payments	18,412	16,198	24,278	20,806
Held to maturity securities:				
Purchases	(644)	(5,825)	(1,344)	(6,581)
Proceeds from maturities, calls, and payments	5,352	1,288	6,123	2,174
Cash paid for bank-owned life insurance			-	(6,830)
Proceeds from bank-owned life insurance claims	-	378	-	378
Additions to properties and equipment	(479)	(388)	(575)	(654)
Proceeds from sales of assets	370	-	370	-
Proceeds from tax credit investment	12	56	12	191
Net decrease (increase) in loans	1,935	(40,854)		
Net cash provided by (used in) investing activities	24,958	(173,560)		
Sale of other real estate			-	17
Net (increase) in loans			(31,528)	(54,670)
Net cash used in investing activities			\$ (2,664)	\$(189,582)
FINANCING ACTIVITIES:				

Repayments from long-term borrowings, net	(13,278)	(9,672)	\$(13,374)	\$ (12,402)
(Repayments) proceeds from short-term borrowings, net	(27,163)	958	(21,900)	28,200
Net increase in deposits	14,950	31,322		
Net increase (decrease) in deposits			33,745	(63,256)
Dividends paid	(3,597)	(3,409)	(3,597)	(3,409)
Repurchase of treasury stock	-	(1,098)	-	(1,098)
Issuance of common stock	467	678	470	714
Reissuance of treasury stock	-	134	-	134
Net cash (used in) provided by financing activities	(28,621)	18,913		
Net cash used in financing activities			\$ (4,656)	\$ (51,117)
Net increase (decrease) in cash and cash equivalents	2,477	(146,025)	2,240	(223,578)
CASH AND CASH EQUIVALENTS:				
Beginning of period	23,054	244,785	23,054	244,785
End of period	\$ 25,531	\$ 98,760	\$ 25,294	\$ 21,207
See Notes to Unaudited Consolidated Financial Statements				

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EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2023 AND 2022

NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(in thousands)

	Six Months Ended June 30,		Nine Months Ended	
	2023	2022	September 30,	
			2023	2022
RECONCILIATION OF NET INCOME TO NET CASH				
PROVIDED BY OPERATING ACTIVITIES:				
Net income	\$ 10,732	\$ 10,482	\$ 14,350	\$ 16,346
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	869	890	1,216	1,270
Deferred tax expense	279	329	136	348
Provision for credit losses	(770)	488	(264)	1,816
Loss on sales of assets	31	-	31	5
Gain on loans sold	(86)	(62)	(156)	(92)
Stock compensation expense	534	624	772	952
Proceeds from sale of loans held for sale	4,591	3,529	7,498	4,719
Originations of loans held for sale	(4,503)	(3,368)	(7,341)	(4,529)
Changes in assets and liabilities affecting cash flow:				
Other assets	(5,408)	(2,267)	(2,042)	(3,003)
Other liabilities	(129)	(2,023)	(4,640)	(711)

NET CASH PROVIDED BY OPERATING ACTIVITIES

See Notes to Unaudited Consolidated Financial Statements

\$	6,140	\$	8,622	\$	9,560	\$	17,121
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EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND ~~SIX~~ **NINE** MONTH PERIODS ENDED ~~JUNE~~ **SEPTEMBER** 30, 2023 AND 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the "Company"), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the "Bank"), and the Bank's subsidiaries, Evans National Leasing, Inc. ("ENL"), and Evans National Holding Corp. ("ENHC"); and (ii) Evans National Financial Services, LLC ("ENFS"), and ENFS's subsidiary, The Evans Agency, LLC ("TEA"), and TEA's subsidiary ENB Associates Inc. ("ENBA"), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles ("GAAP") and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the "Company."

The Financial Accounting Standards Board ("FASB") establishes changes to GAAP in the form of accounting standards updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs when they are issued by FASB.

Effective January 1, 2023 the Company adopted ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments which requires an allowance for credit losses be deducted from the amortized cost basis of financial assets to present the net carrying value at the amount that is expected to be collected over the contractual term of the asset considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In estimating expected losses in the loan portfolio, borrower-specific financial data and macro-economic assumptions are utilized to project losses over a reasonable and supportable forecast period. Assumptions and judgment are applied to measure amounts and timing of expected future cash flows, collateral values and other factors used to determine the borrowers' abilities to repay obligations. Subsequent to the forecast period, the Company utilizes longer-term historical loss experience to estimate losses over the remaining contractual life of the loans. See Note 3 – "Loans and the Allowance for Credit Losses" to this Quarterly Report on Form 10-Q for the accounting policy for determining the Allowance for Credit Losses.

Prior to January 1, 2023, the allowance for credit losses represented the amount that in management's judgment reflected incurred credit losses inherent in the loan and lease portfolio as of the balance sheet date. Based on portfolio composition, then current economic conditions, and reasonable and supportable forecasts of future conditions, the Company recognized an increase to the allowance for credit losses of \$2.7 million upon adoption of the standard as of January 1, 2023 as compared with the allowance for credit losses recognized on its consolidated balance sheet at December 31, 2022. The \$2.7 million increase was recognized as a net of tax cumulative effect adjustment to retained earnings of \$2.0 million.

All other ASUs adopted by the Company during the current fiscal year are not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

The results of operations for the ~~six~~ **nine** month period ended ~~June 30, 2023~~ **September 30, 2023** are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "10-K").

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2. SECURITIES

The amortized cost of securities and their approximate fair value at June 30, 2023 September 30, 2023 and December 31, 2022 were as follows:

	June 30, 2023				September 30, 2023			
	(in thousands)				(in thousands)			
	Amortized Cost	Unrealized		Fair Value	Amortized Cost	Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Available for Sale:								
Debt securities:								
U.S. treasuries and government agencies	\$ 160,622	\$ -	\$ (23,686)	\$ 136,936	\$ 160,603	-\$ (27,218)	\$133,385	
States and political subdivisions	22,716	1	(1,528)	21,189	22,631	1 (1,613)	21,019	
Total debt securities	183,338	1	(25,214)	158,125	183,234	1 (28,831)	154,404	
Mortgage-backed securities:								
FNMA	\$ 74,130	\$ -	\$ (12,496)	\$ 61,634	\$ 71,375	-\$ (15,211)	\$ 56,164	
FHLMC	45,897	-	(6,591)	39,306	45,360	- (7,943)	37,417	
GNMA	39,387	-	(7,675)	31,712	39,082	- (9,420)	29,662	
SBA	21,623	-	(2,600)	19,023	20,992	- (3,070)	17,922	
CMO	52,028	-	(10,233)	41,795	51,129	- (12,238)	38,891	
Total mortgage-backed securities	\$ 233,065	\$ -	\$ (39,595)	\$ 193,470	\$ 227,938	-\$ (47,882)	\$180,056	
Total securities designated as available for sale	\$ 416,403	\$ 1	\$ (64,809)	\$ 351,595	\$ 411,172	\$1(76,713)	\$334,460	
Held to Maturity:								
Debt securities								
States and political subdivisions	\$ 2,241	\$ -	\$ (92)	\$ 2,149	\$ 2,170	-\$ (103)	\$ 2,067	
Total securities designated as held to maturity	\$ 2,241	\$ -	\$ (92)	\$ 2,149	\$ 2,170	-\$ (103)	\$ 2,067	

	December 31, 2022			
	(in thousands)			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
Available for Sale:				
Debt securities:				
U.S. treasuries and government agencies	\$ 165,495	\$ 1	\$ (24,814)	\$ 140,682
States and political subdivisions	23,480	4	(1,662)	21,822
Total debt securities	188,975	5	(26,476)	162,504
Mortgage-backed securities:				
FNMA	\$ 75,921	\$ -	\$ (12,819)	\$ 63,102
FHLMC	46,922	-	(6,695)	40,227
GNMA	40,039	-	(6,580)	33,459
SBA	22,556	-	(2,419)	20,137
CMO	53,803	-	(8,906)	44,897
Total mortgage-backed securities	\$ 239,241	\$ -	\$ (37,419)	\$ 201,822
Total securities designated as available for sale	\$ 428,216	\$ 5	\$ (63,895)	\$ 364,326
Held to Maturity:				
Debt securities				
States and political subdivisions	\$ 6,949	\$ -	\$ (140)	\$ 6,809
Total securities designated as held to maturity	\$ 6,949	\$ -	\$ (140)	\$ 6,809

Available for sale securities with a total fair value of \$209 million \$198 million and \$226 million were pledged as collateral to secure public deposits and for other purposes required or permitted by law at June 30, 2022 September 30, 2023 and December 31, 2022, respectively.

The scheduled maturities of debt and mortgage-backed securities at June 30, 2023 September 30, 2023 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

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	June 30, 2023		September 30, 2023	
	Amortized	Estimated	Amortized	Estimated
	cost	fair value	cost	fair value
	(in thousands)		(in thousands)	
Debt securities available for sale:				
Due in one year or less	\$ 5,703	\$ 5,581	\$ 9,822	\$ 9,653
Due after one year through five years	86,952	80,186	91,731	83,450
Due after five years through ten years	61,692	51,962	57,684	45,852
Due after ten years	28,991	20,396	23,997	15,449
	<u>\$ 183,338</u>	<u>\$ 158,125</u>	<u>\$ 183,234</u>	<u>\$ 154,404</u>
Mortgage-backed securities available for sale	\$ 233,065	\$ 193,470	\$ 227,938	\$ 180,056
Total	<u><u>\$ 416,403</u></u>	<u><u>\$ 351,595</u></u>	<u><u>\$ 411,172</u></u>	<u><u>\$ 334,460</u></u>
Debt securities held to maturity:				
Due in one year or less	\$ 1,532	\$ 1,527	\$ 1,476	\$ 1,473
Due after one year through five years	333	305	324	296
Due after five years through ten years	376	317	370	298
Due after ten years	-	-	-	-
Total	<u><u>\$ 2,241</u></u>	<u><u>\$ 2,149</u></u>	<u><u>\$ 2,170</u></u>	<u><u>\$ 2,067</u></u>

Contractual maturities of the Company's mortgage-backed securities generally exceed ten years; however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities.

There were no gross realized gains or losses from sales of investment securities for the three and six nine month periods ended June 30, 2023 September 30, 2023 and 2022.

Management has assessed the securities available for sale in an unrealized loss position at June 30, 2023 September 30, 2023 and December 31, 2022 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company has not recorded any other-than-temporary impairment ("OTTI") charges during the six nine month period ended June 30, 2023 September 30, 2023 and did not record any OTTI charges during 2022. The credit worthiness of the Company's securities portfolio is largely reliant on the ability of U.S. government sponsored agencies such as Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. Past performance is not a guarantee for similar performance of the Company's securities portfolio in future periods.

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Information regarding unrealized losses within the Company's available for sale securities at **June 30, 2023**, **September 30, 2023** and December 31, 2022 is summarized below.

		June September 30, 2023																
		Less than 12 months				12 months or longer				Total								
		Fair Value	Unrealized Losses			Fair Value	Unrealized Losses			Fair Value	Unrealized Losses							
(in thousands)																		
Available for Sale:																		
Debt securities:																		
U.S. treasuries and government agencies	\$	7,781	-	\$	(219)	-	\$	129,155	133,385	\$	(23,467)	(27,218)	\$	136,936	133,385	\$	(23,686)	(27,21)
States and political subdivisions		2,310	1,922		(91)	(117)		17,923	18,141		(1,437)	(1,496)		20,233	20,063		(1,528)	(1,61)
Total debt securities		10,091	1,922		(310)	(117)		147,078	151,526		(24,904)	(28,714)		157,169	153,448		(25,214)	(28,83)
Mortgage-backed securities:																		
FNMA	\$	574	55	\$	(24)	(1)	\$	61,060	56,109	\$	(12,472)	(15,210)	\$	61,634	56,164	\$	(12,496)	(15,21)
FHLMC		7,739	24		(345)	-		31,567	37,393		(6,246)	(7,943)		39,306	37,417		(6,591)	(7,94)
GNMA		93	-		(3)	-		31,619	29,662		(7,672)	(9,420)		31,712	29,662		(7,675)	(9,42)
SBA		-	-		-	-		19,023	17,921		(2,600)	(3,070)		19,023	17,921		(2,600)	(3,07)
CMO		6,504	-		(266)	-		35,291	38,891		(9,967)	(12,238)		41,795	38,891		(10,233)	(12,23)
Total mortgage-backed securities	\$	14,910	79	\$	(638)	(1)	\$	178,560	179,976	\$	(38,957)	(47,881)	\$	193,470	180,055	\$	(39,595)	(47,88)
Held to Maturity:																		
Debt securities:																		
States and political subdivisions	\$	1,478	-	\$	(5)	-	\$	671	2,067	\$	(87)	(103)	\$	2,149	2,067	\$	(92)	(10)
Total temporarily impaired securities																		
	\$	26,479	2,001	\$	(953)	(118)	\$	326,309	333,569	\$	(63,948)	(76,698)	\$	352,788	335,570	\$	(64,901)	(76,81)

		December 31, 2022					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)							
Available for Sale:							
Debt securities:							
U.S. treasuries and government agencies	\$	68,292	\$ (5,929)	\$ 71,389	\$ (18,885)	\$ 139,681	\$ (24,81)
States and political subdivisions		19,540	(1,645)	418	(17)	19,958	(1,66)
Total debt securities		87,832	(7,574)	71,807	(18,902)	159,639	(26,47)
Mortgage-backed securities:							
FNMA	\$	23,242	\$ (3,081)	\$ 39,860	\$ (9,738)	\$ 63,102	\$ (12,81)
FHLMC		11,927	(790)	28,300	(5,905)	40,227	(6,69)

GNMA	10,763	(1,298)	22,696	(5,282)	33,459	(6,58)
SBA	16,996	(1,971)	3,141	(448)	20,137	(2,41)
CMO	11,288	(673)	33,609	(8,233)	44,897	(8,90)
Total mortgage-backed securities	\$ 74,216	\$ (7,813)	\$ 127,606	\$ (29,606)	\$ 201,822	\$ (37,41)
Held to Maturity:						
Debt securities:						
States and political subdivisions	\$ 6,627	\$ (118)	\$ 182	\$ (22)	\$ 6,809	\$ (14)
Total temporarily impaired securities	\$ 168,675	\$ (15,505)	\$ 199,595	\$ (48,530)	\$ 368,270	\$ (64,03)

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3. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

Loan Portfolio Composition

The following table presents selected information on the composition of the Company's loan portfolio as of the dates indicated:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Mortgage loans on real estate:	(in thousands)		(in thousands)	
Residential mortgages	\$ 438,081	\$ 440,123	\$ 441,021	\$ 440,123
Commercial and multi-family	801,062	778,714	829,736	778,714
Construction-Residential	3,183	3,626	2,747	3,626
Construction-Commercial	118,963	117,403	126,787	117,403
Home equities	80,528	82,414	81,482	82,414
Total real estate loans	1,441,817	1,422,280	1,481,773	1,422,280
Commercial and industrial loans	228,302	250,069	222,841	250,069
Consumer and other loans	1,227	572	555	572
Unaccreted yield adjustments*	(593)	(552)	(769)	(552)
Total gross loans	1,670,753	1,672,369	1,704,400	1,672,369
Allowance for credit losses	(21,368)	(19,438)	(21,846)	(19,438)
Loans, net	\$ 1,649,385	\$ 1,652,931	\$ 1,682,554	\$ 1,652,931

* Includes net premiums and discounts on acquired loans and net deferred fees and costs on loans originated.

The outstanding principal balance and the carrying amount of acquired credit-impaired loans totaled \$0.8 million and \$0.7 million at **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively. There were no valuation allowances for specifically identified impairment attributable to acquired credit-impaired loans at **June 30, 2023** **September 30, 2023** or December 31, 2022.

There were **\$594 million** **\$578 million** and \$495 million in residential and commercial mortgage loans pledged to FHLBNY to serve as collateral for potential borrowings as of **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively.

The Company may also sell certain fixed rate residential mortgages to FNMA, FHLMC and FHLB while maintaining the servicing rights for those mortgages. At **June 30, 2023** **September 30, 2023** and December 31, 2022, the Company had loan servicing portfolio principal balances of **\$115 million** **\$114 million** and \$116 million, respectively, upon which it earned servicing fees. In the three **month** and **six nine** month periods ended **June 30, 2023**, **September 30, 2023**, the Company sold **\$2.9 million** **\$2.8 million** and **\$4.6 million** **\$7.3 million**, respectively, of residential mortgages. In the three

month and six nine month periods ended June 30, 2022, September 30, 2022, the Company sold \$0.6 million \$1.3 million and \$3.5 million \$4.8 million, respectively, of residential mortgages.

The fair value of the mortgage servicing rights for that portfolio was \$1.2 million at September 30, 2023 and \$1.1 million at both June 30, 2023 and December 31, 2022. There were no residential mortgages held for sale at June 30, 2023 September 30, 2023 and December 31, 2022.

Credit Quality Indicators

The Company monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for the commercial mortgage and commercial and industrial portfolios is the individual loan's credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for credit losses:

- ☐ Acceptable or better
- ☐ Watch
- ☐ Special Mention
- ☐ Substandard
- ☐ Doubtful
- ☐ Loss

"Special mention" and "substandard" loans are weaker credits with a higher risk of loss and are categorized as "criticized" assets.

The Company's consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company's loan review process. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

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The following tables summarize amortized cost of loans by year of origination and internally assigned credit grades:

(in thousands)		Term Loans Amortized Cost Basis by Origination Year						Revolving Loans	
As of June 30, 2023 September 30, 2023		2023	2022	2021	2020	2019	Prior	Basis	Total
Commercial and industrial loans									
Risk rating									
Pass	\$10,210 16,411	\$ 40,898 39,142	\$ 27,245 23,093	\$ 9,464 8,863	\$ 6,502 6,501	\$ 7,562 6,997	\$ 98,867 92,631	\$ 200,748 193,638	
Special									
Mention	317 302	8,859 8,866	445 2,801	4,891 4,803	877 297	2,104 2,000	5,336 5,806	22,829 24,875	
Substandard	-	2	3	4 19	22 -	53 915	941 3,393	3,705 4,728	4,332
Doubtful/Loss	-	-	-	-	-	-	-	-	-
Total	\$10,527 16,713	\$ 49,760 48,010	\$ 27,694 25,897	\$14,377 13,685	\$ 7,432 6,798	\$ 10,607 9,912	\$107,908 101,830	\$ 228,305 222,845	
Current period									
gross writeoffs	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$
Commercial real estate mortgages									
Risk rating									
Pass	\$50,416 98,073	\$202,641 204,029	\$173,515 172,097	\$95,499 94,617	\$69,887 67,061	\$283,278 274,443	\$ -	\$875,236 910,320	
Special									
Mention	-	1,256 2,021	405 401	1,547 1,527	10,163 10,077	9,946 9,887	-	23,317 23,913	

Substandard	-	-	12,069	201 194	7,092 6,913	3,373 3,677	-	22,735 22,853
Doubtful/Loss	-	-	-	-	-	-	-	-
Total	\$50,416 98,073	\$203,897 206,050	\$185,989 184,567	\$97,247 96,338	\$87,142 84,051	\$296,597 288,007	\$-	\$921,288 957,086
Current period								
gross writeoffs	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Consumer and other								
Payment performance								
Performing	\$ 245 347	\$ 246 208	\$ 34 30	\$ 21 15	\$ 19 16	\$ 33 26	\$ 137 141	\$ 735 783
Nonperforming	-	-	-	-	-	-	-	-
Total	\$ 245 347	\$ 246 208	\$ 34 30	\$ 21 15	\$ 19 16	\$ 33 26	\$ 137 141	\$ 735 783
Current period								
gross writeoffs	\$ 62 106	\$ 17 18	\$ 1	\$-	\$-	\$ 1	\$-	\$- 79 126
Residential mortgages								
Payment performance								
Performing	\$14,912 26,185	\$ 73,992 73,548	\$103,982 102,523	\$71,910 70,612	\$18,405 18,113	\$154,383 148,244	\$-	\$437,584 439,225
Nonperforming	126 163	146 145	168 390	233 223	92 205	2,935 3,174	-	3,700 4,300
Total	\$15,038 26,348	\$ 74,138 73,693	\$104,150 102,913	\$72,143 70,835	\$18,497 18,318	\$157,318 151,418	\$-	\$441,284 443,525
Current period								
gross writeoffs	\$-	\$-	\$-	\$ 1	\$-	\$-	\$-	\$ 1
Home equities								
Payment performance								
Performing	\$ 6,246 7,481	\$ 3,140 2,955	\$ 657 618	\$ 639 614	\$ 639 591	\$ 2,321 2,192	\$ 65,194 65,325	\$ 78,836 79,776
Nonperforming	-	-	-	-	-	3 2	302 383	305 385
Total	\$ 6,246 7,481	\$ 3,140 2,955	\$ 657 618	\$ 639 614	\$ 639 591	\$ 2,324 2,194	\$ 65,496 65,708	\$ 79,141 80,161
Current period								
gross writeoffs	\$-	\$-	\$-	\$-	\$-	25	\$-	25

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The amortized cost of criticized assets of \$74 million \$76 million included \$20 million \$19 million of loans in the Company's hotel loan portfolio at June 30, 2023 September 30, 2023. At December 31, 2022 the amortized cost of criticized assets was \$93 million including \$29 million of loans in the Company's hotel loan portfolio.

Past Due Loans

The following tables provide an analysis of the age of the amortized cost of loans that are past due as of the dates indicated:

June 30, 2023			September 30, 2023		
(in thousands)			(in thousands)		
Current	Non-accruing	Total	Current	Non-accruing	Total

							60-					
	Balance	30-59 days	60-89 days	90+ days	Loans	Balance	Balance	days	days	days	Loans	Balance
Commercial and industrial	\$ 226,270	\$ 53	\$ -	\$ -	\$ 1,982	\$ 228,305	\$ 220,939	\$ -	30	\$ -	1,876	\$ 222,845
Residential real estate:												
Residential	432,490	-	1,911	-	3,700	438,101	435,096	1,382	-	-	4,300	440,778
Construction	3,183	-	-	-	-	3,183	2,747	-	-	-	-	2,747
Commercial real estate:												
Commercial	787,565	1,327	810	6,569	6,055	802,326	814,026	3,660	-	-	12,613	830,299
Construction	105,522	4,205	-	875	8,360	118,962	114,140	4,466	-	-	8,181	126,787
Home equities	78,039	652	145	-	305	79,141	77,666	1,614	496	-	385	80,161
Consumer and other	729	3	2	1	-	735	774	8	1	-	-	783
Total Loans	\$ 1,633,798	\$ 6,240	\$ 2,868	\$ 7,445	\$ 20,402	\$ 1,670,753	\$ 1,665,388	\$ 11,130	\$ 527	\$ -	\$ 27,355	\$ 1,704,400

December 31, 2022

(in thousands)

	Current				Non- accruing	Total
	Balance	30-59 days	60-89 days	90+ days	Loans	Balance
Commercial and industrial	\$ 246,412	\$ 235	\$ 684	\$ 139	\$ 2,625	\$ 250,095
Residential real estate:						
Residential	434,393	1,105	-	472	3,738	439,708
Construction	3,502	-	-	-	-	3,502
Commercial real estate:						
Commercial	771,871	1,083	-	75	6,648	779,677
Construction	107,369	-	-	1,648	8,765	117,782
Home equities	79,320	759	206	100	563	80,948
Consumer and other	652	3	1	1	-	657
Total Loans	\$ 1,643,519	\$ 3,185	\$ 891	\$ 2,435	\$ 22,339	\$ 1,672,369

Allowance for Credit losses

Effective January 1, 2023 the Company adopted ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments which requires an allowance for credit losses be deducted from the amortized cost basis of financial assets to present the net carrying value at the amount that is expected to be collected over the contractual term of the asset. In determining the allowance for credit losses, accruing loans with similar risk characteristics are generally evaluated collectively. The Company utilizes discounted cash flow models considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount to project principal balances over the remaining contractual lives of the loan portfolios and to determine estimated credit losses through a reasonable and supportable forecast period. The models have been statistically developed based on historical correlations of credit losses with prevailing economic metrics, including unemployment and gross domestic product. The Company utilizes a reasonable and supportable forecast period of one year. Subsequent to this forecast period the Company reverts, on a straight-line basis over a one-year period, to historical loss experience to inform its estimate of losses for the remaining contractual life of each portfolio. Model forecasts may be adjusted for inherent limitations of biases that have been identified through independent validation and back-testing of model performance to actual realized results. The Company also considered the impact of qualitative factors, including portfolio concentrations, changes in underwriting practices, imprecision in its economic forecasts, geopolitical conditions and other risk factors that might influence its loss estimation process.

The Company also estimates losses attributable to specific troubled credits identified through both normal and targeted credit review processes and includes all loans on nonaccrual status. The amounts of individually analyzed losses are determined through a loan-by-loan analysis. Such loss estimates are typically based on expected future cash flows, collateral values and other factors that may impact the borrower's ability to pay. To the

extent that those loans are collateral-dependent, they are evaluated based on recent estimations of the fair value of the loan's collateral. In those cases where current appraisals may not yet be available, prior appraisals are utilized with

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adjustments, as deemed necessary, for estimates of subsequent declines in values as determined by line of business and/or loan workout personnel. Those adjustments are reviewed and assessed for reasonableness by the Company's credit risk personnel. Accordingly, for real estate collateral securing larger nonaccrual commercial loans and commercial real estate loans, estimated collateral values are based on current appraisals and estimates of value. For non-real estate loans, collateral is assigned a discounted estimated liquidation value and, depending on the nature of the collateral, is verified through field exams or other procedures. In assessing collateral, real estate and non-real estate values are reduced by an estimate of selling costs. Charge-offs are based on recent indications of value from external parties that are generally obtained shortly after a loan becomes nonaccrual. Loans to consumers that file for bankruptcy are generally charged-off to estimated net collateral value shortly after the Company is notified of such filings. When evaluating individual home equity loans and lines of credit for charge off and for purposes of estimating losses in determining the allowance for credit losses, the Company considers the required repayment of any first lien positions related to collateral property. Prior to 2023, the allowance for credit losses represented the amount that in management's judgement reflected incurred credit losses inherent in the loan and lease portfolio as of the balance sheet date. A description of the methodologies used by the Company to estimate its allowance for credit losses prior to January 1, 2023 is included in [note Note](#) 4 of Notes to Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

The following tables present the activity in the allowance for credit losses according to portfolio segment for the three month periods ended [June 30, 2023](#), [September 30, 2023](#) and 2022.

	Three months ended June 30, 2023						Three months ended September 30, 2023					
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:	(in thousands)						(in thousands)					
Beginning balance	\$ 5,267	\$ 12,554	\$ 4	\$ 3,378	\$ 320	\$ 21,523	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368
Charge-offs	-	-	(49)	(1)	(25)	(75)	(4)	-	(47)	-	-	(51)
Recoveries	20	-	16	-	-	36	6	-	5	7	5	23
Provision	(314)	79	36	88	(5)	(116)	61	280	42	102	21	506
Ending balance	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368	\$ 5,036	\$ 12,913	\$ 7	\$ 3,574	\$ 316	\$ 21,846

*Includes construction loans

	Three months ended June 30, 2022						Three months ended September 30, 2022					
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:	(in thousands)						(in thousands)					
Beginning balance	\$ 5,267	\$ 12,554	\$ 4	\$ 3,378	\$ 320	\$ 21,523	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368
Charge-offs	-	-	(49)	(1)	(25)	(75)	(4)	-	(47)	-	-	(51)
Recoveries	20	-	16	-	-	36	6	-	5	7	5	23
Provision	(314)	79	36	88	(5)	(116)	61	280	42	102	21	506
Ending balance	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368	\$ 5,036	\$ 12,913	\$ 7	\$ 3,574	\$ 316	\$ 21,846

Beginning balance	\$ 3,688	\$ 12,279	\$ 44	\$ 2,117	\$ 490	\$ 18,618	\$ 3,714	\$ 12,305	\$ 70	\$ 2,164	\$ 566	\$ 18,819
Charge-offs	(7)	-	(27)	(55)	-	(89)	(1,515)	-	(45)	-	-	(1,560)
Recoveries	19	-	4	-	-	23	40	-	3	-	-	43
Provision	14	26	49	102	76	267	1,805	(603)	13	47	66	1,328
Ending balance	\$ 3,714	\$ 12,305	\$ 70	\$ 2,164	\$ 566	\$ 18,819	\$ 4,044	\$ 11,702	\$ 41	\$ 2,211	\$ 632	\$ 18,630

* Includes construction loans

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The following tables present the activity in the allowance for credit losses according to portfolio segment for the **six** **nine** month periods ended **June 30, 2023** **September 30, 2023** and 2022.

	Six months ended June 30, 2023						Nine months ended September 30, 2023					
	(in thousands)						(in thousands)					
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:												
Beginning balance	\$ 4,980	\$ 11,595	\$ 153	\$ 2,102	\$ 608	\$ 19,438	\$ 4,980	\$ 11,595	\$ 153	\$ 2,102	\$ 608	\$ 19,438
Adoption of new accounting standard	324	1,145	(147)	1,618	(205)	2,735	324	1,145	(147)	1,618	(205)	2,735
Beginning balance after cumulative effect adjustment	\$ 5,304	\$ 12,740	\$ 6	\$ 3,720	\$ 403	\$ 22,173	\$ 5,304	\$ 12,740	\$ 6	\$ 3,720	\$ 403	\$ 22,173
Charge-offs	-	-	(79)	(1)	(25)	(105)	(4)	-	(126)	(1)	(25)	(156)
Recoveries	51	-	19	-	-	70	59	-	23	6	5	93
Provision	(382)	(107)	61	(254)	(88)	(770)	(323)	173	104	(151)	(67)	(264)
Ending balance	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368	\$ 5,036	\$ 12,913	\$ 7	\$ 3,574	\$ 316	\$ 21,846

*Includes construction loans

	Six months ended June 30, 2022						Nine months ended September 30, 2022					
	(in thousands)						(in thousands)					
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:												

Beginning balance	\$	3,309	\$	12,367	\$	54	\$	2,127	\$	581	\$	18,438	\$	3,309	\$	12,367	\$	54	\$	2,127	\$	581	\$	18,438
Charge-offs		(31)		-		(67)		(55)		-		(153)		(1,546)		-		(112)		(55)		-		(1,713)
Recoveries		36		-		10		-		-		46		76		-		13		-		-		89
Provision		400		(62)		73		92		(15)		488		2,205		(665)		86		139		51		1,816
Ending balance	\$	3,714	\$	12,305	\$	70	\$	2,164	\$	566	\$	18,819	\$	4,044	\$	11,702	\$	41	\$	2,211	\$	632	\$	18,630

*Includes construction loans

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The following tables present the allowance for credit losses and recorded investment on loans by segment as of **June 30, 2023**, **September 30, 2023** and December 31, 2022:

	June 30, 2023						September 30, 2023					
	(in thousands)						(in thousands)					
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:												
Ending balance:												
Individually evaluated for impairment	-	179	-	7	-	186	-	179	-	2	-	181
Collectively evaluated for impairment	4,973	12,454	7	3,458	290	21,182	5,036	12,734	7	3,572	316	21,665
Total	\$ 4,973	\$ 12,633	\$ 7	\$ 3,465	\$ 290	\$ 21,368	\$ 5,036	\$ 12,913	\$ 7	\$ 3,574	\$ 316	\$ 21,846
Loans:												
Ending balance:												
Individually evaluated for impairment	2,035	17,161	-	4,122	633	23,951	1,914	23,557	-	4,844	721	31,036
Collectively evaluated for impairment	226,267	902,864	1,227	437,142	79,895	1,647,395	220,927	932,966	555	438,924	80,761	1,674,133
Total	\$ 228,302	\$ 920,025	\$ 1,227	\$ 441,264	\$ 80,528	\$ 1,671,346	\$ 222,841	\$ 956,523	\$ 555	\$ 443,768	\$ 81,482	\$ 1,705,169

* Includes construction loans

December 31, 2022						
(in thousands)						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for credit losses:						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Individually evaluated for impairment	-	251	-	28	77	356
Collectively evaluated for impairment	4,980	11,344	153	2,074	531	19,082
Total	\$ 4,980	\$ 11,595	\$ 153	\$ 2,102	\$ 608	\$ 19,438
Loans:						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ 687	\$ -	\$ 687
Individually evaluated for impairment	2,697	18,144	-	4,020	949	25,810
Collectively evaluated for impairment	247,372	877,973	572	439,042	81,465	1,646,424
Total	\$ 250,069	\$ 896,117	\$ 572	\$ 443,749	\$ 82,414	\$ 1,672,921

* Includes construction loans

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The Company's reserve for off-balance sheet credit exposures was not material at **June 30, 2023** **September 30, 2023** and upon adoption of ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.

Nonaccrual Loans

The following tables provide amortized costs, at the class level, for nonaccrual loans as of the dates indicated:

	Six Months Ended					Nine Months Ended				
	June 30, 2023			January 1, 2023		September 30, 2023			January 1, 2023	
	June 30, 2023			January 1, 2023		September 30, 2023			January 1, 2023	
	June 30, 2023			January 1, 2023		September 30, 2023			January 1, 2023	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Amortized Cost	Interest Income Recognized	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Amortized Cost	Interest Income Recognized
	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Commercial and industrial	\$ -	\$ 1,982	\$ 1,982	\$ 2,625	\$ 12	\$ -	\$ 1,876	\$ 1,876	\$ 2,625	\$ 13

Residential real estate:																				
Residential	93	3,607	3,700	3,738	12	163	4,137	4,300	3,738	34										
Construction	-	-	-	-	-	-	-	-	-	-										
Commercial real estate:																				
Commercial	-	6,055	6,055	6,648	72	-	12,613	12,613	6,648	219										
Construction	1,268	7,092	8,360	8,765	-	1,268	6,913	8,181	8,765	-										
Home equities	-	305	305	563	-	-	385	385	563	7										
Consumer and other	-	-	-	-	-	-	-	-	-	-										
Total nonaccrual loans	\$ 1,361	\$ 19,041	\$ 20,402	\$ 22,339	\$ 96	\$ 1,431	\$ 25,924	\$ 27,355	\$ 22,339	\$ 273										
											Nine Months Ended									
						Six Months Ended					January 1, September									
	June 30, 2022					January 1, 2022					June 30, 2022					September 30, 2022				
											Amortized									
	Amortized Cost with Allowance		Amortized Cost without Allowance		Total		Amortized Cost		Interest Income Recognized		Amortized Cost with Allowance		Cost without Allowance		Total		Amortized Cost		Interest Income Recognized	
	(in thousands)															(in thousands)				
Commercial and industrial	\$ 448	\$ 451	\$ 899	\$ 4,919	\$ 4	\$ 2	\$ 4,478	\$ 4,480	\$ 4,919	\$ 6										
Residential real estate:																				
Residential	30	13,893	13,923	3,020	12	246	3,452	3,698	3,020	12										
Construction	-	-	-	-	-	-	-	-	-	-										
Commercial real estate:																				
Commercial	199	4,430	4,629	5,758	177	171	9,026	9,197	5,758	183										
Construction	-	108	108	2,942	-	-	8,927	8,927	2,942	-										
Home equities	196	2,241	2,437	755	10	37	478	515	755	14										
Consumer and other	-	-	-	-	-	-	-	-	-	-										
Total nonaccrual loans	\$ 873	\$ 21,123	\$ 21,996	\$ 17,394	\$ 203	\$ 456	\$ 26,361	\$ 26,817	\$ 17,394	\$ 215										

There were no modifications made to borrowers experiencing financial difficulty during the three months ended June 30, 2023.

The table below details the amortized cost of gross loans held for investment made to borrowers experiencing financial difficulty that were modified during the six nine months ended June 30, 2023 September 30, 2023:

	(in thousands)	Term Extension	Total Class of Receivable	(in thousands)	Term Extension	Total Class of Receivable
Commercial and industrial	\$	-	-	\$	451	0.20%
Residential real estate:						
Residential		104	0		558	0.13
Construction		-	-		-	-
Commercial real estate:						
Commercial		-	-		-	-
Construction		-	-		-	-
Home equities		-	-		-	-
Consumer and other		-	-		-	-
Total nonaccrual loans	\$	104	0	\$	1,009	0.06 %

The financial impacts of the commercial and industrial modifications made to borrowers experiencing financial difficulty during the nine months ended September 30, 2023 was a maturity extension of six months. In addition, residential mortgage loan modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2023 that same period were maturity extensions ranging from 159 six months to 164 months.

The company has not committed to lend any additional amounts to the borrowers included in the previous table.

As of June 30, 2023 September 30, 2023, the Company did not have any loans made to borrowers experiencing financial difficulty that were modified during the first six nine months of 2023 that subsequently defaulted. Payment default is defined as movement to nonperforming status, foreclosure or charge-off, whichever occurs first.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The payment status of all loans modified to borrowers experiencing financial difficulties during the first six nine months of 2023 was current as of June 30, 2023 September 30, 2023.

Troubled debt restructurings

Information on loan modifications prior to the adoption of ASU 2022-02 on January 1, 2023 is presented in accordance with the applicable accounting standards in effect at that time. During the three months ended June 30, 2022 September 30, 2022, the Company modified one loan that was determined to be a troubled debt restructuring, a commercial and industrial loan with an outstanding balance of \$461 thousand that included an extension of maturity, did not modify any loans. During the first six nine months of 2022, the Company modified two loans that were determined to be troubled debt restructurings, a home equity loan with an outstanding balance of \$38 thousand that included extension of maturity and interest rate reduction concessions and a commercial and industrial loan with an outstanding balance of \$461 thousand that included an extension of maturity.

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4. COMMON EQUITY AND EARNINGS PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. For the three and six nine month periods ended June 30, 2023 September 30, 2023 the Company had an average of 6,565 9,034 and 19,835 16,773 dilutive shares outstanding, respectively. For the three and six nine month periods ended June 30, 2022 September 30, 2022 the Company had an average of 37,695 36,646 and 44,722 42,572 dilutive shares outstanding, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. There was an average of 85,312 80,770 and 86,392 84,518 potentially anti-dilutive shares outstanding for the three and six nine month periods ended June 30, 2023 September 30, 2023, respectively, that respectively. For the three and nine month periods ended September 30, 2022, there was an average of 54,680 and 55,847 potentially anti-dilutive shares outstanding, respectively. Potentially anti-dilutive shares outstanding were not included in calculating diluted earnings per share because their effect was anti-dilutive.

5. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the components of accumulated other comprehensive income (loss) during the three and six nine month periods ended September June 30, 2023 and 2022:

	Balance at March 31, 2023			Balance at June 30, 2023			Balance at June 30, 2023	Net Change	Balance at September 30, 2023
	(in thousands)			(in thousands)			(in thousands)		
Net unrealized loss on investment securities	\$	(43,713)	\$	(4,294)	\$	(48,007)	\$(48,007)	\$(8,813)	\$(56,820)
Net defined benefit pension plan adjustments		(1,910)		20		(1,890)	(1,890)	20	(1,870)
Total	\$	(45,623)	\$	(4,274)	\$	(49,897)	\$(49,897)	\$(8,793)	\$(58,690)

	Balance at March 31, 2022			Balance at June 30, 2022			Balance at June 30, 2022	Net Change	Balance at September 30, 2022
	(in thousands)			(in thousands)			(in thousands)		
Net unrealized loss on investment securities	\$	(19,865)	\$	(12,033)	\$	(31,898)	\$(31,898)	\$(15,581)	\$(47,479)
Net defined benefit pension plan adjustments		(2,456)		55		(2,401)	(2,401)	56	(2,345)
Total	\$	(22,321)	\$	(11,978)	\$	(34,299)	\$(34,299)	\$(15,525)	\$(49,824)

	Balance at December 31, 2022			Balance at June 30, 2023			Balance at December 31, 2022	Net Change	Balance at September 30, 2023
	(in thousands)			(in thousands)			(in thousands)		
Net unrealized loss on investment securities	\$	(47,348)	\$	(659)	\$	(48,007)	\$(47,348)	\$(9,472)	\$(56,820)
Net defined benefit pension plan adjustments		(1,930)		40		(1,890)	(1,930)	60	(1,870)
Total	\$	(49,278)	\$	(619)	\$	(49,897)	\$(49,278)	\$(9,412)	\$(58,690)

	Balance at December 31, 2021			Balance at June 30, 2022			Balance at December 31, 2021	Net Change	Balance at September 30, 2022
	(in thousands)			(in thousands)			(in thousands)		
Net unrealized loss on investment securities	\$	(3,160)	\$	(28,738)	\$	(31,898)	\$(3,160)	\$(44,319)	\$(47,479)
Net defined benefit pension plan adjustments		(2,511)		110		(2,401)	(2,511)	166	(2,345)
Total	\$	(5,671)	\$	(28,628)	\$	(34,299)	\$(5,671)	\$(44,153)	\$(49,824)

Three months ended June 30, 2023							Three months ended September 30, 2023			Three months ended September 30, 2022		
(in thousands)							(in thousands)			(in thousands)		
	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax
	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount
Unrealized loss on investment securities:												
Unrealized loss on investment securities	\$ (5,802)	\$ 1,508	\$ (4,294)	\$ (16,243)	\$ 4,210	\$ (12,033)	\$(11,904)	\$ 3,091	\$(8,813)	\$(21,016)	\$ 5,435	\$(15,581)
Defined benefit pension plan adjustments:												
Amortization of prior service cost	-	-	-	8	(3)	5	-	-	-	8	(2)	6
Amortization of actuarial loss	27	(7)	20	67	(17)	50	27	(7)	20	68	(18)	50
Net change	27	(7)	20	75	(20)	55	27	(7)	20	76	(20)	56
Other comprehensive (loss) income	\$ (5,775)	\$ 1,501	\$ (4,274)	\$ (16,168)	\$ 4,190	\$ (11,978)	\$(11,877)	\$ 3,084	\$(8,793)	\$(20,940)	\$ 5,415	\$(15,525)
Six months ended June 30, 2023							Nine months ended September 30, 2023			Nine months ended September 30, 2022		
(in thousands)							(in thousands)			(in thousands)		
	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax	Before-Tax	Income Tax	Net-of-Tax
	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount	Amount	(Provision) Benefit	Amount
Unrealized loss on investment securities:												
Unrealized loss on investment securities	\$ (918)	\$ 259	\$ (659)	\$ (38,780)	\$ 10,042	\$ (28,738)	\$(12,822)	\$ 3,350	\$(9,472)	\$(59,796)	\$ 15,477	\$(44,319)
Defined benefit pension plan adjustments:												
Amortization of prior service cost	-	-	-	16	(6)	10	-	-	-	24	(8)	16
Amortization of actuarial loss	54	(14)	40	135	(35)	100	81	(21)	60	203	(53)	150
Net change	54	(14)	40	151	(41)	110	81	(21)	60	227	(61)	166

Other comprehensive												
(loss) income	\$ (864)	\$ 245	\$ (619)	\$ (38,629)	\$ 10,001	\$ (28,628)	\$(12,741)	\$ 3,329	\$(9,412)	\$(59,569)	\$ 15,416	\$(44,153)

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6. NET PERIODIC BENEFIT COSTS

On January 31, 2008, the Bank froze its defined benefit pension plan. The plan covered substantially all Bank employees. The plan provides benefits that are based on the employees' compensation and years of service. Under the freeze, eligible employees will receive, at retirement, the benefits already earned through January 31, 2008, but have not accrued any additional benefits since then. As a result, service cost is no longer incurred.

The Bank uses an actuarial method of amortizing prior service cost and unrecognized net gains or losses which result from actual expense and assumptions being different than those that are projected. The amortization method the Bank used recognized the prior service cost and net gains or losses over the average remaining service period of active employees.

The Bank also maintains a nonqualified supplemental executive retirement plan covering certain members of the Company's senior management. The Bank uses an actuarial method of amortizing unrecognized net gains or losses which result from actual expense and assumptions being different than those that are projected. The amortization method the Bank uses recognizes the net gains or losses over the average remaining service period of active employees.

The following table presents the net periodic cost for the Bank's defined benefit pension plan and supplemental executive retirement plan for the three and six month periods ended June 30, 2023, September 30, 2023 and 2022:

	Three months ended June 30,				Three months ended September 30,			
	(in thousands)				(in thousands)			
	Supplemental Executive				Supplemental Executive			
	Pension Benefits		Retirement Plan		Pension Benefits		Retirement Plan	
	2023	2022	2023	2022	2023	2022	2023	2022
Service cost	\$ -	\$ -	\$ 36	\$ 33	\$ -	\$ -	\$ 36	\$ 33
Interest cost	63	45	63	31	62	44	62	31
Expected return on plan assets	(67)	(88)	-	-	(67)	(88)	-	-
Amortization of prior service cost	-	-	-	8	-	-	-	8
Amortization of the net loss	27	23	-	44	27	24	-	44
Net periodic (benefit) cost	\$ 23	\$ (20)	\$ 99	\$ 116				
Net periodic cost (benefit)					\$ 22	\$(20)	\$ 98	\$ 116

	Six months ended June 30,				Nine months ended September 30,			
	(in thousands)				(in thousands)			
	Supplemental Executive				Supplemental Executive			
	Pension Benefits		Retirement Plan		Pension Benefits		Retirement Plan	
	2023	2022	2023	2022	2023	2022	2023	2022
Service cost	\$ -	\$ -	\$ 72	\$ 66	\$ -	\$ -	\$ 108	\$ 99
Interest cost	125	89	125	62	187	133	187	93

Expected return on plan assets	(134)	(176)	-	-	(201)	(264)	-	-
Amortization of prior service cost	-	-	-	16	-	-	-	24
Amortization of the net loss	54	47	-	88	81	71	-	132
Net periodic (benefit) cost	\$ 45	\$ (40)	\$ 197	\$ 232				
Net periodic cost (benefit)					\$ 67	\$ (60)	\$ 295	\$ 348

The components of net periodic **benefit** cost other than the service cost component are included in the line item "other expense" in the income statement.

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7. REVENUE RECOGNITION OF NON-INTEREST INCOME

A description of the Company's material revenue streams in non-interest income accounted for under ASC 606 follows:

Insurance Service and Fees: Insurance services revenue relates to various revenue streams from services provided by TEA and the Bank:

- TEA earns commission revenue from selling commercial and personal property and casualty ("P&C") insurance as well as employee benefits solutions to commercial customers.

TEA has agreements with various insurance companies to sell policies to customers on behalf of the carriers. The performance obligation for TEA is to sell annual P&C policies to commercial customers and consumers. This performance obligation is met when a new policy is sold or when an existing policy renews. The policies are generally one year terms. In the agreements with the respective insurance companies, a commission rate is agreed upon. The commission is recognized at the time of the sale of the policy or when a policy renews.

TEA has signed contracts with insurance carriers that enable TEA to sell benefit plans to commercial customers on behalf of the insurance carriers. The performance obligation for TEA is to sell the plans to commercial customers. After the initial sale when the customer signs an agreement to purchase the offered benefit plan, the performance obligation is met each month when a customer continues utilizing benefit plans from the carrier. The customer does not commit to a specific length of time with the carrier. In the agreements with the respective insurance companies, a commission rate is agreed upon. Revenue is recognized each month when the customer continues with the benefit plan sold by TEA.

- TEA also earns contingent profit sharing revenue. The insurance companies measure the loss ratio for TEA's customers and pay TEA according to how profitable TEA customers are.

TEA has signed written agreements with insurance carriers that document payouts to TEA based on the loss ratios of its customers. The performance obligation for TEA is to maintain a customer base with loss ratios below the agreed upon thresholds. In the contracts with the insurance companies, payout rates based on loss ratios are documented. The consideration is variable as loss ratios vary based on customer experience. TEA's performance obligation is over the course of the year as its customers' performance with insurance carriers is measured throughout the year as losses occur. Due to the variable nature of contingent profit sharing revenue, TEA will accrue contingent profit sharing revenue throughout the year based on recent historical results. As loss events occur and overall performance becomes known to TEA, accrual adjustments will be made until the cash is ultimately received.

- Financial services commission revenue from the Bank related to wealth management such as life insurance, annuities, and mutual funds sales is also included in the "insurance service and fees" line of the income statement.

The Company earns wealth management fees from its contracts with customers for certain financial services. Fees that are transaction-based are recognized at the point in time that the transaction is executed. Other related services provided include financial planning services and the fees the Bank earns are recognized when the services are rendered.

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A disaggregation of the total insurance service and other fees for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 is provided in the tables below:

	Three months ended June 30,		Three months ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Commercial property and casualty insurance commissions	\$ 1,164	\$ 1,031	\$ 1,670	\$ 1,706
Personal property and casualty insurance commissions	999	930	978	901
Employee benefits sales commissions	167	209	279	206
Profit sharing and contingent revenue	198	191	398	410
Wealth management and other financial services	162	179	147	137
Other insurance-related revenue	30	27	26	23
Total insurance service and other fees	\$ 2,720	\$ 2,567	\$ 3,498	\$ 3,383

	Six months ended June 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Commercial property and casualty insurance commissions	\$ 2,053	\$ 1,819	\$ 3,723	\$ 3,525
Personal property and casualty insurance commissions	1,738	1,653	2,716	2,554
Employee benefits sales commissions	361	443	640	649
Profit sharing and contingent revenue	626	561	1,024	971
Wealth management and other financial services	288	320	436	457
Other insurance-related revenue	83	70	109	93
Total insurance service and other fees	\$ 5,149	\$ 4,866	\$ 8,648	\$ 8,249

8. FAIR VALUE MEASUREMENT

Fair value is defined in ASC Topic 820 "Fair Value Measurement" as 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.

There are three levels of inputs to fair value measurement:

- Level 1 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs.

- Level 1 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

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FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis as of **June 30, 2023**, **September 30, 2023** and December 31, 2022, respectively:

(in thousands)	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3	Fair Value
June 30, 2023								
September 30, 2023								
Securities available-for-sale:								
US treasuries and government agencies	\$ -	\$ 136,936	\$ -	\$ 136,936	\$ -	\$ 133,385	\$ -	\$ 133,385
States and political subdivisions	-	21,189	-	21,189	-	21,019	-	21,019
Mortgage-backed securities	-	193,470	-	193,470	-	180,056	-	180,056
December 31, 2022								

Securities available-for-sale:							
US treasuries and government agencies	\$	-	\$ 140,682	\$	-	\$ 140,682	\$ - \$140,682 \$ - \$140,682
States and political subdivisions		-	21,822		-	21,822	- 21,822 - 21,822
Mortgage-backed securities		-	201,822		-	201,822	- 201,822 - 201,822

Securities available for sale

Fair values for available for sale securities are determined using independent pricing services and market-participating brokers. The Company utilizes a third-party for these pricing services. The third-party utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the third-party service provider's evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, our third-party pricing service provider uses model processes, such as the Option Adjusted Spread model, to assess interest rate impact and develop prepayment scenarios. The models and the process take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The third-party, at times, may determine that it does not have sufficient verifiable information to value a particular security. In these cases the Company will utilize valuations from another pricing service.

On a quarterly basis the Company reviews changes, as submitted by our third-party pricing service provider, in the market value of its securities portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on a quarterly basis the Company has its entire securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company's review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third-party pricing service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than our third-party service provider's evaluation it can submit a challenge for a change to that security's valuation.

Securities available for sale are classified as Level 2 in the fair value hierarchy as the valuation provided by the third-party provider uses observable market data.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis **June 30, 2023** **September 30, 2023** and December 31, 2022:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
June 30, 2023				
Collateral dependent impaired loans	\$ -	\$ -	\$ 1,168	\$ 1,168
December 31, 2022				
Collateral dependent impaired loans	\$ -	\$ -	\$ 1,170	\$ 1,170

(in thousands)	Level 1	Level 2	Level 3	Fair Value
September 30, 2023				
Collateral dependent individually analyzed loans	\$ -	\$ -	\$ 1,244	\$ 1,244
December 31, 2022				
Collateral dependent individually analyzed loans	\$ -	\$ -	\$ 1,170	\$ 1,170

Collateral dependent loans carried at fair value have been partially charged-off or receive individually analyzed allocations of the allowance for credit losses. The Company evaluates and values collateral dependent **impaired individually analyzed** loans at the time the loan is identified **as impaired, to be individually analyzed**, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral value has a unique appraisal and management's discount of the value is based on factors unique to each **impaired individually analyzed** loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which ranges from 10%-50%. Fair value is estimated based on the value of the collateral securing these loans. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a special mention or a substandard depending on the amount of the loan, the type of loan and the type of collateral. All **impaired individually analyzed** commercial loans are graded substandard or worse on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be **impaired, individually analyzed**, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and **impaired individually analyzed** for at least one year **or** more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Collateral dependent **impaired individually analyzed** loans had a gross value of \$1.4 million, with an allowance for credit loss of \$0.2 million, at **June 30, 2023** **September 30, 2023** compared with \$1.5 million and \$0.4 million, respectively, at December 31, 2022.

The table below depicts the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Carrying	Fair	Carrying	Fair	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
	(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Financial assets:								
Level 1:								
Cash and cash equivalents	\$ 25,531	\$ 25,531	\$ 23,054	\$ 23,054	\$ 25,294	\$ 25,294	\$ 23,054	\$ 23,054
Level 2:								
Available for sale securities	351,595	351,595	364,326	364,326	334,460	334,460	364,326	364,326
FHLB and FRB stock	7,026	N/A	13,511	N/A	6,440	N/A	13,511	N/A
Level 3:								
Held to maturity securities	2,241	2,149	6,949	6,809	2,170	2,067	6,949	6,809
Loans, net	1,649,385	1,571,996	1,652,931	1,564,641	1,682,554	1,589,905	1,652,931	1,564,641
Financial liabilities:								
Level 1:								
Demand deposits	\$ 442,195	\$ 442,195	\$ 493,710	\$ 493,710	\$ 447,306	\$ 447,306	\$ 493,710	\$ 493,710
NOW deposits	303,159	303,159	273,359	273,359	324,219	324,219	273,359	273,359
Savings deposits	726,687	726,687	801,943	801,943	698,653	698,653	801,943	801,943
Level 2:								
Securities sold under agreement to repurchase	19,185	19,185	7,147	7,147	13,447	13,447	7,147	7,147
Other borrowed funds	140,386	139,678	193,001	192,443	151,252	150,581	193,001	192,443
Subordinated debt	31,126	30,060	31,075	30,263	31,152	30,086	31,075	30,263

Level 3:

Time deposits	314,574	310,117	202,667	199,910	335,228	332,792	202,667	199,910
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9. SEGMENT INFORMATION

The Company comprises two primary business segments, banking and insurance agency activities. The following tables set forth information regarding these segments for the three and six nine month periods ended June 30, 2023 September 30, 2023 and 2022.

	Three months ended June 30, 2023			Three months ended September 30, 2023		
	Banking	Insurance Agency	Total	Insurance		
	Activities	Activities		Banking	Agency	Total
				Activities	Activities	
		(in thousands)		(in thousands)		
Net interest income	\$ 15,681	\$ -	\$ 15,681	\$ 14,256	\$ - \$14,256	
Provision for credit losses	(116)	-	(116)	506	-	506
Net interest income after provision for credit losses	15,797	-	15,797	13,750	-	13,750
Insurance service and fees	153	2,567	2,720	121	3,377	3,498
Other non-interest income	1,981	-	1,981	2,058	-	2,058
Amortization expense	5	95	100	5	95	100
Other non-interest expense	12,225	1,847	14,072	12,527	1,780	14,307
Income before income taxes	5,701	625	6,326	3,397	1,502	4,899
Income tax provision	1,241	153	1,394	890	391	1,281
Net income	\$ 4,460	\$ 472	\$ 4,932	\$ 2,507	\$ 1,111	\$ 3,618
	Three months ended June 30, 2022			Three months ended September 30, 2022		
	Banking	Insurance Agency	Total	Insurance		
	Activities	Activities		Banking	Agency	Total
				Activities	Activities	
	(in thousands)		(in thousands)			
Net interest income	\$ 18,052	\$ -	\$ 18,052	\$ 19,188	\$ - \$19,188	
Provision for credit losses	267	-	267	1,328	-	1,328
Net interest income after provision for credit losses	17,785	-	17,785	17,860	-	17,860
Insurance service and fees	169	2,398	2,567	134	3,249	3,383
Other non-interest income	2,045	-	2,045	2,384	-	2,384
Amortization expense	5	95	100	5	95	100
Other non-interest expense	12,885	1,799	14,684	13,750	1,941	15,691
Income before income taxes	7,109	504	7,613	6,623	1,213	7,836
Income tax provision	1,748	131	1,879	1,658	314	1,972
Net income	\$ 5,361	\$ 373	\$ 5,734	\$ 4,965	\$ 899	\$ 5,864

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	Six months ended June 30, 2023			Nine months ended September 30, 2023		
	Banking Activities	Insurance Agency Activities	Total	Insurance		
				Banking	Agency	Total
				Activities	Activities	
	(in thousands)			(in thousands)		
Net interest income	\$ 33,006	\$ -	\$ 33,006	\$ 47,262	\$ -	-\$47,262
Provision for credit losses	(770)	-	(770)	(264)	-	(264)
Net interest income after provision for credit losses	33,776	-	33,776	47,526	-	47,526
Insurance service and fees	276	4,873	5,149	398	8,250	8,648
Other non-interest income	3,665	-	3,665	5,723	-	5,723
Amortization expense	10	190	200	14	286	300
Other non-interest expense	24,782	3,692	28,474	37,311	5,471	42,782
Income before income taxes	12,925	991	13,916	16,322	2,493	18,815
Income tax provision	2,948	236	3,184	3,847	618	4,465
Net income	\$ 9,977	\$ 755	\$ 10,732	\$ 12,475	\$ 1,875	\$14,350
	Six months ended June 30, 2022			Nine months ended September 30, 2022		
	Banking Activities	Insurance Agency Activities	Total	Insurance		
				Banking	Agency	Total
				Activities	Activities	
	(in thousands)			(in thousands)		
Net interest income	\$ 34,553	\$ -	\$ 34,553	\$ 53,741	\$ -	-\$53,741
Provision for credit losses	488	-	488	1,816	-	1,816
Net interest income after provision for credit losses	34,065	-	34,065	51,925	-	51,925
Insurance service and fees	308	4,558	4,866	442	7,807	8,249
Other non-interest income	4,177	-	4,177	6,561	-	6,561
Amortization expense	10	190	200	15	285	300
Other non-interest expense	25,387	3,657	29,044	39,137	5,598	44,735
Income before income taxes	13,153	711	13,864	19,776	1,924	21,700
Income tax provision	3,197	185	3,382	4,855	499	5,354
Net income	\$ 9,956	\$ 526	\$ 10,482	\$ 14,921	\$ 1,425	\$16,346

10. CONTINGENT LIABILITIES AND COMMITMENTS

The unaudited consolidated financial statements do not reflect various commitments and contingent liabilities, which arise in the normal course of business, and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities consist of commitments to extend credit and standby letters of credit. A summary of the Bank's commitments and contingent liabilities is as follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(in thousands)		(in thousands)	
Commitments to extend credit	\$ 439,445	\$ 376,167	\$ 435,728	\$ 376,167
Standby letters of credit	2,848	3,673	3,017	3,673
Total	\$ 442,293	\$ 379,840	\$ 438,745	\$ 379,840

Commitments to extend credit and standby letters of credit include some exposure to credit loss in the event of nonperformance by the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Company's unaudited consolidated balance sheets. Because these instruments have fixed maturity dates, and because they may expire without being drawn upon, they do not necessarily represent cash requirements of the Bank. The Bank did not incur any losses on its commitments and did not record a reserve for its commitments during the first **six nine** months of 2023 or during 2022.

Certain lending commitments for construction residential mortgage loans are considered derivative instruments under the guidelines of GAAP. The changes in the fair value of these commitments, due to interest rate risk, are not recorded on the consolidated balance sheets as the fair value of these derivatives is not considered to be material.

11. RECENT ACCOUNTING PRONOUNCEMENTS

The FASB establishes changes to U.S. GAAP in the form of accounting standards updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs when they are issued by FASB. Effective January 1, 2023 the Company adopted both ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses of Financial Instruments and ASU 2022-02, Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. Excluding those ASUs, the Company did not adopt any accounting pronouncements during its current fiscal year that had a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures. There have been no accounting standards that have been recently issued but not yet required to be adopted as of **June 30, 2023** **September 30, 2023** that management expects will have a material impact on the Company's financial condition, results of operations, cash flows or disclosures.

ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments – The Company adopted this ASU (commonly known as the Current Expected Credit Loss Impairment Model, or CECL) effective January 1, 2023. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in CECL replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. See Note 3 – "Loans and the Allowance for Credit Losses" to this Quarterly Report on Form 10-Q for further details regarding the Company's accounting policy for determining the Allowance for Credit Losses under this new accounting standard.

Upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments, the Company recognized a \$2.7 million increase in the allowance for credit losses as of January 1, 2023 with a net of tax cumulative effect adjustment to retained earnings of \$2.0 million.

ASU 2022-02, Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures – The Company adopted this ASU effective January 1, 2023. This ASU eliminates the accounting guidance for troubled debt restructurings ("TDRs") in ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors" for entities that have adopted the CECL model introduced by ASU 2016-13. ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost". The adoption of ASU 2022-02 did not have a material impact on the Company's financial condition, results of operations or cash flows, but did affect the financial statement disclosures.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this report, or in the documents incorporated by reference herein, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek," and similar expressions identify such forward-looking statements. These forward-looking statements include statements regarding the Company's business plans, prospects, growth and operating strategies, statements regarding the asset quality of the Company's loan and investment portfolios, and estimates of the Company's risks and future costs and benefits.

These forward-looking statements are based largely on the expectations of the Company's management and are subject to a number of risks and uncertainties, including but not limited to: adverse changes in general economic conditions, either nationally or in the Company's market areas; increased competition among depository or other financial institutions; inflation and changes in the interest rate environment that reduce the Company's margins or reduce the fair value of financial instruments; the cost and availability of funds; changes in laws or government regulations affecting financial institutions, including changes in regulatory fees, monetary policy, and capital requirements; the Company's ability to enter new markets successfully and capitalize on growth opportunities; the Company's ability to successfully integrate acquired entities; credit losses in excess of the Company's allowance for credit losses; changes in accounting pronouncements and practices, as adopted by financial institution regulatory agencies, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board; the impact of such changes in accounting pronouncements and practices being greater than anticipated; the ability to realize the benefit of deferred tax assets; changes in tax policies, rates and regulations of federal, state and local tax authorities; changes in consumer spending, borrowing and saving habits; changes in the Company's organization, compensation and benefit plans; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q, as well as in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and this Quarterly Report on Form 10-Q. Many of these factors are beyond the Company's control and are difficult to predict.

Because of these and other uncertainties, the Company's actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new, updated information, future events or otherwise, except to the extent required by law.

The Discussion and Analysis of Financial Condition and Results of Operations that follows includes comparisons of the quarter ended **June 30, 2023** September 30, 2023 to the quarter ended **June 30, 2022** September 30, 2022 as well as the trailing quarter ended **March 31, 2023** June 30, 2023, and of the **six** **nine** months ended **June 30, 2023** September 30, 2023 to the **six** **nine** months ended **June 30, 2022** September 30, 2022. Financial information for the quarter ended **March 31, 2023** June 30, 2023 can be found in our Quarterly Report on Form 10-Q for the quarter ended **March 31, 2023** June 30, 2023, as filed with the SEC on **May 2, 2023** August 1, 2023.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company's Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the Company's Unaudited Consolidated Financial Statements and Notes. These estimates, assumptions, and judgments are based on information available as of the date of the Unaudited Consolidated Financial Statements. Accordingly, as this information changes, the Unaudited Consolidated Financial Statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments, and as such, have a greater possibility of producing results that could be materially different than originally reported.

Significant accounting policies followed by the Company are presented in Note 1 – "Organization and Summary of Significant Accounting Policies" to the Audited Consolidated Financial Statements included in Item 8 in its Annual Report on Form 10-K for the year ended December 31, 2022. These policies, along with the disclosures presented in the other Notes to the Company's Audited Consolidated Financial Statements contained in its Annual

Report on Form 10-K and in this financial review, provide information on how significant assets and liabilities are presented in the Company's Unaudited Consolidated Financial Statements and how those values are determined.

Effective January 1, 2023 the Company adopted ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. See Note 3 – “Loans and the Allowance for Credit Losses” to this Quarterly Report on Form 10-Q for the accounting policy for determining the Allowance for Credit Losses (“ACL”).

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The more significant areas in which management of the Company applies critical assumptions and estimates includes the allowance for credit losses.

Allowance for Credit Losses

The ACL on loans is management's estimate of expected lifetime credit losses on loans carried at amortized cost. The ACL on loans is established through a provision for credit losses recognized in the Consolidated Statements of Income. Additionally, the ACL on loans is reduced by charge-offs on loans and increased by recoveries of amounts previously charged-off. At **June 30, 2023** **September 30, 2023** the ACL on loans totaled **\$21.4 million** **\$21.8 million**, compared to \$22.2 million recorded upon adoption of ASU 2016-13 at January 1, 2023. A significant portion of our ACL is allocated to the commercial portfolio (both commercial real estate and commercial and industrial (“C&I”) loans). As of **June 30, 2023** **September 30, 2023**, **March 31, 2023** **June 30, 2023** and January 1, 2023, the ACL allocated to the total commercial portfolio was **\$17.6 million** **\$17.9 million**, **\$17.8 million** **\$17.6 million** and \$18.0 million, respectively.

Management employs a process and methodology to estimate the ACL on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors consists of two basic components: pooling loans into portfolio segments for loans that share similar risk characteristics and identifying individually analyzed loans that do not share similar risk characteristics with loans that are pooled into portfolio segments.

For pooled loan portfolio segments, the Company utilizes a discounted cash flow (“DCF”) methodology to estimate credit losses over the expected life of the loan. The methodology incorporates a probability of default and loss given default framework. Loss given default is estimated based on historical credit loss experience. Probability of default is estimated utilizing a regression model that incorporates econometric factors. The model utilizes forecasted econometric factors with a one-year reasonable and supportable forecast period and one-year straight-line reversion period in order to estimate the probability of default for each loan portfolio segment. The DCF methodology combines the probability of default, the loss given default, prepayment speeds and the remaining life of the loan to estimate a reserve for each loan.

The ACL for individually analyzed loans is measured using a DCF method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or, if the loan was collateral dependent, at the fair value of the collateral.

Quantitative loss factors are also supplemented by certain qualitative risk factors reflecting management's view of how losses may vary from those represented by quantitative loss rates. Qualitative loss factors are applied to each portfolio segment with the amounts determined by historical loan charge-offs of a peer group of similar-sized regional banks.

Because the methodology is based upon historical experience and trends, current economic data, reasonable and supportable forecasts, as well as management's judgment, factors may arise that result in different estimations. Deteriorating conditions or assumptions could lead to further increases in the ACL on loans; conversely, improving conditions or assumptions could lead to further reductions in the ACL on loans.

In estimating the ACL on loans, management considers the sensitivity of the model and significant judgments and assumptions that could result in an amount that is materially different from management's estimate. Given the concentration of ACL allocation to the total commercial portfolio and the significant judgments made by management in deriving the qualitative loss factors, management analyzed the impact that changes in judgments could have. The result was an ACL allocated to the total commercial loan portfolio that ranged between \$13.5 million and **\$28.5 million** **\$28.6 million** at **June 30, 2023** **September 30, 2023**. The sensitivity and related range of impact is a hypothetical analysis and is not intended to represent management's judgments or assumptions of qualitative loss factors that were utilized at **June 30, 2023** **September 30, 2023** in estimation of the ACL on loans recognized on the Consolidated Balance Sheet.

If the assumptions underlying the determination of the ACL prove to be incorrect, the ACL may not be sufficient to cover actual loan losses and an increase to the ACL may be necessary to allow for different assumptions or adverse developments. In addition, a problem with one or more loans could require a significant increase to the ACL.

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ANALYSIS OF FINANCIAL CONDITION
Loan Activity

Total gross loans were \$1.7 billion at June 30, 2023, September 30, 2023 and December 31, 2022 compared with \$1.6 billion at June 30, 2022, September 30, 2022. Loans secured by real estate were \$1.5 billion at September 30, 2023 compared with \$1.4 billion at June 30, 2023, December 31, 2022 and June 30, 2022, September 30, 2022. Residential real estate loans, including construction loans, were \$441 million at June 30, 2023, \$2 million or 1% lower than at each of September 30, 2023 and December 31, 2022, and \$12 million an \$8 million, or 3% higher than at June 30, 2022, 2% increase from September 30, 2022. The increase in residential real estate loans from June 30, 2022, September 30, 2022 reflects management's decision to retain the majority of residential mortgages originated within our loan portfolio. Commercial real estate loans, including construction loans, were \$920 million \$957 million at June 30, 2023, \$24 million September 30, 2023, \$60 million or 3% 7% higher than the balance at December 31, 2022, and \$55 million \$88 million, or 6% 10% higher than the balance at June 30, 2022, September 30, 2022.

In the second third quarter of 2023, residential mortgage originations were \$10 million \$16 million compared with the previous quarter's originations of \$8 million \$10 million and \$18 million \$22 million in the second third quarter of 2022. The Company originated \$18 million \$34 million in residential mortgages in the first six nine months of 2023, compared with \$40 million \$62 million in the first six nine months of 2022. The decrease in residential mortgage originations as compared to the prior year was primarily due to the impact of the rising rate environment. The Company sold \$3 million of residential mortgages during in each of the second third quarter of 2023 compared with \$1 million during the first and second quarter of 2023. During the first six nine months of 2023 the Company sold \$4 million \$7 million of residential mortgages. The Company sold \$4 million \$5 million of residential mortgages during the first six nine months of 2022. Management decides to keep or sell residential mortgage loans at the time of origination based on interest rate risk management and the risk-adjusted return of alternative investment sources such as mortgage-backed securities.

The Company has also focused on growth opportunities in C&I lending as a way to diversify its overall loan portfolio. The C&I portfolio was \$228 million \$223 million at June 30, 2023, September 30, 2023, representing a \$22 million \$27 million or a 9% 11% decrease from December 31, 2022. When compared with last year's second quarter, September 30, 2022, C&I loans decreased \$5 million \$15 million or 2%, excluding Paycheck Protection Program loan balances, 6%. Funding levels of C&I lines of credit are at low levels compared historically and has impacted the growth in that portfolio.

Credit Quality of Loan Portfolio

Non-performing loans, defined as accruing loans greater than 90 days past due and nonaccrual loans, totaled \$28 million \$27 million, or 1.66% 1.60% of total loans outstanding at June 30, 2023, September 30, 2023, compared with \$25 million, or 1.48% of total loans outstanding, as of December 31, 2022 and \$22 million \$26 million, or 1.36% 1.60% of total loans outstanding, as of June 30, 2022, September 30, 2022.

Commercial credits graded as "special mention" and "substandard," or the criticized loan portfolio, were \$74 million \$76 million at June 30, 2023, September 30, 2023, a \$19 million \$17 million decrease from \$93 million at December 31, 2022, and a \$34 million \$13 million decrease from \$108 million \$89 million at June 30, 2022, September 30, 2022. The level of criticized loans can fluctuate as new information is constantly received on the Company's borrowers and their financial circumstances change over time. Internal risk rating are the credit quality indicators used by management to monitor credit risk in its commercial loan portfolio. "Special mention" and "substandard" loans are weaker credits with a higher risk of loss and are categorized as "criticized" credits rather than "pass" or "watch" credits.

Prior to January 1, 2023, the allowance for credit losses represented the amount that in management's judgement reflected incurred credit losses inherent in the loan and lease portfolio as of the balance sheet date. Based on portfolio composition, then current economic conditions, and reasonable and supportable forecasts of future conditions, the Company recognized an increase to the allowance for credit losses of \$2.7 million upon adoption of the new credit loss accounting standard, ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, as of January 1, 2023 as compared with the allowance for credit losses recognized on its consolidated balance sheet at December 31, 2022. The \$2.7 million increase was recognized as a net of tax cumulative effect adjustment to retained earnings of \$2.0 million.

The Company recorded a \$0.1 million release of allowance \$0.5 provision for credit losses during the three months ended June 30, 2023 September 30, 2023, primarily due to lower criticized loan balances and lower reserves on individually analyzed loans, partially offset by loan growth.

Prior to the adoption of ASU 2016-13, loans acquired in a business combination were recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses. Acquired loans that previously did not have an allowance valuation totaled \$129 million at January 1, 2023. Upon adoption of the new ACL accounting standard these loans contributed \$1 million to the allowance for credit losses. The allowance for credit losses totaled \$21.4 million \$21.8 million or 1.28% of total loans outstanding at June 30, 2023 September 30, 2023, compared with \$19.4 million, or 1.16% of total loans outstanding as of December 31, 2022, and \$18.8 million \$18.6 million, or 1.17% 1.15% of total loans outstanding at June 30, 2022 September 30, 2022. The increase in the percentage of allowance for credit losses to total loans outstanding from both comparative periods was the result of the adoption of the new accounting standard.

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Investing Activities

Total investment securities were \$354 million \$337 million at June 30, 2023 September 30, 2023, compared with \$371 million at December 31, 2022 and \$403 million \$377 million at June 30, 2022 September 30, 2022. The decreases reflect changes in unrealized losses on investment securities and maturities within our the available-for-sale investment portfolio. Interest-bearing deposits at other banks, which consist of overnight funds kept at correspondent banks and the Federal Reserve, were \$10 million \$7 million at June 30, 2023 September 30, 2023 compared to \$6 million at December 31, 2022, and \$88 million \$7 million at June 30, 2022 September 30, 2022. The primary objectives of the Company's investment portfolio are to provide liquidity, provide collateral to secure municipal deposits, and maximize income while preserving safety of principal. Average investment securities and interest-bearing cash were 19 18% of average interest-earning assets in both the second third quarter of 2023, and sequential first quarter, compared with 24% 19% in the sequential second quarter, and 22% in the third quarter of 2022.

The Company's highest concentration in its securities portfolio was in available for sale U.S. government sponsored mortgage-backed securities which comprised 55%, 54% and 55% of total investment securities at June 30, 2023, December 31, 2022 September 30, 2023 and June 30, 2022, respectively. December 31, 2023 and 55% September 30, 2022. Tax-advantaged debt securities issued by state and political subdivisions as a percent of the total investment securities portfolio were 2% in each of the third and second quarters of 2023 and 2022, and 3% in the first third quarter of 2023, 2022.

The total net unrealized loss position of the available-for-sale investment portfolio was \$65 million \$77 million at June 30, 2023 September 30, 2023, compared with \$64 million at December 31, 2022 and \$43 million at June 30, 2022 September 30, 2022. The securities in an unrealized loss position at the end of the second third quarter of 2023 generally reflect an increase in market interest rates. Management believes that the credit quality of the securities portfolio as a whole is strong. In addition, the Company has the ability and intent to hold these securities until their fair value recovers to their amortized cost.

The Company monitors extension and prepayment risk in the securities portfolio to limit potential exposures. The Company has no direct exposure to subprime mortgages, nor does the Company hold private mortgage-backed securities, credit default swaps, or FNMA or FHLMC preferred stock investments in its investment portfolio.

Funding Activities

Total deposits at June 30, 2023 September 30, 2023 were \$1.8 billion, a \$15 million \$34 million or 1% 2% increase from December 31, 2022, but a decrease of \$182 million \$68 million or 9% 4% from June 30, 2022 September 30, 2022. When compared to last year's second third quarter, there were decreases in consumer savings of \$196 million \$158 million, demand deposits of \$108 million \$112 million, commercial savings of \$64 million, municipal savings of \$29 million \$60 million, and brokered deposits of \$6 million. Those decreases were offset by higher consumer time deposits of \$183 million and \$204 million, NOW deposits of \$38 million \$61 million, and municipal savings of \$3 million. These changes include \$14 million included \$4 million that transferred to our securities under agreement to repurchase account during the second third quarter of 2023, which provides commercial clients collateralization for their deposits. In addition, consumer clients continue migrating from saving accounts to higher-yielding accounts such as time deposits.

Total borrowings decreased from \$193 million at December 31, 2022 to \$140 million \$151 million at June 30, 2023 September 30, 2023. The decrease is primarily due to investment securities maturities, growth in deposits and securities sold under agreement to repurchase. The Company had \$6 million in long-term Federal Home Loan Bank of New York ("FHLBNY") advances at June 30, 2023 September 30, 2023, compared with \$20 million at December 31, 2022 and \$23 million at June 30, 2022 September 30, 2022. This represents long-term advances from FHLBNY that were acquired in the FSB acquisition. our 2020 acquisition of Fairport Savings Bank. As of June 30, 2023 September 30, 2023 the Bank had \$34 million \$19 million in overnight borrowings at the FHLB. FHLB compared with \$23 million at September 30, 2022. The Company's use of its overnight line of credit with FHLBNY varies depending on its ability to fund investment and loan growth with deposits along with the line usage's impact on interest rate risk. Additionally, the Bank has the ability to borrow from the Federal Reserve and participates in the Bank Term Funding Program. At June 30, 2023 September 30, 2023 the Bank had \$100 million \$126 million in short-term borrowings with the Federal Reserve. There were no overnight borrowings at the FHLB or short-term borrowings at the Federal Reserve at June 30, 2022 September 30, 2022.

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ANALYSIS OF RESULTS OF OPERATIONS

Average Balance Sheets

The following tables present the significant categories of the assets and liabilities of the Company, interest income and interest expense, and the corresponding yields earned and rates paid for the periods indicated. The assets and liabilities are presented as daily averages. The average loan balances include both performing and non-performing loans. Interest income on loans does not include interest on loans for which the Bank has ceased to accrue interest. Investments are included at book value. Yields are presented on a non-tax-equivalent basis.

	Three months ended June 30, 2023 September 30, 2023						Three months ended June 30, 2022 September 30, 2022									
	Average		Interest				Average		Interest							
	Outstanding		Earned/		Yield/		Outstanding		Earned/		Yield/					
	Balance		Paid		Rate		Balance		Paid		Rate					
	(dollars in thousands)						(dollars in thousands)									
ASSETS																
Interest-earning assets:																
Loans, net	\$	1,646,502	1,658,132	\$	21,602	21,936	5.26	5.25%	\$	1,591,971	1,597,382	\$	16,828	17,988	4.24	4.47%
Taxable securities		366,568	349,593		2,252	2,173	2.46	2.47%		382,512	394,148		1,984	2,190	2.08	2.20%
Tax-exempt securities		7,354	6,277		54	51	2.95	3.22%		9,859	12,555		59	92	2.40	2.91%
Interest bearing deposits at banks		7,235	9,883		80	132	4.44	5.29%		111,457	42,788		226	217	0.81	2.01%
Total interest-earning assets		2,027,659	2,023,885	\$	23,988	24,292	4.75	4.76%		2,095,799	2,046,873	\$	19,097	20,487	3.65	3.97%
Non interest-earning assets:																
Cash and due from banks		13,547	17,563							14,219	16,599					
Premises and equipment, net		16,428	16,075							17,511	17,225					
Other assets		99,818	102,258							84,472	88,497					
Total Assets	\$	2,157,452	2,159,781						\$	2,212,001	2,169,194					

LIABILITIES & STOCKHOLDERS' EQUITY

Interest-bearing liabilities:						
NOW	\$ 281,910	311,624	\$ 869	1,408	1.24	1.79%
Savings	776,020	708,724	3,058	3,301	1.58	1.85%
Time deposits	304,575	325,667	2,353	2,835	3.10	3.45%

Other borrowed funds	116,524	143,546	1,429	1,855	4.92	5.13%	25,321	27,719	40	80	0.63	1.15%
Subordinated debt	31,111	31,137	541	560	6.97	7.14%	31,010	31,035	423	461	5.47	5.89%
Securities sold U/A to repurchase	15,703	17,594	57	77	1.46	1.74%	6,872	7,236	2	3	0.12	0.16%
Total interest-bearing liabilities	1,525,843	1,538,292	\$ 8,307	10,036	2.18	2.59%	1,485,081	1,431,719	\$ 1,045	1,299	0.28	0.36%
Noninterest-bearing liabilities:												
Demand deposits	451,990	441,149					542,827	549,625				
Other	18,532	20,529					17,562	22,073				
Total liabilities	\$ 1,996,365	1,999,970					\$ 2,045,470	2,003,417				
Stockholders' equity	161,087	159,811					166,531	165,777				
Total Liabilities and Equity	\$ 2,157,452	2,159,781					\$ 2,212,001	2,169,194				
Net interest income		\$ 15,681	14,256					\$ 18,052	19,188			
Net interest margin					3.10	2.79%					3.45	3.72%
Interest rate spread					2.57	2.17%					3.37	3.61%

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	Six Nine months ended June 30, 2023 September 30, 2023						Six Nine months ended June 30, 2022 September 30, 2022					
	Average		Interest				Average		Interest			
	Outstanding		Earned/		Yield/		Outstanding		Earned/		Yield/	
	Balance		Paid		Rate		Balance		Paid		Rate	
	(dollars in thousands)						(dollars in thousands)					
ASSETS												
Interest-earning assets:												
Loans, net	\$ 1,643,847	1,648,660	\$ 42,488	64,424	5.21	5.22 %	\$ 1,579,413	1,585,469	\$ 32,552	50,540	4.16	4.26 %
Taxable securities	368,671	362,241	4,546	6,719	2.49	2.48 %	364,915	374,767	3,661	5,851	2.02	2.09 %
Tax-exempt securities	9,431	8,368	143	194	3.06	3.10 %	10,331	11,080	105	197	2.05	2.38 %
Interest bearing deposits at banks	8,523	8,356	176	308	4.16	4.93 %	144,907	110,494	296	513	0.41	0.62 %
Total interest-earning assets	2,030,472	2,027,625	\$ 47,353	71,645	4.70	4.72 %	2,099,566	2,081,810	\$ 36,614	57,101	3.52	3.67 %
Non interest-earning assets:												
Cash and due from banks	15,163	16,597					13,763	14,718				
Premises and equipment, net	16,662	16,465					17,604	17,476				
Other assets	100,026	99,805					81,909	84,129				
Total Assets	\$ 2,162,323	2,160,492					\$ 2,212,842	2,198,133				
LIABILITIES & STOCKHOLDERS' EQUITY												
Interest-bearing liabilities:												
NOW	\$ 271,135	284,780	\$ 1,352	2,761	1.01	1.30 %	\$ 255,595	260,234	\$ 112	183		0.09 %
Regular savings	786,349	760,190	4,918	8,219	1.26	1.45 %	1,022,214	1,002,613	692	1,163	0.14	0.16 %
Time deposits	281,283	296,240	4,026	6,860	2.89	3.10 %	150,070	144,088	344	557	0.46	0.52 %
Other borrowed funds	125,570	131,629	2,925	4,780	4.70	4.86 %	27,289	27,434	85	165	0.63	0.80 %

Subordinated debt	31,099	31,111	1,066	1,626	6.91	6.99 %	30,997	31,010	824	1,285	5.36	5.54 %
Securities sold U/A to repurchase	11,499	13,553	60	137	1.05	1.35 %	5,887	6,341	4	7	0.14	0.15 %
Total interest-bearing liabilities	1,506,935	1,517,503	\$ 14,347	24,383	1.92	2.15 %	1,492,052	1,471,720	\$ 2,061	3,360	0.28	0.31 %
Noninterest-bearing liabilities:												
Demand deposits	477,824	465,464					527,558	534,994				
Other	19,505	18,875					19,220	20,182				
Total liabilities	\$ 2,004,264	2,001,842					\$ 2,038,830	2,026,896				
Stockholders' equity	158,059	158,650					174,012	171,237				
Total Liabilities and Equity	\$ 2,162,323	2,160,492					\$ 2,212,842	2,198,133				
Net interest income			\$ 33,006	47,262					\$ 34,553	53,741		
Net interest margin					3.28	3.12 %					3.32	3.45 %
Interest rate spread					2.78	2.57 %					3.24	3.36 %

Net Income

Net income was \$3.6 million, or \$0.66 per diluted share, in the third quarter of 2023, compared with \$4.9 million, or \$0.90 per diluted share, in the second quarter of 2023 compared with \$5.8 million and \$5.9 million, or \$1.06 per diluted share, in the first quarter of 2023 and \$5.7 million, or \$1.03 per diluted share, in last year's second third quarter. The change from the first second quarter of 2023 was largely due to a decrease in net interest income, and lower release of allowance increased provision for credit losses and higher non-interest expense, partially offset by higher non-interest income and lower non-interest expense. The change from the prior year's second quarter largely reflected a reduction in net interest income, partially offset by lower non-interest expense and a release of allowance compared to a provision for credit losses in the prior year period. income. Return on average equity was 9.06 % for the third quarter of 2023, compared with 12.25% for in the second quarter of 2023 compared with 14.97% and 14.15% in the first quarter of 2023 and 13.77% in the second third quarter of 2022.

Net income was \$10.7 million \$14.4 million, or \$1.96 \$2.62 per diluted share, in the first six nine months of 2023, compared with \$10.5 million \$16.3 million, or \$1.89 \$2.95 per diluted share, in the first six nine months of 2022. The increase decrease from last year's comparative period was due to a release of allowance for credit losses of \$0.8 million compared with provision for credit losses of \$0.5 million during the first half of 2022. In addition, non-interest expense decreased \$0.6 million year-over-year. Offsetting those benefits were decreases in net interest income of \$1.5 million \$6.5 million, and non-interest income of \$0.2 million \$0.4 million. Partially offsetting those decreases were decreases in non-interest expense of \$2.0 million, provision for credit losses of \$2.1 million and income tax provision of \$0.9 million.

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Other Results of Operations – Quarterly Comparison

Net interest income of \$15.7 million decreased \$1.6 million \$14.3 million was down \$1.4 million, or 9%, from the sequential first second quarter, and \$2.4 million \$4.9 million, or 13% 26% when compared with the prior year's second third quarter. The decrease from the prior comparative quarters reflected higher interest expense given the cost increase of interest-bearing liabilities as a result of competitive pricing on deposits in the rising interest rate environment. deposits.

Second Third quarter net interest margin of 3.10% 2.79% declined 36 basis points from the first quarter of 2023 and 35 31 basis points from the second quarter of 2023 and 93 basis points from the third quarter of 2022. Impacting net interest margin by 8 basis points was the reversal of approximately \$0.4 million of interest income primarily resulting from one large commercial loan that was put on non-accrual status during the quarter. The yield on loans increased 10 basis points remained flat compared with the first second quarter of 2023 and 102 but improved 78 basis points when compared with the second third quarter of 2022. The cost of interest-bearing liabilities was 2.59% in the third quarter of 2023 compared with 2.18% in the second quarter of 2023 compared with 1.65% and 0.36% in the first quarter of 2023 and 0.28% in the second third quarter of 2022.

The \$0.1 million release of allowance \$0.5 million provision for credit losses in the current quarter was largely due to lower criticized loan balance, and lower reserves on individually analyzed loans, partially offset by loan growth.

Non-interest income was \$5.6 million in the third quarter of 2023 compared with \$4.7 million in the second quarter of 2023, compared with \$4.1 million in the first quarter of 2023, and \$4.6 million \$5.8 million in the prior year's second third quarter. The increase from the sequential first second quarter reflects an higher insurance service and fee revenue of \$0.8 million due to seasonally higher commercial lines insurance commissions and profit-sharing revenue. The reduction in non-interest income from the prior year's third quarter was due to a decrease in other income relating to a \$0.2 million historic tax credit payment received in last year's third quarter and lower deposit service charges. Offsetting those decreases was a \$0.1 million increase of \$0.3 million in insurance service and fee revenue due to seasonally higher policy renewals for institutional clients, movements in mortgage servicing rights, and higher loan fees. The increase from the prior year's second quarter was largely due to higher insurance service and fee revenue from commissions and new commercial personal lines insurance sales, commissions.

Non-interest expenses of \$14.2 million \$14.4 million in the second third quarter of 2023 decreased \$0.3 million increased \$0.2 million, or 2%, when compared with the first second quarter of 2023, and \$0.6 million but were down \$1.4 million, or 4% 9%, from last year's second third quarter. Salaries and employee benefits were down \$0.8 million \$1.7 million, or 8% 16%, from both last year's comparative periods. Included in salaries and employee benefits during the first quarter of 2023 was the funding of employee's health savings accounts and payroll taxes that are typically higher in the first quarter. Compared with the second quarter of 2022, the decrease was primarily period largely due to lower incentive accruals of \$1.2 million, \$1.3 million and reduced staff expenses through consolidation of branches and back-office operations. These decreases were partially offset by merit increases and strategic hires. When compared to the sequential second quarter, salaries and employee benefits were relatively flat due to cost management efforts.

Included in non-interest expenses are technology and communication expenses. Technology and communications increased \$0.2 million from the sequential first quarter and \$0.3 million from last year's second third quarter primarily due to higher ATM card fees and software costs.

The Company's GAAP efficiency ratio, or noninterest expenses divided by the sum of net interest income and noninterest income, was 72.7% in the third quarter of 2023, 69.5% in the second quarter of 2023, 67.6% and 63.3% in the first quarter of 2023, and 65.2% in the second third quarter of 2022.

Income tax expense was \$1.4 million \$1.3 million, for an effective tax rate of 26.2%, in the third quarter of 2023 compared with 22.0%, in the second quarter of 2023 compared with 23.6% in the first quarter of 2023 and 24.7% 25.2% in last year's second third quarter. The decreases were due to stable non-taxable income and a decreasing overall pre-tax income base.

Other Results of Operations – Year-to-Date Comparison

Net interest income was \$33.0 million \$47.3 million for the first six nine months of 2023, a \$1.5 million \$6.5 million or 4% 12% decrease from the first six nine months of 2022. The decrease from last year's comparative period was due to higher cost of interest-bearing liabilities, partially offset by higher interest earned on loans and investment securities. Average loans increased \$64 million \$63 million during the first six nine months of 2023 when compared to the prior year period.

The Company's net interest margin of 3.28% 3.12% in the first six nine months of 2023 was 4 33 basis points lower than the 3.32% 3.45% net interest margin in the first six nine months of 2022. The yield on loans during the first six nine months of 2023 increased 105 96 basis points, from 4.16% 4.26% to 5.21% 5.22% when compared with the first six nine months of 2022. In the first six nine months of 2023 the cost of interest-bearing liabilities increased 164 184 basis points to 1.92% 2.15% when compared with the first six nine months of 2022. 2022, as a result of the rising interest rate environment and price competition for deposits. The rate paid on average time deposits increased from 0.46% 0.52% in the first half nine months of 2022 to 2.89% 3.10 % during the first six nine months of 2023.

The Company had a \$0.8 million \$0.3 million release of allowance in the six-month nine-month period ended June 30, 2023 September 30, 2023, largely due to lower criticized loan balances, lower reserves on individually analyzed loans, and a reduction in the rate of increases in home prices in the Company's market, partially offset by loan growth, compared to growth. For the nine-month period ended September 30, 2022, the Company had a provision for credit losses of \$0.5 million for the six-month period ended June 30, 2022 \$1.8 million.

Non-interest income for the first six months of 2023 and 2022 was \$9 million for both respective periods. During the first six months of 2023 changes in the fair value of mortgage servicing rights decreased non-interest income by \$0.2 million when compared to last

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Non-interest income for the first nine months of 2023 was \$14.4 million compared to \$14.8 million for the first nine months of 2022. During the first nine months of 2023 other income decreased primarily due to lower loan fees of \$0.3 million, changes in the fair value of mortgage servicing rights of \$0.2 million and a \$0.2 million payment received during 2022 in connection with a historic tax credit investment. In addition, deposit service charges decreased \$0.3 million, when compared to last year's comparative period. Partially offsetting the decrease was an increase those decreases were increases in insurance service and fees revenue, the largest component of non-interest income, which increased \$0.3 million to \$5.1 million as \$0.4 million, and in bank-owned life insurance revenue of June 30, 2023 \$0.2 million.

Total non-interest expense decreased to \$28.7 million \$2.0 million in the first six nine months of 2023, 2% 4% lower than the six-month nine-month period ended June 30, 2022 September 30, 2022. The decrease from last year's second quarter the prior year period was mostly attributable to lower a decrease in salaries and employee benefits costs of \$0.8 million and loan fees of \$0.3 million \$2.6 million. Salaries and employee benefits costs were \$18.1 million \$26.8 million for the first six nine months of 2023 compared to \$18.9 million \$29.4 million in the prior year period. This decrease was due to lower incentive accruals, partially offset by merit increases and strategic hires. Partially offsetting those decreases was higher technology Technology and communications costs increased year-over-year by \$0.6 million as a result of \$0.5 million, higher software costs and ATM card fees.

The Company's GAAP efficiency ratio, or noninterest expenses divided by the sum of net interest income and noninterest income, was 68.6% 69.6% in the first six nine months of 2023, compared with 67.1% 65.7% during the prior-year period.

The Company recorded income tax expense of \$3.2 million \$4.5 million for the six-month nine-month period ended June 30, 2023 September 30, 2023, compared with \$3.4 million \$5.4 million in the first six nine months of 2022. The effective tax rate for the first six nine months of 2023 was 22.9% 23.7%, compared with 24.4% 24.7% in the comparable 2022 period. The decrease is due to stable non-taxable income on a decreasing overall pre-tax income base.

CAPITAL

The Company consistently maintains regulatory capital ratios significantly above the federal "well capitalized" standard, including a Tier 1 leverage ratio of 9.43% 9.40% at June 30, 2023 September 30, 2023, compared with 9.13% 9.43% at March 31, 2023 June 30, 2023 and 8.73% 9.00% at June 30, 2022 September 30, 2022.

Book value per share was \$27.52 at September 30, 2023 compared with \$29.12 at June 30, 2023 compared with \$28.97 and \$27.20 at March 31, 2023 and \$29.53 at June 30, 2022 September 30, 2022. Reflected in the book value changes are the Federal Reserve's aggressive interest rate hikes, that have resulted in significant changes in unrealized gains and losses on investment securities, which reduced book value per share at June 30, 2022 September 30, 2023 by \$2.94 \$1.61 when compared with the last year's second trailing quarter. Such unrealized gains and losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available-for-sale.

The Company has also issued subordinated capital notes and junior subordinated debentures associated with trust preferred securities to provide liquidity and enhance regulatory capital ratios. The Company had \$11.3 million of junior subordinated debentures associated with trust preferred securities outstanding at June 30, 2023 September 30, 2023 and December 31, 2022 which are considered Tier 1 capital and are includable in total regulatory capital. On July 9, 2020, the Company executed a private offering of \$20 million of its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2030. During 2020, \$15 million of the proceeds from the sale of the Notes were contributed to Evans Bank as Tier 1 capital.

While we are currently classified as well capitalized, an extended economic recession could adversely impact our reported and regulatory capital ratios. The Company relies on cash on hand as well as dividends from its subsidiary bank to service its debt. If the Company's subsidiary bank's capital deteriorates such that it is unable to pay dividends to the Company for an extended period of time, the Company may not be able to service its debt that was issued.

LIQUIDITY

The Bank utilizes cash flows from the investment portfolio and federal funds sold balances to manage the liquidity requirements related to loan demand and deposit fluctuations. The Bank also has many borrowing options. The Company uses the FHLBNY as its primary source of overnight funds and has long-term advance with FHLBNY. The Company's use of its overnight line of credit with FHLBNY varies depending on its ability to fund investment and loan growth with core deposits along with the line usage's impact on interest rate risk. The Company has pledged sufficient collateral in the form of residential and commercial real estate loans at FHLBNY that meets FHLB collateral requirements. As a member of the FHLB, the Bank

is able to borrow funds at competitive rates. As of **June 30, 2023** **September 30, 2023**, advances of up to **\$337 million** **\$312 million** could be drawn on the FHLB via an Overnight Line of Credit Agreement between the Bank and the FHLB. The Bank also has the ability to borrow from the Federal Reserve and participates in the Bank Term Funding Program. At **June 30, 2023** **September 30, 2023** the Bank had **\$54.5 million** **\$35.1 million** in additional availability to borrow against collateral at the Federal Reserve. By placing sufficient collateral in safekeeping at the Federal Reserve Bank, the Bank could borrow at the discount window. As of **June 30, 2023** **September 30, 2023**, the Bank had the ability to purchase up to \$18 million in federal funds from its correspondent banks. The Bank's liquidity needs also can be met by more aggressively pursuing time deposits, or accessing the brokered time deposit market, including the Certificate of Deposit Account Registry Service ("CDARS") network.

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Cash flows from the Bank's investment portfolio are laddered, so that securities mature at regular intervals, to provide funds from principal and interest payments at various times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices. At **June 30, 2023** **September 30, 2023**, approximately **2%** **3%** of the Bank's securities had contractual maturity dates of one year or less and approximately **25%** **28%** had maturity dates of five years or less. Additionally, mortgage-backed securities, which comprised **55%** **53%** of the investment portfolio at **June 30, 2023** **September 30, 2023**, provide consistent cash flows for the Bank.

The Company's primary source of liquidity is dividends from the Bank. Additionally, the Company has access to capital markets as a funding source. Management, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. As part of that monitoring process, management calculates the 90-day liquidity each month by analyzing the cash needs of the Bank. Included in the calculation are liquid assets and potential liabilities. Management stresses the potential liabilities calculation to ensure a strong liquidity position. Included in the calculation are assumptions of some significant deposit run-off as well as funds needed for loan closings and investment purchases. In the Company's internal stress test at **June 30, 2023** **September 30, 2023**, the Company had net short-term liquidity of **\$352 million** **\$332 million** as compared with \$209 million at December 31, 2022. Available assets of **\$367 million** **\$348 million**, divided by public and purchased funds of **\$536 million** **\$551 million**, resulted in a long-term liquidity ratio of **68%** **63%** at **June 30, 2023** **September 30, 2023**, compared with 75% at December 31, 2022.

Management does not anticipate engaging in any activities, either currently or in the long term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity.

The Company believes that the Bank maintains a sufficient level of U.S. government and government agency securities and New York State municipal bonds that can be pledged as collateral for municipal deposits.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Additional information responsive to this Item is contained in the Liquidity section of Management's Discussion and Analysis of Financial Condition and Results of Operations, which information is incorporated herein by reference.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Bank's financial instruments. The primary market risk that the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Bank to interest rate risk, which occurs when assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Bank is subject to the effects of changing interest rates. The Bank measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for interest-earning assets and interest-bearing liabilities. Management's philosophy toward interest rate risk management is to limit the variability of net interest income to changes in net interest rates. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans, and expected maturities of investment securities, loans, and deposits. Management supplements the modeling technique described above with analysis of market values of the Bank's financial instruments and changes to such market values given changes in the interest rates.

The Bank's Asset-Liability Committee, which includes members of senior management, monitors the Bank's interest rate sensitivity with the aid of a model that considers the impact of ongoing lending and deposit taking activities, as well as interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken actions, and intends to do so in the future, to mitigate exposure to interest rate risk through the use of on- or off-balance sheet

financial instruments. Possible actions include, but are not limited to, changing the pricing of loan and deposit products, and modifying the composition of interest-earning assets and interest-bearing liabilities, and reliance on other financial instruments used for interest rate risk management purposes.

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The following table demonstrates the possible impact of changes in interest rates on the Bank's net interest income over a 12-month period of time:

SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

	Calculated increase (decrease)		Calculated increase (decrease)	
	in projected annual net interest income		in projected annual net interest income	
	(in thousands)		(in thousands)	
	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Changes in interest rates				
+200 basis points	\$ (2,680)	\$ (2,867)	\$ (3,517)	\$ (2,867)
+100 basis points	695	770	369	770
-100 basis points	(715)	(962)	(384)	(962)
-200 basis points	(1,334)	(2,661)	(674)	(2,661)

Many assumptions were utilized by management to calculate the impact that changes in interest rates may have on the Bank's net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, loan and deposit volumes and pricing, and deposit maturities. The Bank assumed immediate changes in rates including 200 basis point rate changes. In the 200 basis point rate reduction scenario, the applicable rate changes may be limited to lesser amounts such that interest rates are not less than zero. The assumptions in the Company's projections are inherently uncertain and, as a result, the Bank cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to the timing, magnitude, and frequency of interest rate changes in market conditions and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions such as those previously described, which management may take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table and changes in such amounts are not considered significant to the Bank's projected net interest income.

ITEM 4 - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of **June 30, 2023** **September 30, 2023** (the end of the period covered by this Report). Based on that evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of **June 30, 2023** **September 30, 2023**.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No other changes in the Company's internal control over financial reporting were identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended **June 30, 2023** **September 30, 2023** that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

The nature of the Company's business generates a certain amount of litigation involving matters arising in the ordinary course of business.

In the opinion of management, there are no proceedings pending to which the Company is a party or to which its property is subject, which, if determined adversely, would have a material effect on the Company's results of operations or financial condition.

ITEM 1A – RISK FACTORS

Other than the risk factors set forth below, which were included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, there have been no material changes to the risk factors previously disclosed in Item 1A. Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Recent Negative Developments Affecting the Banking Industry, and Resulting Media Coverage, May Erode Customer Confidence in the Banking System

The March 2023 high-profile bank failures involving Silicon Valley Bank and Signature Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, community banks like the Company. These market developments have negatively impacted customer confidence in the safety and soundness of community banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in community banks and the banking system more broadly.

A Lack of Liquidity Could Adversely Affect the Company's Financial Condition and Results of Operations and Result in Regulatory Restrictions

The Company must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been the Company's primary source of funds for use in lending and investment activities and are emphasized due to the relatively lower cost of these funds. The Company also receives funds from loan repayments, investment maturities and income on other interest-earning assets, as well as borrowings. If the Company is required to rely more heavily on more expensive funding sources to support liquidity and future growth, its revenues may not increase proportionately to cover its increased costs, which would adversely affect its operating margins, profitability and growth prospects. Alternatively, the Company may need to sell a portion of its investment securities portfolio to raise funds, which, as discussed below, could result in a loss. Any decline in funding could adversely impact the Company's ability to originate loans, invest in securities, pay expenses, or fulfill obligations such as repaying its borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations. A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, regulatory restrictions and prohibitions may include restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits.

Rising Interest Rates Have Decreased the Value of the Company's Securities Portfolio, and the Company Would Realize Losses if it Were Required to Sell Such Securities to Meet Liquidity Needs

As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including the Company's, resulting in unrealized losses embedded in the securities portfolios. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a Bank Term Funding Program available to eligible depository institutions secured by U.S. treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES, AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
April July 1, 2023 - April 30, 2023 July 30, 2023				
Repurchase program ⁽¹⁾	-	\$ -	-	187,932
Employee transactions	-	\$ -	N/A	N/A
May August 1, 2023 - May 31, 2023 August 31, 2023				
Repurchase program ⁽¹⁾	-	\$ -	-	187,932
Employee transactions	-	\$ -	N/A	N/A
June September 1, 2023 - June 30, 2023 September 30, 2023				
Repurchase program ⁽¹⁾	-	\$ -	-	187,932
Employee transactions	-	\$ -	N/A	N/A
Total:				
Repurchase program ⁽¹⁾	-	\$ -	-	187,932
Employee transactions	-	\$ -	N/A	N/A

(1) On February 25, 2021, the Board of Directors authorized the Company to repurchase up to 300,000 shares of the Company's common stock (the "2021 Repurchase Program"). The 2021 Repurchase program does not expire and may be suspended or discontinued by the Board of Directors at any time. The remaining number of shares that may be purchased under the 2021 Repurchase Program as of June 30, 2022 September 30, 2023 was 187,932.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

(Not Applicable.)

ITEM 4 – MINE SAFETY DISCLOSURE

(Not Applicable.)

ITEM 5 – OTHER INFORMATION

(Not Applicable.)

ITEM 6 – EXHIBITS

The following exhibits are filed as a part of this report:

EXHIBIT INDEX

Exhibit No. Name

- 3.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3a to the Company's Registration Statement on Form S-4 (Registration No. 33-25321), as filed on November 7, 1988). (Filed on paper – hyperlink is not required pursuant to Rule 105 of Regulation S-T)
- 3.1.1 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997, as filed on May 14, 1997). (Filed on paper – hyperlink is not required pursuant to Rule 105 of Regulation S-T)
- 3.2 [Amended and Restated Bylaws of the Company, effective as of January 24, 2023 \(incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on January 30, 2023\).](#)
- 31.1 [Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Principal Executive Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following materials from Evans Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023**, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets – **June 30, 2023** **September 30, 2023** and December 31, 2022; (ii) Unaudited Consolidated Statements of Income – Three months ended **June 30, 2023** **September 30, 2023** and 2022; (iii) Unaudited Consolidated Statements of Income – **Six Nine** months ended **June 30, 2023** **September 30, 2023** and 2022; (iv) Unaudited Statements of Consolidated Comprehensive Income (Loss) – Three months ended **June 30, 2023** **September 30, 2023** and 2022; (v) Unaudited Statements of Consolidated Comprehensive Income (Loss) – **Six Nine** months ended **June 30, 2023** **September 30, 2023** and 2022; (vi) Unaudited Consolidated Statements of Stockholders' Equity – Three months ended **June 30, 2023** **September 30, 2023** and 2022; (vii) Unaudited Consolidated Statements of Stockholders' Equity – **Six Nine** months ended **June 30, 2023** **September 30, 2023** and 2022; (viii) Unaudited Consolidated Statements of Cash Flows – **Six Nine** months ended **June 30, 2023** **September 30, 2023** and 2022; and (ix) Notes to Unaudited Consolidated Financial Statements.
- 104 The cover page from the Evans Bancorp, Inc's Quarterly Report on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023**, formatted in Inline XBRL.

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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.

Evans Bancorp, Inc.

DATE

August 01, October 30, 2023

/s/ David J. Nasca

David J. Nasca

President and CEO

(Principal Executive Officer)

DATE

August 01, October 30, 2023

/s/ John B. Connerton

John B. Connerton

Exhibit 31.1 Certification I, David J. Nasca, certify that:

1. I have reviewed this report on Form 10-Q of Evans Bancorp, Inc.;

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(s) 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; and

5. The registrant's other certifying officer(s) 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: August 1, 2023 October 30, 2023/s/ David J. Nasca David J. Nasca President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2CertificationI, John B. Connerton, certify that:

1. I have reviewed this report on Form 10-Q of Evans Bancorp, Inc.;
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(s) 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; and
5. The registrant's other certifying officer(s) 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: **August 01, 2023** **October 30, 2023/s/ John B. Connerton**John B. ConnertonTreasurer(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICERSPURSUANT TO18 U.S.C. SECTION 1350,AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002I, David J. Nasca, the President and Chief Executive Officer of Evans Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) the Quarterly Report of Evans Bancorp, Inc. on Form 10-Q for the fiscal

quarter ended **June 30, 2023** **September 30, 2023** fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Evans Bancorp, Inc. Date: **August 01, 2023** **October 30, 2023**

By: /s/ David J. Nasca
Name: David J. Nasca
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2 CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICERS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 I, John B. Connerton, the Treasurer of Evans Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) the Quarterly Report of Evans Bancorp, Inc. on Form 10-Q for the fiscal quarter ended **June 30, 2023** **September 30, 2023** fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Evans Bancorp, Inc. Date: **August 01, 2023** **October 30, 2023**

By: /s/ John B. Connerton
Name: John B. Connerton
Title: Treasurer
(Principal Financial Officer and Principal Accounting Officer)

DISCLAIMER

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