



AmeriServ Financial, Inc.

2022 Annual Report

Forward, Together.



Contents.

Financial Highlights	1
A Message to Our Shareholders	2
Technology and Security	4
Commercial Banking	6
Trust and Financial Services	8
Retail Banking	10
Retail Lending	12
Community	14
Branch Locations	16



Our Mission.

AmeriServ Financial is committed to increasing shareholder value by striving for consistently improving financial performance; providing our customers with products and exceptional service for every step in their lifetime financial journey; cultivating an employee atmosphere rooted in trust, empowerment and growth; and serving our communities through employee involvement and a philanthropic spirit.

Financial Highlights.

Per Share

<i>\$ in thousands except per share amounts</i>	2022	2021	Change	Change
Net Income	0.43	0.41	0.02	4.9%
Net Income, Adjusted ⁽¹⁾⁽²⁾	0.55	0.49	0.06	12.2%
Book Value at December 31	6.20	6.82	(0.62)	-9.1%
Tangible Book Value at December 31 ⁽¹⁾	5.40	6.02	(0.62)	-10.3%
Dividends Paid	0.115	0.100	0.015	15.0%
Market Value at December 31	3.94	3.86	0.08	2.1%

⁽¹⁾ Non-GAAP financial information, see "Reconciliation of Non-GAAP Financial Measures" within the MD&A of Form 10-K.

⁽²⁾ Adjusted for pension settlement charge.

For the Year

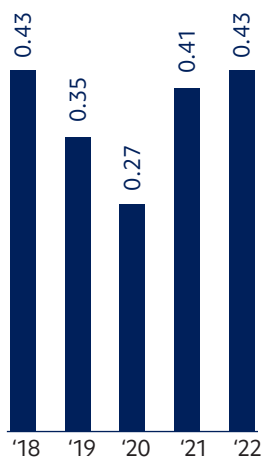
Net Income	\$ 7,448	\$ 7,072	\$ 376	5.3%
Return on Average Assets	0.55%	0.52%	0.03	5.8%
Return on Average Equity	6.83%	6.48%	0.35	5.4%

At Year-End

Assets	\$ 1,363,874	\$ 1,335,560	\$ 28,314	2.1%
Loans	990,825	986,037	4,788	0.5%
Deposits	1,108,537	1,139,378	(30,841)	-2.7%
Nonperforming Loans/Total Loans	0.52%	0.34%	0.18	52.9%
Wealth Management Client Assets	2,314,414	2,712,695	(398,281)	-14.7%

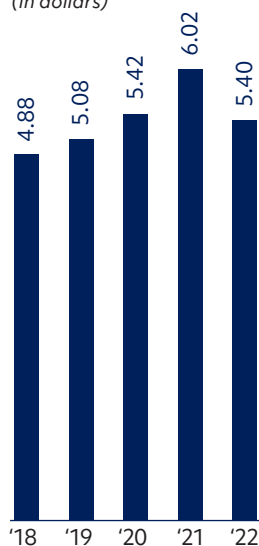
Earnings Per Share

(in dollars)



Tangible Book Value Per Share

(in dollars)



A Message to Our Shareholders.

Forward, Together.

Like many of us, you may have looked forward to smooth sailing in 2022 after the stormy events of 2020 and 2021. But, as we saw, pandemic conditions dragged on; war broke out in Europe; unexpected disruptions in the natural and the business worlds took the wind out of countless sails.

The course of events in our particular field was no exception. At the outset, there were good reasons to expect continued low interest rates and only transitory inflation. Instead, inflation persisted, reaching a 40-year high. Reflexively, the Federal Reserve boosted interest rates by amounts not seen in more than three decades. By its end, 2022 had been one of the most volatile years on record.

Strong Commercial Loan Production

Despite the turmoil, AmeriServ prevailed. We adjusted our strategies, effectively managed our balance sheet, and improved shareholder earnings. In fact, we turned in our best earnings-per-share (EPS) performance in more than 20 years.

These results were no accident. When conditions suddenly take a turn for the worse, preparedness will usually carry the day. And, in this case, we were fortified by groundwork we'd laid in 2021.

One decisive factor was our Somerset County branch acquisition, which netted roughly \$40 million in deposits. This infusion of stable low-cost deposits positioned AmeriServ to maintain healthy levels of lending through 2022 with our loan-to-deposit ratio averaging a solid 85%. And another 2021 initiative, restructuring holding company debt, enabled us to both reduce our interest expense and improve our capital ratios which provides further balance sheet strength during periods of economic volatility.

Together, these two maneuvers lent us a resilience that helped bolster our local economies last year. Both commercial and consumer loan production was robust, counterbalancing weak mortgage loan production that was muted by rising interest rates.

Strategic Wealth Management

Preparedness also strengthened our response to the difficult equity and bond market that resulted from the rapid increase in interest rates. Early in

2022, this market volatility jolted fee incomes from AmeriServ wealth management activities. However, guided by a well-established wealth management model, our investment professionals were able to confidently make a strategic call last spring, ordering a shift in our focus from growing wealth to preserving it, by adjusting portfolios toward greater cash holdings.

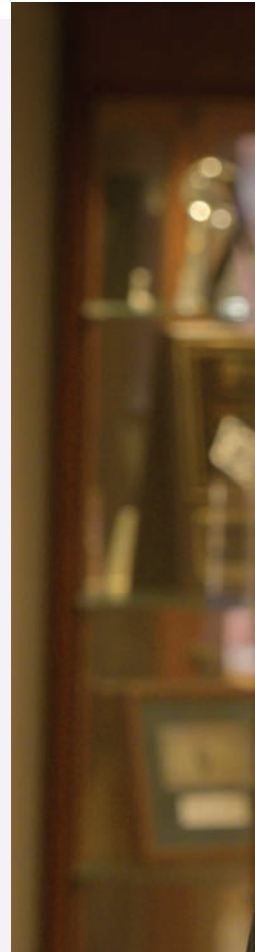
A New Generation of Talent

Not all of the challenges we met in 2022 were driven by current events. Less quantifiable than financial performance, but equally critical to success, has been the urgent need to attract new talent at a time when many veteran members of our team are approaching retirement age. Preparing prudently for the future, our recruiters brought skilled new people into key positions last year, throughout the AmeriServ operation. We will continue to provide our employees with training and development opportunities to ensure that our team has the knowledge and skills needed to support our business growth while providing outstanding customer service.

Keeping Faith With Our Constituencies

While we're pleased to have made progress this past year in terms of earnings, increased shareholder dividends, and our talent pool, we acknowledge that the future demands more of us. Continuous improvement means steady commitment to greater efforts than ever before while continuing to improve the earnings power of the company. The central question is, who do these efforts benefit?

The easy answer — "shareholders" — is simplistic at best. We clearly understand the importance of creating value for our shareholders. However, we operate our business in a manner that focuses on driving value for all our key stakeholders. As our 2022–2023 Strategic Plan explains, this organization works equally hard for the betterment of four essential constituencies:





Pictured here are Jeffrey A. Stopko, President and CEO of AmeriServ Financial, Inc. and Allan R. Dennison, Chairman of the Board.

Our shareholders. Our customers. Our employees. And the people who live in our communities. Despite turbulent conditions, we believe that we advanced the interests of each of those groups in 2022.

For *shareholders*, our reported EPS of \$0.43 (and our non-GAAP adjusted EPS of \$0.55 which excludes a pension settlement charge) enabled us to increase the dividends we paid to shareholders by 15%. We generated positive total shareholder returns of 5% for the 2022 year which compared favorably to most bank stock indexes which produced negative total shareholder returns for 2022.

For our *customers*, we funded approximately \$234 million in new business and consumer loans, generating a positive impact on our region's economic activity. At the same time, our wealth management professionals were there to help their clients make choices that fit their individual risk situations in a volatile financial market.

For our *employees*, we continued our decades-long role as a decent, dependable employer, providing jobs that pay family-sustaining wages and benefits, and maintaining respectful workplaces that attract talented, productive people.

Finally, in the *communities* where we work, we offered charitable support for nonprofit organizations while encouraging employee engagement at the hometown level. The innovative, fixed-rate Community Loan Mortgage Program we introduced in 2022 further demonstrates our local commitment by helping families transition from renting to home ownership.

Looking Forward

So, looking forward, AmeriServ intends to grow and prosper while staying true to itself. That means we'll never lose sight of the well-being of any of our key stakeholders, no matter what the future brings. We thank you for your continued confidence in our efforts. It's our privilege to lead the AmeriServ team and to work with you all, moving forward together.

Allan R. Dennison
Chairman

Jeffrey A. Stopko
President & CEO

Technology and Security.

New Risks, New Tactics

For many years, the global cybersecurity community followed a simple, functional model: A defensive perimeter, tightly controlled gateways, and watchtowers for spotting threats. In other words, a castle.

But, by today's standards, that model is incomplete. Yes, defending the digital fortress remains essential. The scope of risk, however, has expanded relentlessly.

“ *Resiliency has become one of our highest priorities.* ”

It includes such challenges as weighing system access against agility and responsiveness; coping with the explosive multiplicity of threats made possible by cheap computing power; and adapting to the continually evolving ways that people interact with technology.

In response, our group long ago adopted a more nuanced mindset that encompasses not just cyber-defense strategies, but the day-to-day pressures AmeriServ bankers and the customers they serve, feel to get useful, productive work done. Resiliency has become one of our highest priorities.

Rising Tides of Threat

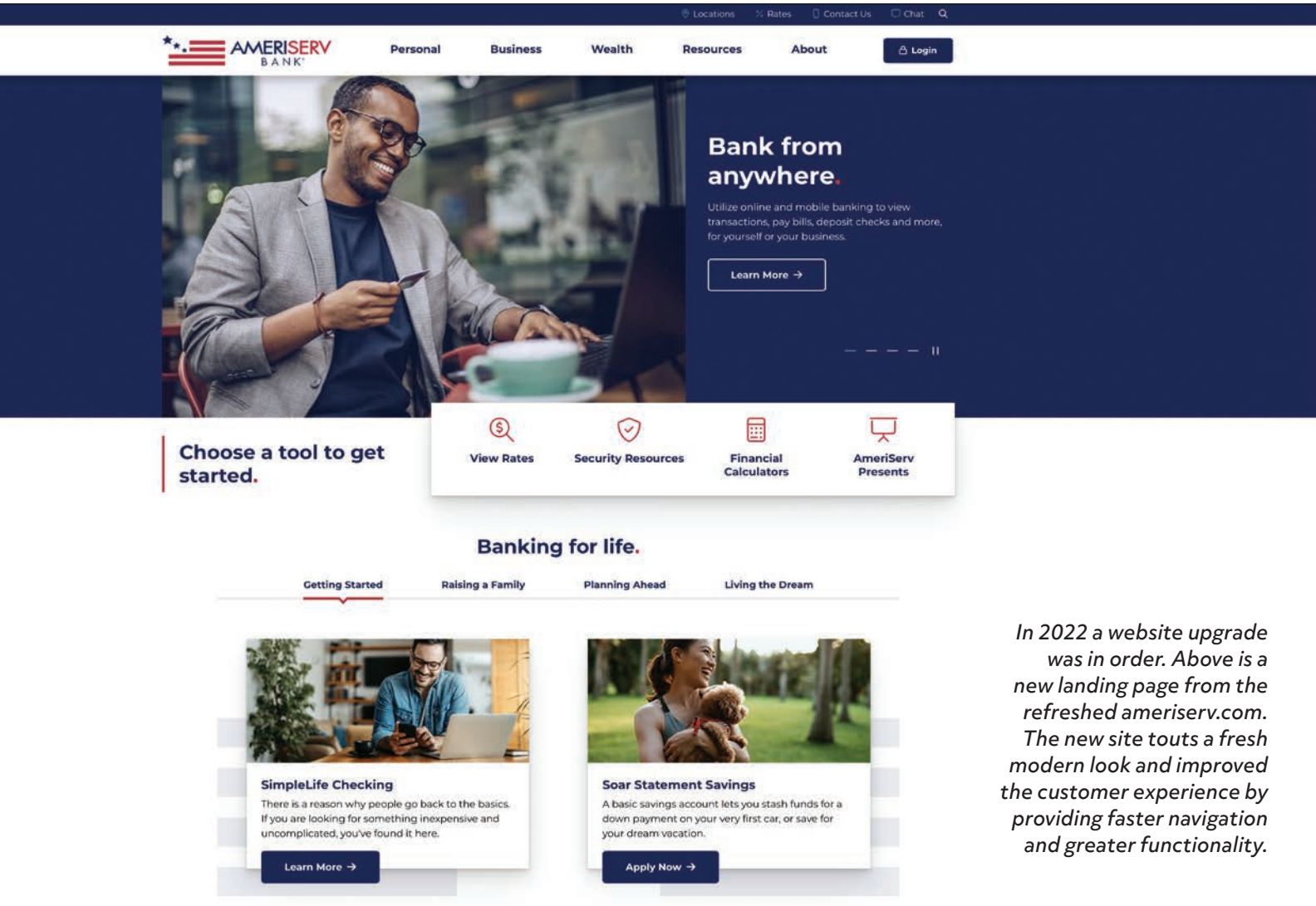
As soon as the Ukraine conflict erupted, global tensions created a smoke screen for opportunistic interventions, especially those aimed at such essential activities as financial institutions. Other disturbances, like lingering supply-chain malfunctions, contributed to the chaos. And under cover of that turmoil, hackers stepped up their efforts to steal, alter, or destroy data. In response, our team shifted into overdrive, reinforcing internal safety measures and monitoring critical interactions with our software and service vendors.

Without compromising internal protocols, additional layers were added to our first line of cyber defense in 2022. We deployed them after rigorously applying our in-house product evaluation process, and will continue to adapt as the threat landscape evolves.

A Technology Migration

In accordance with long-range planning, toward the end of 2022 we launched the pilot phase of AmeriServ's migration to a suite of productivity and collaboration software and cloud-based services. Thanks to the support of our board and executive management — and the tireless efforts of our IT team — we're now in the final stages of our most intrusive technical upgrade in more than a dozen years.

The new upgrade touches every AmeriServ banker and everything they do. In addition to enhancing our on-the-job effectiveness, it supports all three of our strategic objectives for 2023: We're on track to reduce operational costs, optimize risk management, and carry out new programs that will enhance AmeriServ's ability to seamlessly care for customers across our spectrum of products and services.



In 2022 a website upgrade was in order. Above is a new landing page from the refreshed ameriserv.com. The new site touts a fresh modern look and improved the customer experience by providing faster navigation and greater functionality.

Human Factors

Continuously balancing security and usability consumes substantial amounts of effort and expertise. That’s one reason a share of our energy in 2022 went into rebuilding the information technology and security departments.

On the Horizon

With a new organizational structure in place, we’re positioned for the future, even as we respond to moment-by-moment contingencies. One of our assignments for the months ahead is to evaluate and continue to build resiliency into the communications infrastructure. Another is support for the new wave of ATMs that soon will enhance in-branch experiences for clients across our geographical base.

In the meantime, we remain vigilant, driven by the knowledge that upholding AmeriServ’s mission, and protecting the financial resources of our customers, together constitute an opportunity to make our business and our regional community stronger than ever before.

Cathy Torok

Cathy Torok

Senior Vice President, Chief Information Officer

Commercial Banking.

Crises Come and Go. Relationships Endure.

Looking back at the turbulence of 2020 and 2021, we might be tempted to dismiss 2022's challenges as "just normal." But that assessment wouldn't do justice to either the challenges or our team's responses.

True, 2022 began just as the harshest impacts of the pandemic were smoothing out. However, onrushing inflation, stair-stepping interest hikes, international conflict, and global supply-chain disruptions were whipping up clouds of uncertainty.

That uncertainty loomed over challenges whose outlines were familiar including: maintaining productive communication with the customer; building the most effective team possible; creating positive outcomes in the community. Buoyed by success in all three areas, by year's end our core portfolio had exhibited good growth.

Two-Way Communication

Our growth would have been impossible without the established relationships that foster our success. To keep those connections strong, we focused more than ever on customer communication.

We listened hard to what clients had to say, and we stayed alert for signals that they would welcome reassurance, advice, or news of services that could simplify their lives.

Face to Face With the Customer

Solid relationships thrive on communication. That's one of the keys to the *Banking for Life* philosophy. Much of that communication happens face-to-face, between individual customers and our client-facing branch office staff.

For that reason, two staff-related tasks dominated the challenges and opportunities of 2022: One was bringing our departmental staff back to full strength after a multi-year wave of routine turnover and retirements. The other was the introduction of the Retail Sales and Service Associate within the retail banking department. The addition of this position creates a symbiosis for the two departments and the customer. The training for this new position familiarized the frontline staff with small business products and services, and the tools such as mobile check deposits, credit card plans, merchant services, clearinghouse debit blocks, and check-positive pay fraud prevention. Their new, integrated responsibilities are designed to reinforce customer relationships and enhance their personal value to AmeriServ.

Serving Customers and Community Alike

AmeriServ's success and our region's wellbeing are inseparable. When we engage with a local landscaping contractor, medical practice, or freight hauler, we're sharing the risks that our neighbors face every day. So we work hard, in order to make those engagements work. In 2022, for example, we:

- Arranged a multi-million dollar loan in less than five days, enabling one customer to meet a crucial construction-project deadline.
- Rapidly restructured debt, and calculated lease termination payment options, to safeguard a property's continued earning power when another customer's client pulled out.



"We are very happy to be a customer of AmeriServ for the last ten years. The exceptional customer service and wonderful employees have made our working relationship a great experience."

Richard Cardello, Trustee
Karen Dilla, Building Manager
Cardello Associates, Pittsburgh, Pennsylvania



“Working with AmeriServ has made getting business loans a smooth, quick, and stress free process. I enjoyed working with Tara Shaffer, Senior Vice President/Area Executive for the Altoona/State College market.”

Joe Pistone

Owner of Brothers Pizza & Italian Restaurant
State College, Pennsylvania

- Created a loan product that enabled yet another customer to develop sites in our region for potential occupancy by a national retailer.
- Helped two large nonprofit organizations reach ambitious goals with a creative financing approach and aggressive pricing.

And so it was projects like these that we consider almost commonplace when doing what needs to be done to assist our customers to reach new milestones or to further their business ambitions, that drew the attention of the Pittsburgh Community Reinvestment Group (PCRG) — which represents regional community development corporations, community-based organizations, and community service groups. They honored AmeriServ with an award for excellence in small business lending at the Community and Bankers Award reception. The awards ceremony gives recognition to the incredible achievements of community development and acknowledges lending partners for their contributions to equitable and accessible lending practices.

In the Days to Come

AmeriServ has always pursued a conservative course. That’s one reason why, even in the face of adverse economic conditions, Commercial Banking has remained well-positioned to support a stable portfolio. In practical terms, we’re unequalled in our commitment to communication-based customer service, maintaining a dedicated team, and fostering positive economic performance for our community. While uncertainty may come and go, we’re confident that our platform of sound commercial loan underwriting will prosper in the long run.

Michael Baylor

Michael Baylor

Executive Vice President,
Chief Commercial Banking Officer

Trust and Financial Services.

Building With Intellectual Capital

Hard-earned experience and fresh insight — properly combined — will produce a lot more impact than any quota of those two qualities on their own. This is the formula that spelled success for us and our clients, in the volatile year 2022.

As 2021 faded out, our teams at AmeriServ Trust & Financial Services Company, which includes both AmeriServ Financial Services and West Chester Capital Advisors, Inc., knew the incoming year would bring an unusual array of challenges.

To begin, the Trust & Financial Services Company as a whole delivered record revenues, earnings, and net income margin for the previous seven years. Assets under management, advisement, and administration had risen consistently. The bar was set high.

At the same time, uncertainty shimmered on the global horizon. Business and society were still scrambling to accommodate not-quite post-pandemic conditions. Almost immediately, the world sustained a series of shocks as inflation soared, markets turned volatile, energy supplies tightened, and war flared up, unprovoked. And further surprises awaited.

“ *As we advance toward tomorrow, together - we’re advantageously positioned to build value in the long term.* ”

Engaging Reinforcements

However, by operating always with the future in mind, our team of dedicated professionals was prepared. One of our key initiatives for the early 2020s has augmented our lineup of seasoned wealth management professionals to compensate for a long-anticipated wave of retirements. So, by the early days of 2022, we had welcomed a dozen highly qualified new team mates to our Pittsburgh, Greensburg, and Johnstown offices. Not only are they helping assure our clients of continuity of service in the decades ahead, but they’re also injecting the new ideas and contemporary skills so essential for fulfilling the expectations of today’s clients.

Limiting Risk

In the domestic economy, one obstacle we anticipated was a major equity-market correction capable of challenging our habitual drive to minimize downside risk. Proactively, we adjusted our early forecasts to fit the probability of a bubble-bursting bear market in 2022-23. Our investment philosophy shifted from maximizing return on investment to securing the return of investment. Seizing the initiative, our Portfolio Management Group modified the asset allocations in Pathroad® tactically-based discretionary portfolios to eliminate equity and fixed-income exposure. Pathroad is a proprietary, risk-based investment discipline designed to serve clients from cradle to grave. Historically, this asset reallocation was our most dramatic foray into eliminating fixed-income exposure for tactical accounts.



“AmeriServ is a long time partner of L.J. Aviation. We’re a family owned and run business and we trust AmeriServ with our accounts, both personal and business.”

Edward M. Kilkeary, Sr.
Founder and CEO
L.J. Aviation, Latrobe, Pennsylvania

Resisting Crypto

More of a distraction than a problem, from our standpoint (and still playing out as this report goes to press) has been the collapse of the cryptocurrency market. We’d watched with concern, in recent years, as hype and investors’ fears-of-missing-out drove crypto from zero to a \$3 trillion market capitalization, which then largely evaporated. Early on, we had pointed out that cryptocurrencies were awkward to use and unstable in value, and we’ve continued to make it clear how little impact they’ve had on the traditional economy.

Delivering Results

Bringing aboard a new generation of investment specialists, expertly managing key assets, and resisting pressures to dabble in risky speculation

were the highlights of a forceful, low-key, and ultimately fulfilling approach.

During a century of service to investors, we’ve steadily delivered solid results by resisting Wall Street fads, confidently taking corrective market action, and hewing to proven strategies. Consequently — as we advance toward tomorrow, together — we’re advantageously positioned to build value in the long term.

James T. Huerth

James T. Huerth
President & CEO
AmeriServ Trust & Financial
Services Company

Steven M. Krawick

Steven M. Krawick
President & CEO
West Chester Capital
Advisors

Retail Banking.

Beneath an Unruffled Surface

Walk into any AmeriServ branch office and your first impressions will be: Calm. Orderly. Eager to assist. That's no accident. By design, we maintain a smooth, confident surface that overlays deeper layers of skilled decision-making and intense professional agility. Here's how that looked in 2022.

Shifting Dynamics

As the year began, COVID-19 was still reshaping the habits of American consumers. AmeriServ retail banking customers were no exception. Pandemic conditions, nationwide and local, marked a tipping point for many of the people we assumed were resistant to new technologies.

Counter to expectations, quite a few of them migrated from over-the-counter transactions to drive-up service, and online banking. Today, however, on-site services are making a comeback, as demonstrated by a recent uptick in branch office transactions, including a 15% increase in the use of ATMs. Although, for example, it's not difficult to open or close an account online, senior customers and those with relatively complex transactions still prefer the personal attention they get at a local branch. For loan applications, financial advice, or reassurance when fraud concerns crop up, they find an in-branch conversation more comfortable than online, mobile, or Call Center services.

“ In times of transition, sustaining team spirit is a high priority. ”

Challenges Answered

Our responses to this state of flux made 2022 a busy year.

One landmark decision we made was to equip most of our branches with deposit-enabled ATMs. According to our plan, customers soon will be able to make check or cash ATM deposits, whenever they like, at any Pennsylvania AmeriServ location.

In another sweeping change, we accelerated our multi-year introduction of an empowering new role for branch office personnel: the position of Retail Sales and Service Associate, or RSSA. The new designation means much more than just a change of titles. With the new program, most of our former tellers will be trained to add value for the company and the customer by offering wide-ranging, efficient personal service beyond the conventional over-the-counter model; by anticipating customer needs and suggesting appropriate *Banking for Life* products; and by acting as customer consultants who respond directly to requests for specific financial services such as mortgage applications.

While strictly voluntary, the RSSA program has drawn an enthusiastic response. Of AmeriServ's almost 100-member team of tellers, 85% opted last year to participate in RSSA training. The commitment for both the company and our fellow employees is significant: During 2022, we conducted 13 four-day new account classes and two refresher courses for currently employed tellers. Courses in loan account opening education for all RSSAs are scheduled for early 2023. Given the depth of knowledge the position demands, the teller-to-RSSA transformation will take most of 2023. In the meantime, new hires are stepping directly onto the RSSA track, and into training.

Because an effort at this scale requires dedicated support, we created another new position, Retail Banking Mentor, and filled it with a veteran AmeriServ teller who was ready for wider responsibilities. This professional will circulate among our branches and work closely with the new RSSAs to ensure they are “conversationally competent” and ready to discuss the full range of AmeriServ products and services.

Acting, essentially, as personal bankers for individual customers, our RSSAs will nurture consumer relationships, tactfully engage in cross-selling, and smooth the handoff to traditional branch office professionals such as mortgage originators.





“My parents were customers of AmeriServ and so they’ve always been my bank for my entire life. They are easy to deal with, very friendly and we always receive great service. They make sure we have whatever we need.”

Sam Berkey
Somerset County, Pennsylvania

Celebrating Customer Service

In times of transition, sustaining team spirit is a high priority. That’s why we aimed for originality in planning our annual National Customer Service Week celebration. This year our theme, “Sticking to Customer Service,” sprang from a challenge to our departments: Present your suggestion for a theme by decorating, personalizing, modifying, or filling a plain paper bag as creatively as possible. The winning submission, a tribute to the concept of stickiness, narrowly nosed out more than 75 imaginative submissions.

The Numbers — and the Road Ahead

On the quantifiable side, 2022 was a year of positive results. We continued a deposit growth trend that began in 2019, and, by late 2022, branch network deposits had increased by \$150 million from pre-pandemic levels. Consumer loan growth also thrived,

surpassing our \$28 million goal by early October. Some of that success, we’re confident, reflects our increased focus on customer relationships, and the productivity of our new Retail Sales and Services Associates.

Balancing the challenges and the opportunities that 2022 sent our way, our team performed remarkably well. Healthy gains in deposits, loan growth, and customer loyalty — and the smooth rollout of our new RSSA position — all make that clear. And we’re united in believing that 2023 will be even better for the AmeriServ organization, our customers, and all of our stakeholders.

Kerri Mueller

Kerri Mueller
Senior Vice President, Retail Banking

Retail Lending.

Innovation for Customer Service

If we had to single out just one event that demonstrated our commitment to community banking in 2022, it would be our introduction of the AmeriServ Community Loan Program.

We initiated it last June as a down-to-earth response to a troubling misconception: Over the years, we've found that many people who rent the places where they live believe they may never be able to afford the purchase of a home.

Our Community Loan Program is designed to replace that mindset with hope and the reality that home ownership is possible. For our part, we present the purchaser with closing cost assistance, a reduced interest rate, and other benefits. Prospective homeowners who meet certain guidelines and have been prequalified for a mortgage may also be eligible for grants, through other agencies within our service areas, that can mitigate the costs of home

ownership. We've designed our Community Loan Program to work in tandem with these grant programs or on a stand-alone basis.

We've seen that occupied homes restore a sense of community and ownership in otherwise neglected areas. So, aside from helping more of our neighbors realize their dreams, we're confident that the Community Loan Program will contribute to local revitalization.

“ *Providing hope and the reality that home ownership is possible.* ”

Successful Adaptation

In the broader perspective, 2022 was a positive year for retail lending, despite abrupt shifts in economic trends. After a long period of record mortgage production, sustained by historically low interest rates, the nation watched rates suddenly soar from about 3% to over 6%. At the same time, diminished housing supplies led to bidding wars among prospective homebuyers. Prices rose and competition intensified for a smaller pool of loans.

While these conditions softened the market and led to a difficult year for mortgage lending, they bolstered demand for home equity lending. So, as consumers turned away from higher-rate mortgages toward home-equity loans, we

pivoted, successfully, in the same direction. Our customers took advantage of our flexible home equity products to stay in place, make home improvements, and consolidate debts. As a result, our consumer loan balance grew a significant 8%.

Another mainstay in a challenging year was AmeriServ's longstanding relationship with the Pennsylvania State Education Association (PSEA) which reflects our unique status as a union-represented company. As you may know, PSEA has designated AmeriServ as a preferred lending partner since 2013. Over the years, this valued partnership has been a significant contributor to our overall loan growth, as we offer these union members mortgages, lines of credit, and home equity loans.





“My service was amazing. Everyone was wonderful in my home purchasing process. Kevin Reighard, Mortgage Originator, was a great help for all my questions and concerns. Everyone was so professional and greatly appreciated. I will always speak very highly of AmeriServ.”

Adehlia Merritts and Rebecca Fildman, Mother and Daughter
Nanty Glo, Pennsylvania

Momentum for the Future

Challenging though it was, 2022 ended on a positive note — and pointed the way to positive outcomes in the near term. Our consumer loan balance escalated steadily, further securing a consistently earning asset base. Over the next few years, we'll be working hard to broaden that base and stabilize our interest-based revenue.

At the same time, our affiliation with PSEA continues to bear fruit. With potential points of contact among the families of almost 180,000 union members, we hope to interest a significant new population in our consumer lending products. Further, in our constant pursuit of creative ways to help people meet their financial

needs, we're exploring opportunities to offer our lending programs to a new range of affinity groups.

Building on the insights we gained in 2022 and guided by the warm reception our efforts have drawn from our many loyal customers, we look forward to a productive 2023.

Rusty Flynn

Rusty Flynn

Senior Vice President, Retail Lending

Community.

Lifting Spirits, Meeting Needs

We can't change the world, but we can try to make our corner of it a better place to live, work, and play. That's why AmeriServ bankers are always looking for new opportunities to support worthy events and causes in our region. A review of our community activities in 2022 illustrates our commitment.

Facing the Music

Because good things happen when live music brings people together, we continued to sponsor such staple events as the two-day AmeriServ Flood City Music Festival, a tradition since 1990 and The Roxbury Bandshell Summer Concert Series, both held in Johnstown. We added the Imagine Fourth Friday Concert Series, featuring the best home grown talent from May to September in downtown Hagerstown, Maryland.

Expanding Our Reach

AmeriServ bankers embraced two noteworthy new projects in 2022: the Cambria County Backpack Project and Stockings for Soldiers.

The Backpack Project collaborates with local schools to focus community resources on the problem of childhood hunger. Throughout the academic year, the project provides children who face food insecurity at home with knapsacks full of weekend meals. In support, our employees held a fundraising business casual day, while AmeriServ made a corporate donation.

Stockings for Soldiers is a national effort that sends holiday gifts to members of the armed forces who are deployed in harm's way. Locally, our employees filled 122 gift stockings, which were shipped to troops unable to come home for celebrations with their families and friends.

Also, during the holiday season, we "answered the call" from first responders who depend on community support. Our annual holiday giving initiative funded five fire departments located within our service area. We made the donations on the behalf of all AmeriServ customers.

Empowerment Through Education

Acting on our conviction that education is essential, last August our Maryland office announced the Hagerstown Community Foundation Scholarship. This five-year, \$25,000 fund will help enable low-to-moderate income students to further their studies at Hagerstown Community College. The scholarship will be awarded annually to one or more full-time Washington County students identified by the college as maintaining a 3.0 grade average and demonstrating the need for tuition assistance.

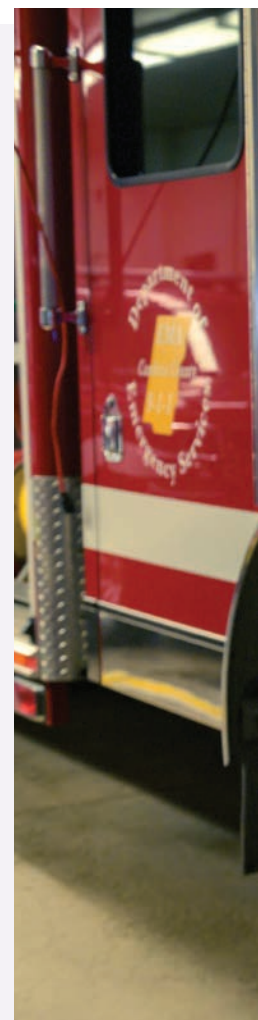
The power of education also inspired our efforts to improve financial literacy, through the Bridges to Success Network program, which is sponsored by United Methodist Human Services of Johnstown. AmeriServ bankers, representing retail banking, retail lending, commercial banking and community development, volunteered to conduct free night classes in early 2023, offering instruction in key areas like improving credit scores, reducing debt, and developing assets such as home ownership.

Another extension of our educational resources will be available to anyone soon through AmeriServ.com as we partner with Banzai, a third-party provider, who will help us integrate free financial literacy programs and coaching on our website. The content will be interactive and teaches real-world finance.

And finally, we're taking a more modern approach to what was formerly our AmeriServ Presents education series and morphing it into an informative podcast series set to launch in 2023. The goal of our podcasts is to provide financial literacy information in a relatable way through interesting dialogue between our financial experts and local industry leaders.

Kindness, Health, and Comfort

Our social media campaign, "Serving Up 30 Days of Kindness," which ran on Facebook and Instagram last fall, invited our followers to share stories or photographs depicting "random acts of kindness." Participants' names were entered in a drawing for the chance to direct a





Our annual holiday giving initiative funded five fire departments located within our service area. We made these donations on behalf of all AmeriServ customers.

Shown above is **Robert Statler**, City of Johnstown Fire Chief.

\$1,000 donation to either the Wounded Warrior Project, Toys for Tots, or K9s for Warriors — and to win a \$250 gift card to any local grocery store. Charities not selected also received a smaller donation.

For every savings or checking account opened throughout October, AmeriServ pledged to donate \$25 to support the fight against breast cancer. This is the third year of our annual campaign and because of it, we've been able to donate a total of \$15,000 to the Windber, PA based Joyce Murtha Breast Care Center. These donations help fund the Center's Pink Ribbon Care, a program that assists with patients who are unable to pay for related health services including mammograms, follow up diagnostic services and genetic counseling.

Meanwhile, nearly 100 foster-care children gained a touch of comfort and dignity for their travels to new home placements, thanks to the AmeriServ bankers who assembled "Comfort Cases" filled with personal care items like pajamas, blankets, journals and other items. The backpacks and duffel bags were donated to Professional Family Care Services (a Johnstown-based

foster-care agency) and to A Child's Place, PA, which is headquartered in Allegheny County. This is the second time AmeriServ has participated in a collection drive. Comfort Cases was founded in 2013 and now has delivered 30,000 cases to children in foster care, reaching 34 states.

Bringing people together; encouraging personal growth; offering a boost to neighbors when things go wrong: None of these impulses can be measured on a balance sheet. But AmeriServ bankers are about more than just dollars and percentages. And we're firm in the belief that our company and our community can only prosper when we move forward working hand in hand.

Susan Tomera Angeletti

Susan Tomera Angeletti

Senior Vice President

Director of Corporate Marketing and Alternative Delivery Systems

Branch Locations.

AmeriServ Financial Bank Office Locations

Headquarters

Main Office Johnstown
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)

Carrolltown
101 South Main Street
Carrolltown, PA 15722

Central City
104 Sunshine Avenue
Central City, PA 15926

Derry
112 South Chestnut Street
Derry, PA 15627

Eighth Ward
1059 Franklin Street
Johnstown, PA 15905

Hagerstown
12806 Shank Farm Way
Hagerstown, MD 21742

Lovell Park
179 Lovell Avenue
Ebensburg, PA 15931

Meyersdale
135 Center Street
Meyersdale, PA 15552

Nanty Glo
1383 Shoemaker Street
Nanty Glo, PA 15943

North Atherton
1857 North Atherton Street
State College, PA 16803

Northern Cambria
4206 Crawford Avenue, Suite 1
Northern Cambria, PA 15714

Pittsburgh
United Steelworkers Building
60 Boulevard of the Allies
Suite 100
Pittsburgh, PA 15222

Seward
6858 Route 711, Suite 1
Seward, PA 15954

Somerset
108 West Main Street
Somerset, PA 15501

University Heights
1404 Eisenhower Boulevard
Johnstown, PA 15904

Westmont
110 Plaza Drive
Johnstown, PA 15905

Windber
1501 Somerset Avenue
Windber, PA 15963

AmeriServ Loan Production Locations

Altoona
3415 Pleasant Valley Boulevard
Pleasant Valley Shopping Center
Altoona, PA 16602

Wilkins Township
201 Penn Center Boulevard
Suite 200
Pittsburgh, PA 15235

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 0-11204

AMERISERV FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

25-1424278
(I.R.S. Employer
Identification No.)

MAIN & FRANKLIN STREETS,
P.O. BOX 430, JOHNSTOWN,
PENNSYLVANIA
(Address of principal executive offices)

15907-0430
(Zip Code)

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

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

Title Of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
Common Stock, Par Value \$0.01 Per Share	ASRV	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was \$60,981,043 as of June 30, 2022.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 17,147,270 shares outstanding as of March 21, 2023.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the proxy statement for the annual shareholders' meeting are incorporated by reference in Part III.

FORM 10-K INDEX

	<u>Page No.</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	12
Item 2. Properties	12
Item 3. Legal Proceedings	12
Item 4. Mine Safety Disclosures	12
PART II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6. Selected Consolidated Financial Data	14
Item 7. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations	15
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	39
Item 8. Consolidated Financial Statements and Supplementary Data	40
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	102
Item 9A. Controls and Procedures	102
Item 9B. Other Information	102
PART III	
Item 10. Directors, Executive Officers, and Corporate Governance	103
Item 11. Executive Compensation	103
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	103
Item 13. Certain Relationships and Related Transactions, and Director Independence	103
Item 14. Principal Accountant Fees and Services	103
PART IV	
Item 15. Exhibits, Financial Statement Schedules	104
Signatures	106

PART I

ITEM 1. BUSINESS

GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) in January 1983. The Company's other wholly owned subsidiary is AmeriServ Trust and Financial Services Company (the Trust Company) which was formed in October 1992. AmeriServ Life Insurance Company (AmeriServ Life), formed in October 1987, was a captive insurance company that engaged in underwriting as a reinsurer of credit life and disability insurance. New business ceased being generated by AmeriServ Life in 2005. Since that time, the outstanding insurance policies have been running off and the final policy has expired. On September 30, 2020, the Arizona Corporation Commission approved the Articles of Dissolution for AmeriServ Life. The remaining assets of AmeriServ Life were transferred to AmeriServ Financial, Inc. and the subsidiary was formally closed on December 31, 2020. When used in this report, the "Company" may refer, depending on the context, to AmeriServ Financial, Inc. individually or AmeriServ Financial, Inc. and its direct and indirect subsidiaries.

The Company's principal activities consist of owning and operating its two wholly owned subsidiary entities. At December 31, 2022, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$1.4 billion, \$1.1 billion, and \$106.2 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking, bank related services, and trust and wealth management related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

As a bank holding company, the Company is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking and Securities (PDB). The Company is also under the jurisdiction of the Securities and Exchange Commission (SEC) for matters relating to registered offerings and sales of its securities under the Securities Act of 1933, as amended, and the disclosure and regulatory requirements of the Securities Exchange Act of 1934, as amended. The Company's common stock is listed on The NASDAQ Stock Market under the trading symbol "ASRV," and the Company is subject to the NASDAQ rules applicable to listed companies.

AMERISERV FINANCIAL BANK

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended (Banking Code). Through 17 branch locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland counties, Pennsylvania and Washington county, Maryland, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, checking accounts, money market accounts, secured and unsecured consumer loans, mortgage loans, safe deposit boxes, holiday club accounts, and money orders; and (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as commercial real estate mortgage loans (CRE), short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 18 automated bank teller machines (ATMs) through its 24-hour banking network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. West Chester Capital Advisors (WCCA), a SEC-registered investment advisor, is a subsidiary of the Bank. The Company also operates loan production offices (LPOs) in Altoona and Wilkins Township in Pennsylvania.

We believe that the loss of one depositor or a related group of depositors would not have a materially adverse effect on the Bank's business. The Bank's business is not seasonal, nor does it have any risks attendant to foreign sources. A significant majority of the Bank's customer base is located within a 250-mile radius of Johnstown, Pennsylvania, the Bank's headquarters.

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the PDB. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios of the Bank at December 31, 2022:

Headquarters	Johnstown, PA
Total Assets	\$ 1,350,198
Total Investment Securities	231,750
Total Loans and Loans Held for Sale (net of unearned income)	990,825
Total Deposits	1,111,276
Total Net Income	8,593
Asset Leverage Ratio	9.39 %
Return on Average Assets	0.65
Return on Average Equity	7.10
Total Full-time Equivalent Employees	247

RISK MANAGEMENT OVERVIEW

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, which includes credit, interest rate and market, liquidity, operational, legal/compliance, strategic/reputational and security risk. Additionally, in 2022, the Company continued to monitor the risks stemming from the COVID-19 pandemic. The Company seeks to identify, manage and monitor these risks with policies, procedures, and various levels of oversight from the Company’s Board of Directors (the Board) and management. The Company has a Management Enterprise Risk Committee with Board of Director representation to help manage and monitor the Company’s risk position, which is reported formally to the Board, at a minimum, on a semi-annual basis.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets and liabilities. The Company uses its asset liability management policy to monitor and manage interest rate risk.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as the obligations to depositors, debtholders and the funding of operating costs. The Company uses its asset liability management policy and contingency funding plan to monitor and manage liquidity risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms resulting in an economic loss to the organization. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. The Company’s primary credit risk occurs in the loan portfolio with limited credit risk within the investment portfolio due to holdings of corporate and municipal securities. The Company uses its credit policy and disciplined approach to evaluating the adequacy of the allowance for loan losses (the ALL) to monitor and manage credit risk. The Company’s investment policy and hedging policy seeks to limit the amount of credit risk that may be assumed in the investment portfolio and through hedging activities.

The following summarizes and describes the Company’s various loan categories and the underwriting standards applied to each:

COMMERCIAL LOANS

This category includes credit extensions to commercial and industrial borrowers. Business assets, including accounts receivable, inventory and/or equipment, typically secure these credits. The commercial loan segment includes commercial loans secured by owner occupied real estate. In appropriate instances, extensions of credit in this category are subject to collateral advance formulas. Balance sheet strength and profitability are considered when analyzing these credits, with special attention given to historical, current and prospective sources of cash flow, and the ability of the customer to sustain cash flow at acceptable levels. The Bank’s policy permits flexibility in determining acceptable debt service coverage ratios. Personal guarantees are frequently required; however, as the financial strength of the borrower increases, the Bank’s ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the strength of the borrower’s management, industry risk and portfolio concentration risk each of which are also monitored and considered during the underwriting process.

The commercial loan segment also includes Paycheck Protection Program (PPP) loans. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) authorized the Small Business Administration (SBA) to guarantee 100% of the PPP loans made to eligible borrowers pursuant to standards as defined by the SBA. The SBA guarantee on PPP loans minimizes the level of credit risk associated with the loans. As a result, such loans are assigned a 0% risk weight for purposes of calculating the Company's risk-based capital ratios. Therefore, it was deemed appropriate to not allocate any portion of the loan loss reserve for the PPP loans. As of December 31, 2022, the Company had 1 PPP loan outstanding totaling \$22,000.

COMMERCIAL LOANS SECURED BY NON-OWNER OCCUPIED REAL ESTATE

This category includes various types of loans, including acquisition and construction of investment property. Maximum term, minimum cash flow coverage, leasing requirements, maximum amortization and maximum loan to value ratios are controlled by the Bank's credit policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits and are frequently obtained on mid to smaller CRE loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, each of which are monitored and considered in underwriting.

The Company utilizes a robust and diligent risk management framework to monitor the non-owner occupied commercial real estate segment of the portfolio. This analysis considers more forward looking credit metrics such as stress test results and underwriting trend data, coupled with risk tolerance and concentration guidelines. The process is intended to allow identification of emerging risk, in part, to determine any future change to lending policy, underwriting practices or broader lending strategy prior to any indication of performance deterioration.

RESIDENTIAL REAL ESTATE — MORTGAGES

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which have more liberal standards. A meaningful portion of this portfolio consists of home equity loans. The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default. The Bank does not engage, and has never engaged, in subprime residential mortgage lending.

CONSUMER LOANS

This category includes consumer installment loans and revolving credit plans. Underwriting is pursuant to industry norms and guidelines. The major risk in this category is a significant economic downturn.

INVESTMENTS

The strategic focus of the investment securities portfolio is managed for liquidity and earnings in a prudent manner that is consistent with proper bank asset/liability management and current banking practices. The objectives of portfolio management include consideration of proper liquidity levels, interest rate and market valuation sensitivity, and profitability. The investment portfolio of the Company and its subsidiaries are proactively managed, including in accordance with federal and state laws and regulations and in accordance with generally accepted accounting principles (GAAP). All holdings must meet standards documented in its investment policy, unless otherwise approved by the Company's CEO or the Asset/Liability Management Committee.

The investment portfolio is primarily made up of AAA rated agency mortgage-backed securities, high quality corporate securities, taxable municipal securities, and agency securities. Management strives to maintain a portfolio duration that is less than 60 months.

Investment securities classified as held to maturity are carried at amortized cost while investment securities classified as available for sale are reported at fair market value.

The following table sets forth the weighted average yield for each type of investment security and range of maturity as of December 31, 2022. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity.

Investment securities available for sale:

AT DECEMBER 31, 2022					
	U. S. AGENCY	MUNICIPAL	CORPORATE BONDS	U.S. AGENCY MORTGAGE- BACKED SECURITIES	TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE
Within 1 year	— %	1.58 %	5.50 %	— %	4.92 %
After 1 year but within 5 years. . .	3.27	3.03	5.54	2.94	4.53
After 5 years but within 10 years .	1.78	2.52	6.20	2.63	4.78
Over 10 years	2.69	—	4.20	2.69	2.70
Total	2.44	2.78	5.84	2.69	3.70

Investment securities held to maturity:

AT DECEMBER 31, 2022					
	U. S. AGENCY	MUNICIPAL	CORPORATE BONDS AND OTHER	U.S. AGENCY MORTGAGE- BACKED SECURITIES	TOTAL INVESTMENT SECURITIES HELD TO MATURITY
Within 1 year	— %	2.65 %	0.80 %	— %	1.12 %
After 1 year but within 5 years. . .	—	3.34	4.07	2.82	3.47
After 5 years but within 10 years .	2.01	3.03	6.39	3.40	3.01
Over 10 years	—	3.04	6.61	3.14	3.29
Total	2.01	3.11	3.63	3.13	3.13

DEPOSITS

The Bank believes it has a stable core deposit base made up of traditional commercial bank products that exhibit modest fluctuation during the year, other than jumbo certificates of deposits (CDs) and certain municipal deposits, which demonstrate some seasonality. The Company also utilizes certain Trust Company specialty deposits related to the ERECT funds as a funding source, which serve as an alternative to wholesale borrowings and can exhibit some limited degree of volatility.

The following table sets forth the average balance of the Company's deposits and average rates paid thereon for the past two calendar years:

	AT DECEMBER 31,			
	2022		2021	
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
Demand:				
Non-interest bearing	\$ 215,196	— %	\$ 211,557	— %
Interest bearing	227,838	0.53	213,736	0.12
Savings	137,845	0.10	126,050	0.14
Money market	289,674	0.69	297,844	0.23
Certificates of deposit	285,760	1.08	305,251	1.22
Total deposits	<u>\$ 1,156,313</u>	<u>0.68 %</u>	<u>\$ 1,154,438</u>	<u>0.51 %</u>

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects bank depositors against loss. The Bank is an FDIC-insured institution, therefore, deposits are insured up to the standard insurance amount of \$250,000 per depositor. As of December 31, 2022 and 2021, the estimated amount of uninsured deposits was \$316.5 million and \$326.1 million, respectively. The estimate of uninsured deposits was done at a single account level and does not take into account total customer balances in the Bank. It should be noted that approximately 50% of these uninsured deposits relate to public funds from municipalities, government entities, and

school districts which by law are required to be collateralized with investment securities or FHLB letters of credit to protect these depositor funds.

The maturities on CDs with balances that exceed the FDIC insurance limit of \$250,000 as of December 31, 2022, are as follows:

	(IN THOUSANDS)
MATURING IN:	
Three months or less	\$ 18,608
Over three through six months	10,049
Over six through twelve months	20,994
Over twelve months	24,323
Total	<u>\$ 73,974</u>

LOANS

Secondary Market Activities

The residential lending department of the Bank continues to originate one-to-four family mortgage loans for customers, some of which are sold to outside investors in the secondary market and some of which are retained for the Bank’s portfolio. Mortgages sold in the secondary market are sold to investors on a “flow” basis; mortgages are priced and delivered on a “best efforts” pricing basis, with servicing released to the investor. Fannie Mae/Freddie Mac guidelines are used in underwriting all mortgages with the exception of a limited amount of CRA loans and internal special programs. Mortgages with longer terms, such as 30-year, FHA, and VA loans, are usually sold. The remaining production of the department includes construction, adjustable rate mortgages, and quality non-salable loans. These loans are usually kept in the Bank’s portfolio.

AMERISERV TRUST AND FINANCIAL SERVICES COMPANY

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. Its staff of approximately 45 professionals administers assets valued at approximately \$2.3 billion that are not recognized on the Company’s balance sheet at December 31, 2022. The Trust Company focuses on wealth management. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. This segment also includes financial services, which provide the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, the ERECT funds, which are designed to use union pension dollars in construction projects that utilize union labor. At December 31, 2022, the Trust Company had total assets of \$6.7 million and total stockholder’s equity of \$6.5 million. In 2022, the Trust Company contributed earnings to the Company as its gross revenue amounted to \$10.6 million and the net income contribution was \$1.3 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the PDB.

MONETARY POLICIES

Commercial banks are affected by policies of various regulatory authorities including the Board of Governors of the Federal Reserve System (the Federal Reserve). An important function of the Federal Reserve is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve are: open market operations in U.S. Government securities, changes in the federal funds rate and discount rate on member bank borrowings, and changes in reserve requirements on bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments, and deposits, and may also affect interest rate charges on loans or interest paid for deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

COMPETITION

Our subsidiaries face strong competition from other commercial banks, savings banks, credit unions, savings and loan associations, and other financial or investment service institutions for business in the communities they serve.

Several of these institutions are affiliated with major banking and financial institutions which are substantially larger and have greater financial resources than the Bank and the Trust Company. As the financial services industry continues to consolidate, the scope of potential competition affecting our subsidiaries will also increase. Brokerage houses, consumer finance companies, insurance companies, financial technology firms, and pension trusts are important competitors for various types of financial services. Personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals. In addition, some of these competitors, such as credit unions, are subject to a lesser degree of regulation or taxation than that imposed on us.

MARKET AREA & ECONOMY

U.S. inflation surged with in 2022, reaching heights unseen since the early 1980s. Increasing prices shrank Americans' inflation-adjusted pay despite high wage growth for many. Pandemic price pressures, dismissed as transitory, turned out to be enduring and the Russia / Ukraine war caused a fresh spike in food and energy costs. A surge in demand coming out of the COVID-19 recession, coupled with lingering supply-chain disruptions and labor shortages, created a perfect storm for price increases. The Fed increased interest rates aggressively at the risk of plunging the world's largest economy into recession. Positive second half 2022 GDP growth tempered recessionary fears, though 2023 concerns continue to exist. Interest rate-sensitive sectors like autos and housing were impacted the most by the Fed tightening, but pent-up demand and pandemic savings kept spending elevated. The labor market remains historically tight, showing strong wage pressures and solid job growth despite 425 basis points of Fed tightening. Job growth slowed somewhat over the course of 2022, but with the 12-month average around 400k it is nearly double the pre-pandemic average. The Fed is looking for much slower job growth as it aims to rebalance labor supply and demand in its mission to cool wage pressures. Supply chain improvements have cooled some producer price inflation. Rising mortgage rates and elevated house prices have pulled sales down from their pandemic peaks.

Johnstown, Pennsylvania, where the Company is headquartered, continues to have a cost of living that is lower than the national average. Johnstown is home to The University of Pittsburgh at Johnstown, Pennsylvania Highlands Community College and Conemaugh Health System. The high-tech defense industry is the main non-health care staple of the Johnstown economy, with the region fulfilling many federal government contracts, punctuated by one of the premier defense trade shows in the U.S., the annual Showcase for Commerce. The city also hosts annual events such as the Flood City Music Festival and the Thunder in the Valley Motorcycle Rally, each of which draw several thousand visitors. The Johnstown, PA MSA unemployment rate decreased from a 7.0% average in 2021 to a 5.1% average in 2022. The Johnstown, PA MSA continues to have one of the highest jobless rates among the 18 metropolitan statistical areas across the state. As of December 31, 2022, employment within the Johnstown MSA has not yet recovered to pre-pandemic levels as there were 83,600 persons employed compared to 88,400 employed at December 31, 2019 representing a decline of 4,800 jobs, or 5.4%. This economic data, coupled with a declining population trend, creates a growth challenge moving forward.

Economic conditions are stronger in the State College market and have demonstrated the same improvement experienced in the national economy. The community is a college town, dominated economically and demographically by the presence of the University Park campus of the Pennsylvania State University. "Happy Valley" is another often-used term to refer to the State College area, including the borough and the townships of College, Harris, Patton, and Ferguson. The unemployment rate for the State College MSA decreased from a 4.6% average in 2021 to a 3.2% average in 2022 and remains one of the lowest of all regions in the Commonwealth. A large percentage of the population in State College falls into the 18 to 34-year-old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age.

Hagerstown in Washington County, Maryland offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It has a workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living, all within an hour of the Washington, D.C./Baltimore regions. There are also plenty of facilities and land slated for industrial/commercial development. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. The Hagerstown, MD-Martinsburg, WV MSA unemployment rate decreased from a 4.5% average in 2021 to a 3.4% average in 2022.

The Company also has loan production offices in Wilkins Township in Allegheny County and Altoona in Blair County, Pennsylvania. Wilkins Township in Allegheny County, Pennsylvania is located 15 miles east of the city of Pittsburgh. While the city is historically known for its steel industry, today its economy is largely based on healthcare, education, technology and financial services. The city of Pittsburgh is home to many colleges, universities and research

facilities, the most well-known of which are Carnegie Mellon University, Duquesne University and the University of Pittsburgh. Pittsburgh is rich in art and culture. Pittsburgh museums and cultural sites include the Andy Warhol Museum, the Carnegie Museum of Art, the Frick Art & Historical Center, and Pittsburgh Center for the Arts among numerous others. Pittsburgh is also the home of the Pirates, Steelers and Penguins. The unemployment rate for the Pittsburgh MSA decreased from a 6.4% average in 2021 to a 4.3% average in 2022.

Altoona is the business center of Blair County, Pennsylvania with a strong retail, government and manufacturing base. The top field of employment in Altoona and the metro area is healthcare. Its location along I-99 draws from a large trade area over a wide geographic area that extends to State College and Johnstown. It serves as the headquarters for Sheetz Corporation, which ranks on Forbes list of the top privately owned companies. In addition to being located adjacent to I-99 and a major highway system, Altoona also has easy access to rail and air transportation. The average unemployment rate in the Altoona MSA decreased from 6.0% in 2021 to 4.1% in 2022.

EMPLOYEES

The Company employed 329 people as of December 31, 2022 in full- and part-time positions. Approximately 150 non-supervisory employees of the Company are represented by the United Steelworkers AFL-CIO-CLC, Local Union 2635-06. The Company is under a four-year labor contract with the United Steelworkers Local, which will expire on October 15, 2025. The contract calls for annual wage increases of 2% during the life of the contract. The Company has not experienced a work stoppage since 1979. Unionization in financial institutions remains exceptionally low with less than 0.25% of banks nationwide being covered by a Collective Bargaining Agreement. This unique unionization situation creates both challenges and opportunities for the Company. The key goals of organized labor are to provide their members with strong wages and benefits, stable jobs, and safe and respectable workplaces. As a result of these key union goals, the Company's salaries and benefit costs are higher than its non-union peers as we offer good wages and strong benefits which include affordable health care and strong retirement benefits with the majority of current union employees participating in a defined benefit pension plan. The Company has consistently viewed its positive union relationships as a potential source of additional revenue. Examples of success in these efforts include the previously mentioned ERECT Fund where the wealth management group is trustee for this \$250 million fund whose purpose is to invest in commercial construction projects with the requirement that they utilize union labor. The Bank has also been a preferred mortgage and consumer loan provider for the Pennsylvania State Education Association for almost 10 years which provides us with the opportunity to expand our lending in these products throughout Pennsylvania. Since inception of the partnership, the Bank has funded approximately \$280 million in mortgage and consumer loans to unionized teachers and their family members.

INDUSTRY REGULATION

The banking and trust industry, and the operation of bank holding companies, is highly regulated by federal and state law, and by numerous regulations adopted by the federal and state banking agencies. Bank regulation affects all aspects of conducting business as a bank, including such major items as minimum capital requirements, limits on types and amounts of investments, loans and other assets, as well as borrowings and other liabilities, and numerous restrictions or requirements on the loan terms and other products made available to customers, particularly consumers. Federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC) is required for all banks in the United States, and maintaining FDIC insurance requires observation of the various rules of the FDIC, as well as payment of deposit insurance premiums. New branches, or acquisitions or mergers, are required to be pre-approved by the responsible agency, which in the case of the Company and the Bank is the Federal Reserve and the PDB. The Bank provides detailed financial information to its regulators, including a quarterly call report that is filed pursuant to detailed prescribed instructions to ensure that all U.S. banks report the same way. The U.S. banking laws and regulations are frequently updated and amended, especially in response to crises in the financial industry, such as the global financial crisis of 2008, which resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010 (the Dodd-Frank Act), a statute affecting many facets of the financial industry. The Economic Growth, Regulatory Relief, and Consumer Protection Act was enacted into law in 2018 and was designed to ease certain restrictions imposed by the Dodd-Frank Act. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law on March 27, 2020 in response to the COVID-19 pandemic.

On March 12, 2023, the Board of Governors of the Federal Reserve System established a new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP is intended to be an additional source of

liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

While it is impractical to discuss all laws and regulations that regularly affect the business of the Company and its subsidiaries, set forth below is an overview of some of the major provisions and statutes that apply.

CAPITAL REQUIREMENTS

One of the most significant regulatory requirements for banking institutions is minimum capital, imposed as a ratio of capital to assets. The Federal Deposit Insurance Act, as amended (FDIA), identifies five capital categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. It requires U.S. federal bank regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements based on these categories. Both federal and state banking regulation impose progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to utilize brokered deposits and on other aspects of its operations. Generally, a bank is prohibited from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized.

As of December 31, 2022, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. On January 1, 2015, U.S. federal banking agencies implemented the Basel III capital standards, which establish the minimum capital levels to be considered well-capitalized and revised the prompt corrective action requirements under banking regulations. The revisions from the previous standards include a revised definition of capital, the introduction of a minimum common equity tier 1 capital ratio and changed risk weightings for certain assets. Under the current rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer above its minimum risk-based capital requirements of 2.50% of total risk weighted assets.

	<u>Minimum Capital Plus Buffer</u>	<u>Well Capitalized</u>
Common equity tier 1 capital ratio	7.00 %	6.50 %
Tier 1 capital ratio	8.50 %	8.00 %
Total capital ratio	10.50 %	10.00 %

DIVIDEND RESTRICTIONS

The primary source of cash to pay dividends, if any, to the Company’s shareholders and to meet the Company’s obligations is dividends paid to the Company by the Bank and the Trust Company. Dividend payments by the Bank to the Company are subject to the laws of the Commonwealth of Pennsylvania, the Banking Code, the FDIA and the regulation of the PDB and the Federal Reserve. Under the Banking Act and the FDIA, a bank may not pay any dividends if, after paying such dividends, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available from the immediately preceding year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividend that undermines the bank holding company’s ability to serve as a source of strength to its banking subsidiary. A bank holding company may not pay dividends when it is insolvent.

For more information regarding quarterly cash dividends, see Part II, Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities below.

PRIVACY PROVISIONS

Federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions.

USA PATRIOT ACT

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The USA Patriot Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the Company.

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted into law on March 27, 2020. Federal, state, and local governments adopted various statutes, rules, regulations, orders, and guidelines in order to address the COVID-19 pandemic and the adverse economic effects of the pandemic on individuals, families, businesses, and governments. Financial institutions, including the Company, were affected by many of these measures, including measures that were broadly applicable to businesses operating in the communities where the Company does business. Financial services firms, like the Company, were required to operate in a manner that sought to protect the health and safety of their customers and employees.

In addition, the federal banking agencies along with state bank regulators issued an interagency statement on March 22, 2020, addressing loan modifications that were made by financial institutions for borrowers affected by the COVID-19 crisis. The agencies stated that short-term loan modifications made on a good faith basis in response to COVID-19 for borrowers who were current prior to any relief did not need to be categorized as TDRs and that financial institutions were not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral.

The CARES Act contained a number of provisions that affected banking organizations. The CARES Act provided funding for various programs under which the federal government lent to, guaranteed loans to, or made investments in businesses. Banking organizations were expected to play a role in some of those programs, and when they did so, they were subject to certain requirements. One of those programs was the Paycheck Protection Program (PPP), a program administered by the Small Business Administration (SBA) that provided loans to small businesses for payroll and other basic expenses during the COVID-19 crisis. The loans could be made by SBA-certified lenders and were 100% guaranteed by the SBA. The loans were eligible to be forgiven if certain conditions were satisfied, in which event the SBA would make payment to the lender for the forgiven amounts. The Bank participated in the PPP as a lender. In accordance with the CARES Act, a PPP loan is assigned a risk weight of zero percent under the federal banking agencies' risk-based capital rules.

The CARES Act also authorized temporary changes to certain provisions applicable to banking organizations. Among other changes, Section 4013 of the CARES Act gave financial institutions the right to elect to suspend GAAP principles and regulatory determinations for loan modifications relating to COVID-19 that would otherwise be categorized as TDRs from March 1, 2020, through the earlier of December 31, 2020, or 60 days after the COVID-19 national emergency ended. On April 7, 2020, the federal banking agencies, in consultation with state bank regulators, issued an interagency statement clarifying the interaction between (i) their earlier statement discussing whether loan modifications relating to COVID-19 need to be treated as TDRs and (ii) the CARES Act provision on this subject. In this interagency statement, the agencies also said that when exercising supervisory and enforcement responsibility with respect to consumer protection requirements, they would take into account the unique circumstances impacting

borrowers and institutions resulting from the COVID-19 emergency and that they did not expect to take a consumer compliance public enforcement action against an institution, provided that the circumstances were related to this emergency and the institution made good faith efforts to support borrowers and comply with the consumer protection requirements and addressed any needed corrective action. The suspension of TDR identification and accounting triggered by the effects of the COVID-19 pandemic was extended by the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020. The period established by Section 4013 of the CARES Act was extended to the earlier of January 1, 2022 or 60 days after the date on which the national COVID-19 emergency terminated. It is currently anticipated that the national COVID-19 emergency will terminate on May 11, 2023.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the internet at the SEC's website at <http://www.sec.gov>.

Our internet address is <http://www.ameriserv.com>. We make available, free of charge on <http://www.ameriserv.com>, our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved staff comments from the SEC for the reporting periods presented.

ITEM 2. PROPERTIES

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus eleven floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 14 locations which are owned. Seven additional locations are leased with terms expiring from September 30, 2023 to June 30, 2033.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to a number of asserted and unasserted potential legal claims encountered in the normal course of business. In the opinion of both management and legal counsel, there is no present basis to conclude that the resolution of these claims will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK

As of March 21, 2023, the Company had 2,560 shareholders of record for its common stock. The Company’s common stock is traded on The NASDAQ Stock Market under the symbol “ASRV.” The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH DIVIDENDS
	HIGH	LOW	DECLARED
Year ended December 31, 2022:			
First Quarter	\$ 4.50	\$ 3.85	\$ 0.025
Second Quarter	4.08	3.92	0.030
Third Quarter	4.03	3.80	0.030
Fourth Quarter	4.10	3.70	0.030
Year ended December 31, 2021:			
First Quarter	\$ 4.39	\$ 3.09	\$ 0.025
Second Quarter	4.31	3.77	0.025
Third Quarter	4.00	3.70	0.025
Fourth Quarter	4.01	3.74	0.025

The declaration of cash dividends on the Company’s common stock is at the discretion of the Board, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant. Additionally, the Company’s previously announced common stock repurchase programs have been completed.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2022	2021	2020	2019	2018
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)				
SUMMARY OF INCOME STATEMENT DATA:					
Total interest income	\$ 49,058	\$ 46,669	\$ 46,882	\$ 49,767	\$ 47,094
Total interest expense	8,495	7,586	10,515	14,325	11,600
Net interest income	40,563	39,083	36,367	35,442	35,494
Provision (credit) for loan losses	50	1,100	2,375	800	(600)
Net interest income after provision (credit) for loan losses	40,513	37,983	33,992	34,642	36,094
Total non-interest income	16,692	17,761	16,275	14,773	14,224
Total non-interest expense	48,004	46,970	44,455	41,815	40,873
Income before income taxes	9,201	8,774	5,812	7,600	9,445
Provision for income taxes	1,753	1,702	1,214	1,572	1,677
Net income	\$ 7,448	\$ 7,072	\$ 4,598	\$ 6,028	\$ 7,768
PER COMMON SHARE DATA:					
Basic earnings per share	\$ 0.44	\$ 0.41	\$ 0.27	\$ 0.35	\$ 0.43
Diluted earnings per share	0.43	0.41	0.27	0.35	0.43
Cash dividends declared	0.115	0.100	0.100	0.095	0.075
Book value at period end	6.20	6.82	6.12	5.78	5.56
BALANCE SHEET AND OTHER DATA:					
Total assets	\$ 1,363,874	\$ 1,335,560	\$ 1,282,733	\$ 1,171,184	\$ 1,160,680
Loans and loans held for sale, net of unearned income	990,825	986,037	978,345	887,574	863,129
Allowance for loan losses	10,743	12,398	11,345	9,279	8,671
Investment securities available for sale	179,508	163,171	144,165	141,749	146,731
Investment securities held to maturity	61,878	53,751	44,222	39,936	40,760
Deposits	1,108,537	1,139,378	1,054,920	960,513	949,171
Total borrowed funds	138,373	72,837	114,080	100,574	108,177
Stockholders' equity	106,178	116,549	104,399	98,614	97,977
Full-time equivalent employees	315	304	299	309	303
SELECTED FINANCIAL RATIOS:					
Return on average assets	0.55 %	0.52 %	0.37 %	0.51 %	0.67 %
Return on average total equity	6.83	6.48	4.52	6.02	8.08
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	89.38	86.54	92.74	92.41	90.94
Ratio of average total equity to average assets	8.09	8.10	8.21	8.52	8.28
Common stock cash dividends as a percent of net income	26.41	24.14	37.09	27.36	17.31
Interest rate spread	3.11	3.01	3.01	3.05	3.08
Net interest margin	3.27	3.15	3.19	3.29	3.31
Allowance for loan losses as a percentage of loans, net of unearned income, at period end	1.08	1.26	1.16	1.05	1.00
Non-performing assets as a percentage of loans and other real estate owned, at period end	0.52	0.34	0.34	0.26	0.16
Net charge-offs as a percentage of average loans	0.17	—	0.03	0.02	0.11

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

The following discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements of the Company including the related notes thereto, included elsewhere herein.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

2022 SUMMARY OVERVIEW:

During a period of extreme economic volatility in 2022, characterized by the highest inflation in almost 40 years and a more than 4% increase in short-term interest rates by the Federal Reserve, the Company was able to achieve its highest earnings per share (EPS) performance in over 20 years and a 15% increase in dividend payments to shareholders.

The Company is proud of the hard work of the AmeriServ bankers that made this success happen and allowed us to get mostly back to normal when it comes to customer service. These efforts included overcoming the challenges created by the pandemic and we are deeply grateful to our very patient customers and staff members who have been more than willing to go the extra mile.

Turning back to financial performance: Net income for 2022 totaled \$7,448,000, or \$0.43 diluted earnings per share, which represented a 4.9% increase over the full year of 2021. On an adjusted non-GAAP basis, excluding the impact of pension settlement charges which are not reflective of the operations of the Company, adjusted net income totaled \$9,470,000, or \$0.55 adjusted diluted earnings per share⁽¹⁾⁽²⁾. This represented an even stronger 12% increase in EPS from the adjusted 2021 full year results. The improved earnings performance for 2022, on both an actual and adjusted basis, reflects the full benefit of several important strategic actions that the Company executed in 2021 to reduce our cost of funding, the successful management of our asset quality throughout the pandemic, and effective balance sheet management.

While 2021 was a year with near record loan demand, 2022 was still very active but less strong. A late year surge in lending permitted AmeriServ to report good loan totals in December and end the year on a positive note. We hope this continues into 2023, and we believe we have the capacity for our loan portfolio to reach \$1 billion for the first time as our lending continues to be an important economic driver in the communities where we operate.

The media has perpetuated the narrative that, as the Federal Reserve continues to raise interest rates, loans may become scarce. However, here in western Pennsylvania, more folks are savers than spenders. This means that our friends and neighbors have provided us with more stable deposits to continue to focus on growing the loan portfolio. AmeriServ will continue to be active in lending, but we also will continue to be rigorous in our loan underwriting standards. This will permit us to grow loans while maintaining a high-quality portfolio.

Wealth management is involved in a day-to-day struggle with the turmoil in securities markets. The bear market in equities and bonds has been punishing individual estate plans. There have been market value losses even in the AmeriServ Pathroad portfolio. However, our team of professionals have taken their customary stop loss actions. Our clients understand the Pathroad investment logic and are patiently watching the markets for any signs of an impending turnaround. Fortunately, the Pathroad logic has been tested by similar recessions over the years and it has always proven to keep losses below other investment strategies. We note that not only has the number of clients involved in the Pathroad logic remained virtually stable during this market but also, the number of new clients has increased as investors have taken notice of the Pathroad records. We believe our clients' biggest concern is about the duration of this bear market. History tells us that the most significant market value gains often occur during the beginning of a turnaround. It is our job to monitor for that turnaround and be ready to take the appropriate actions for our clients.

Our Board, management group, and team of banking and investment professionals are studying and working hard every day. We support their efforts and have the utmost confidence in their strategies. Understanding western Pennsylvania as we do, it is not difficult for us to build the kind of banking and investment strategies needed by our

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

⁽²⁾ Adjusted for pension settlement charge.

customers. It is also our goal to offer a solid stock that continues to build value for all our shareholders. Our stock currently has a 3% dividend yield and an active trading market.

PERFORMANCE OVERVIEW. The following table summarizes some of the Company’s key profitability performance indicators for each of the past three years.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income.....	\$ 7,448	\$ 7,072	\$ 4,598
Net income, adjusted ⁽¹⁾⁽²⁾	9,470	8,471	4,598
Diluted earnings per share.....	0.43	0.41	0.27
Diluted earnings per share, adjusted ⁽¹⁾⁽²⁾	0.55	0.49	0.27
Return on average assets.....	0.55 %	0.52 %	0.37 %
Return on average assets, adjusted ⁽¹⁾⁽²⁾	0.70	0.63	0.37
Return on average equity.....	6.83	6.48	4.52
Return on average equity, adjusted ⁽¹⁾⁽²⁾	8.69	7.76	4.52

The Company reported net income of \$7,448,000, or \$0.43 per diluted common share, in 2022. This represents a 4.9% increase in earnings per share from the full year of 2021 when net income totaled \$7,072,000, or \$0.41 per diluted common share. On an adjusted basis, eliminating the impact of the pension settlement charge, diluted earnings per share for the 2022 year increased by 12% to \$0.55⁽¹⁾⁽²⁾, while adjusted net income improved to \$9,470,000⁽¹⁾⁽²⁾. Due to the effects of eliminating the pension settlement charge, the Company’s return on average assets (ROA) in 2022 would improve from 0.55% to an adjusted ROA of 0.70%⁽¹⁾⁽²⁾. Further, the Company’s return on average equity (ROE) in 2022 would improve from 6.83% to an adjusted ROE of 8.69%⁽¹⁾⁽²⁾. The improved earnings performance for the 2022 year, on both an actual and adjusted basis, reflects the full benefit of several important strategic actions that the Company executed in 2021, the successful management of our asset quality throughout the pandemic, and effective balance sheet management. Overall, the increase in net interest income, along with a reduced loan loss provision, more than offset a lower level of non-interest income and higher non-interest expense resulting in an improved earnings performance in 2022. Finally, the Company’s tangible book value per share ended 2022 at \$5.40⁽¹⁾ a decrease of 10.3% from 2021. The decline in tangible book value per share in 2022 reflects a decrease in the fair value of the Company’s available for sale investment securities due to higher interest rates. The Company continued to maintain strong capital ratios that exceed the regulatory defined well capitalized status.

The Company reported net income of \$7.1 million, or \$0.41 per diluted common share, for 2021. This represented a 51.9% increase in earnings per share from 2020 when net income totaled \$4.6 million, or \$0.27 per diluted common share. During 2021, earnings demonstrated meaningful improvement as the Company realized the benefit of several important strategic actions that were executed during the year. Overall, increased net interest income, a growing level of non-interest income, and a reduced loan loss provision more than offset a higher level of non-interest expense resulting in an improved earnings performance.

The Company reported net income of \$4.6 million, or \$0.27 per diluted common share, for 2020. This represented a 22.9% decrease in earnings per share from 2019 when net income totaled \$6.0 million, or \$0.35 per diluted common share. During 2020, the Company dealt with the many unexpected challenges resulting from the COVID-19 pandemic. We continued our conservative risk management posture and prudently built our allowance for loan losses to address increased credit risk in certain sectors of our loan portfolio which was a primary factor causing the decline in earnings between years.

NET INTEREST INCOME AND MARGIN. The Company’s net interest income represents the amount by which interest income on earning assets exceeds interest paid on interest bearing liabilities. Net interest income is a primary source of the Company’s earnings; it is affected by interest rate fluctuations as well as changes in the amount

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

⁽²⁾ Adjusted for pension settlement charge.

and mix of earning assets and interest bearing liabilities. The following table summarizes the Company's net interest income performance for each of the past three years:

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	\$ 49,058	\$ 46,669	\$ 46,882
Interest expense	8,495	7,586	10,515
Net interest income	40,563	39,083	36,367
Net interest margin	3.27 %	3.15 %	3.19 %

2022 NET INTEREST PERFORMANCE OVERVIEW. The Company's net interest income for the full year of 2022 increased by \$1.5 million, or 3.8%, when compared to the full year of 2021. The Company's net interest margin was 3.27% for the full year of 2022 representing a 12 basis point improvement from the full year of 2021. Net interest income demonstrated an increasing trend through the first three quarters of 2022 as interest income increased to a higher level than the increase in interest expense. However, this positive trend reversed in the fourth quarter as interest expense increased to a higher level than the increase in interest income.

The Company benefitted from the higher U.S. Treasury yield curve as interest rates increased due to the Federal Reserve's action to tighten monetary policy in their effort to tame decades high inflation. The higher interest rate environment along with increased investment in the securities portfolio more than offset a reduced level of Paycheck Protection Program (PPP) loan fee income and caused total interest income to increase for the full year of 2022 when compared to last year. The increased national interest rates also resulted in total deposit and borrowing costs increasing in 2022. However, the increase in deposit interest expense was partially offset by a 26% reduction in total borrowings interest expense, as the strategic actions taken by management in 2021 to lower funding costs favorably impacted financial performance.

Overall, in 2022, the average balance of total interest earning assets was consistent with the full year 2021 average, totaling \$1.2 billion. Specifically, total loans averaged \$978 million in 2022 which is \$11.2 million, or 1.1%, lower than the 2021 full year average. Short-term investments including commercial paper averaged \$23.2 million in 2022 which is \$24.1 million, or 50.9%, lower than the 2021 full year average. Total investment securities averaged \$245.2 million in 2022 which is \$35.3 million, or 16.8%, higher than the 2021 full year average. Despite the balance of total average interest earning assets remaining relatively unchanged from the prior year, total interest income increased by \$2.4 million, or 5.1%, between years due to an increase in the yield on earning assets, which increased from 3.76% to 3.95%.

Total deposits, including non-interest bearing demand deposits, averaged \$1.156 billion for the full year of 2022, which was \$1.9 million, or 0.2%, higher than the \$1.154 billion average for the full year of 2021. The 2022 full year average of short-term and FHLB borrowed funds was \$43 million, which represented a decrease of \$7.2 million, or 14.5%. Overall, the cost of total interest bearing liabilities increased from 0.75% to 0.84%.

COMPONENT CHANGES IN NET INTEREST INCOME: 2022 VERSUS 2021. Regarding the separate components of net interest income, the Company's total interest income in 2022 increased by \$2.4 million, or 5.1%, when compared to 2021. Total average earning assets remained consistent in 2022 as there was a decreased level of average total loans and short-term investments which were offset by an increased level of average total investment securities. Despite this, interest income was favorably impacted by an increase in the earning asset yield which improved by 19 basis points from 3.76% to 3.95%. All categories within the earning asset base demonstrated an interest income increase between years. The average total loan portfolio yield increased by 14 basis points from 4.11% to 4.25% in 2022 while the average yield on total investment securities increased by 13 basis points from 2.87% to 3.00%.

Total average loans for the full year of 2022 were \$11.2 million, or 1.1%, lower than the 2021 full year average. Strong loan pipelines resulted in 2022 production more than offsetting a higher than typical level of payoff activity during the year. Excluding PPP loans, total average loans for the full year of 2022 exceeded the 2021 full year average by \$30.1 million, or 3.2%, as growth of commercial real estate (CRE) and home equity loans along with a higher volume of residential mortgage loans more than offset a decrease in the level of commercial & industrial loans. Of the approximately \$100 million of PPP loans originated from the government stimulus programs, only one very small PPP loan remains on the balance sheet, reflecting the Company's successful efforts working with our customers through the Small Business Administration (SBA) to complete the forgiveness process. Overall, the higher interest rate environment along with the higher average volumes of CRE, residential mortgages and home equity loans, resulted in total loan

interest income improving by \$899,000, or 2.2%, for 2022 when compared to last year. This results from the favorable impact of the higher volume of traditional loans and the higher interest rate environment being partially offset by a \$1.8 million, or 80.9%, reduction in PPP loan fee related income. Finally, on an end of period basis at December 31, 2022 and excluding total PPP loans, the total loan portfolio is approximately \$22.1 million, or 2.3%, higher than the December 31, 2021 level.

Total investment securities averaged \$245.2 million for the full year of 2022 which is \$35.3 million, or 16.8%, higher than the \$209.9 million average for the twelve months of last year. The increase in the U.S. Treasury yield curve resulted in a more favorable market for securities purchasing activity in 2022. The two-year to ten-year portion of the yield curve increased by approximately 225 to 363 basis points since the beginning of the year, with shorter yields in that range increasing to a higher degree than the longer yields, resulting in yield curve inversion. Overall, the higher rates resulted in yields for new federal agency mortgage-backed securities and federal agency bonds improving and exceeding the overall average yield of the existing securities portfolio. Management purchased more of these investments by redeploying the cash flow from the excess payoff activity from the loan portfolio and profitably utilizing the increased short-term liquidity on our balance sheet. This redeployment of funds contributed to total securities growing between years. Management also continued to purchase taxable municipals and corporate securities to maintain a well-diversified portfolio.

Due to a combination of increased investment in securities, loan growth and total deposits modestly declining, short-term investments decreased throughout the year and are now at pre-pandemic levels before government stimulus impacted the economy. Total short-term investments including commercial paper averaged \$23.2 million in 2022, which is \$24.1 million, or 50.9%, lower than the 2021 average. Despite this decline, the Company's liquidity position remains strong. We will continue to carefully monitor our liquidity position and short-term investments as we expect deposits related to government stimulus programs to continue to decline in 2023.

On the liability side of the balance sheet, total average deposits for 2022 are relatively consistent with the 2021 full year average, exceeding by \$1.9 million, or 0.2%. Total deposits continued to demonstrate stability over the past year despite a \$16.3 million, or 1.4%, decrease in total average deposits when comparing the 2022 fourth quarter to last year's fourth quarter. Deposit volumes continue to reflect the favorable impact of government stimulus which provided support to many Americans and financial assistance to municipalities and school districts during the pandemic. However, the quarterly decrease reflects a portion of the funds from the government stimulus programs leaving the balance sheet and also reflects greater pricing competition in the market to retain deposits because of the increasing national interest rates. Overall, the loan to deposit ratio averaged 85.4% in the fourth quarter of 2022, which indicates that the Company has ample capacity to continue to grow its loan portfolio and is strongly positioned to support our customers and our community during times of economic volatility.

Total interest expense for the full year of 2022 increased by \$909,000, or 12.0%, when compared to the full year of 2021, due to higher deposit and short-term borrowings interest expense. Deposit interest expense was higher by \$1.6 million, or 33.7%, despite the full year average volume of total deposits remaining relatively consistent with the 2021 full year average. The impact that the higher national interest rates had on deposit costs combined with increased market competition to retain and attract deposits became more evident during the fourth quarter of 2022. In 2022, the Company benefitted from management's decision to allow a high-cost, institutional deposit to mature during the third quarter of 2021 which proved to be beneficial since the interest rate on this particular deposit was indexed to the market and would have become more expensive with the rising national interest rates experienced this year. This large institutional deposit was replaced by the additional low cost, fixed rate deposits from the Somerset County branch acquisition and resulted in significant interest expense savings. The rising national interest rates this year did result in certain deposit products, particularly public funds, that are tied to a market index, repricing upward with the move in national interest rates and causing interest expense to increase. Specifically, total deposit cost averaged 0.56% in 2022, which is 14 basis points higher than total deposit cost of 0.42% in 2021.

Total borrowings interest expense decreased by \$709,000, or 25.5%, when comparing the full year of 2022 to the full year of 2021. The decrease results from the favorable impact of the August 2021 subordinated debt offering which was used to replace higher cost debt. This transaction effectively lowered debt cost on these long-term funds by nearly 4.0%. This savings is recognized even though the size of the new subordinated debt is \$7.0 million higher than the debt instruments it replaced. Note that included in 2021 borrowings interest expense is \$202,000 of additional interest expense that the Company had to recognize from the write-off of the unamortized issuance costs from the original debt instruments that the new sub-debt replaced. Borrowings interest expense was favorably impacted by reduced interest

expense from Federal Home Loan Bank (FHLB) term borrowings, which declined by \$322,000, or 36.8%, for the year. The average balance of FHLB term borrowings was lower in 2022 by \$16.1 million, or 32.6%, as strength of the Company's liquidity position allowed management to let FHLB term advances mature and not be replaced.

2021 NET INTEREST PERFORMANCE OVERVIEW. The Company's net interest income for the full year of 2021 increased by \$2.7 million, or 7.5%, when compared to the full year of 2020. The Company's net interest margin was 3.15% for the full year of 2021 which represented a four basis point decline from the full year of 2020. Financial results when comparing 2021 to 2020 were indicative of an improving economic environment as well as the Company's execution of strategies to effectively meet the challenge presented by the low interest rate environment. This included the execution of several strategies to reduce our cost of funds. However, the emergence of the omicron variant, high inflation and supply chain issues reminded us that many risks remained. AmeriServ has proven to be resilient given the complex challenges we have confronted. The Company continued to adapt in the fluid environment and prioritized the well-being of our employees and the communities we serve.

The Company demonstrated significantly higher than historical levels of both total average loans and total average deposits during 2021. This growth was due to successful business development efforts, the impact from the government stimulus programs and the 2021 Somerset County branch acquisition. Net interest income improved due to (i) the positive impact of commercial real estate and residential mortgage loan growth, (ii) significant interest expense savings from the issuance of the subordinated debt during the third quarter of 2021, which was used to retire higher cost existing subordinated debt and trust preferred securities, and (iii) the utilization of acquired low-cost core deposits to replace higher cost institutional deposits that were on our balance sheet. The combination of these three factors more than offset the unfavorable impact of net interest margin pressure from lower earning asset yields. The significant decrease to total interest expense in 2021 was the primary driver for net interest income increasing compared to the prior year.

Total average earning assets increased by \$102.9 million, or 9.0%, in 2021. Specifically, total loans averaged \$989 million in 2021 which is \$65.5 million, or 7.1%, higher than the 2020 full year average. Short-term investments and commercial paper averaged \$47 million in 2021 which was \$15.3 million, or 48.0%, higher than the 2020 full year average. Total investment securities averaged \$210 million in 2021 which was \$22.1 million, or 11.8%, higher than the 2020 full year average. These increases were largely offset by decreases in the yield on earning assets.

Total deposits, including non-interest bearing demand deposits, averaged \$1.154 billion for the full year of 2021, which was \$119.6 million, or 11.6%, higher than the \$1.035 billion average for the full year of 2020. The Company's loan to deposit ratio averaged 85.5% in the fourth quarter of 2021. The 2021 full year average of short-term and FHLB borrowed funds was \$50 million, which represented a decrease of \$19.3 million, or 27.9%. Overall, the cost of total interest bearing liabilities decreased from 1.10% to 0.75%.

COMPONENT CHANGES IN NET INTEREST INCOME: 2021 VERSUS 2020. Regarding the separate components of net interest income, the Company's total interest income in 2021 decreased by \$213,000, or 0.5%, when compared to 2020. Total average earning assets increased by \$102.9 million, or 9.0%, in 2021 as there was an increased level of average total loans, short-term investments, and total investment securities. Despite the growth in average earning assets, interest income was unfavorably impacted by a decrease in the earning asset yield which declined by 35 basis points from 4.11% to 3.76%. All categories within the earning asset base demonstrated an interest income decrease between years. The average total loan portfolio yield decreased by 29 basis points from 4.40% to 4.11% in 2021 while the average yield on total investment securities decreased by 33 basis points from 3.20% to 2.87%.

Total investment securities averaged \$210 million for the full year of 2021, which was \$22.1 million, or 11.8%, higher than the \$188 million average in 2020. The Company continued to be selective in 2021 when purchasing securities due to the low interest rate environment. Specifically, the steeper U.S. Treasury yield curve resulted in improved yields for federal agency mortgage-backed securities and federal agency bonds. Once this occurred, management purchased more of those investments for our portfolio. This provided us with the opportunity to more profitably deploy a portion of the increased liquidity on our balance sheet into the securities portfolio as opposed to leaving the funds in low yielding federal funds sold. This redeployment of funds contributed to total securities growing between years. Management also continued to purchase taxable municipal and corporate securities to maintain a well-diversified portfolio.

The economic recovery had been evident in our lending activity as we continued to experience good loan production throughout 2021. Commercial loan pipelines returned to pre-COVID levels early in the year. The overall total loan portfolio volume stabilized during the second half of the year as additional loan growth was offset by a high level of

early payoff activity, particularly during the fourth quarter. Also, PPP loans continued to decline as they completed the forgiveness process. Overall, when compared to the pre-pandemic year of 2019, total loan production was over \$79 million, or 31.2%, higher in 2021. Although reduced from its peak in 2020, strong residential mortgage loan production continued throughout 2021. Residential mortgage loan production totaled \$90.5 million in 2021 which declined by 36.5% from the production level of \$142.5 million achieved in 2020. Despite the decline between years, this was the second highest level of residential mortgage loan production during the most recently completed eight-year period. The Company revised strategy in 2021 and retained a higher percentage of our residential mortgage loan production in the loan portfolio as opposed to selling into the secondary market. This strategic change allowed us to more profitably deploy a portion of the increased liquidity that we had on our balance sheet.

As stated previously, total loans continued to be significantly higher than historical levels and averaged \$989 million for the full year of 2021, which was \$65.5 million, or 7.1%, higher than the 2020 full year average. The growth experienced in our commercial real estate portfolio resulted in traditional loan fee income increasing by \$465,000, or 41.9%, for the full year of 2021 when compared to the prior year. Total PPP loans averaged \$23.4 million for the fourth quarter of 2021, decreasing by \$41.4 million, or 63.9%, from the prior year's fourth quarter average as we continued to work with our customers through the forgiveness process. The Company recorded a total of \$2.3 million of processing fee income and interest income from PPP lending activity in 2021, which was \$398,000, or 21.2%, higher than the 2020 level. Finally, on an end of period basis, excluding total PPP loans, the total loan portfolio grew by approximately \$48.7 million, or 5.3%, since the end of the fourth quarter of 2020.

Similar to what was occurring across the banking industry, our liquidity position continued to be strong due to the significant influx of deposits. During the first quarter of 2021, the President signed into law another round of economic stimulus as part of the American Rescue Plan Act of 2021. The stimulus checks delivered to most Americans and the financial assistance provided to municipalities and school districts as part of the program contributed to total deposits increasing significantly. Our deposit balances were also positively impacted in the second quarter of 2021 by the Somerset County branch acquisition, which provided approximately \$42 million of additional deposits. The challenges the increased liquidity presented were twofold. First, there was the uncertainty regarding the duration that these increased funds would remain on the balance sheet which would be determined by customer behavior as economic conditions changed. The second challenge was to profitably deploy the increased liquidity given the low yields on short-term investment products. As a result, short-term investment and commercial paper balances averaged \$47.3 million for the full year of 2021, which remained high by historical standards. Late in the third quarter of 2021, the Company benefitted from utilizing a significant portion of our increased liquidity to allow a \$33 million, high-cost, institutional deposit to mature. This resulted in total short-term investments declining to a more manageable level.

Total interest expense for the twelve months of 2021 decreased by \$2.9 million, or 27.9%, when compared to 2020, due to lower levels of both deposit and Federal Home Loan Bank (FHLB) borrowings interest expense. Specifically, deposit interest expense in 2021 was lower by \$2.8 million, or 37.0%, despite the previously mentioned increase in deposits that occurred between years. The deposit growth reflected new deposit inflows as well as the loyalty of the bank's core deposit base. The previously mentioned late third quarter 2021 maturity of a \$33 million institutional deposit that had an annual cost of 2.95% resulted in approximately \$240,000 of interest expense savings during the fourth quarter. Additionally, management continued to effectively execute several deposit product pricing reductions to address the net interest margin challenges presented by the low interest rate environment. As a result, the Company experienced deposit cost relief. Specifically, our total deposit cost averaged 0.42% for the full year of 2021 compared to 0.74% in 2020, which represented a meaningful decrease of 32 basis points. Note that total deposit cost in the fourth quarter of 2021 averaged 0.31%. Total FHLB borrowings interest expense for the full year of 2021 was lower by \$252,000, or 22.3%, compared to 2020. The strong liquidity position allowed the Company to paydown short-term and FHLB advances, which typically cost more than similar term deposit products. At December 31, 2021, total short-term and FHLB advances were \$42.7 million, which was \$47 million, or 52.4%, lower than the December 31, 2020 level.

The Company completed a private placement of \$27 million in fixed-to-floating rate subordinated notes on August 26, 2021. The notes have a fixed annual interest rate of 3.75%, payable until September 1, 2026. From and including September 1, 2026, the interest rate will reset quarterly to the then-current three-month Secured Overnight Financing Rate (SOFR) plus 3.11%. The Company used approximately \$20 million of the net proceeds to retire its existing subordinated debt and trust preferred securities that had a weighted average cost of 7.73%. This strategy favorably reduced fourth quarter 2021 interest expense by \$147,000. The remainder of the proceeds were utilized for general corporate purposes, including the downstream of \$3.5 million of capital to the bank which supported additional loan growth. Long-term debt interest expense was higher for the full year of 2021 when compared to 2020 because the Company was required to immediately write off the remaining portion of the unamortized issuance costs from both

original debt instruments which generated \$202,000 of additional borrowings interest expense in the third quarter of 2021. Therefore, in aggregate, when considering the reduced short-term and FHLB borrowings interest cost, total borrowings interest expense decreased by \$101,000, or 3.5%, for the full year.

The table that follows provides an analysis of net interest income on a tax-equivalent basis (non-GAAP) setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of this table, loan balances include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of 21% was used to compute tax-equivalent interest income and yields (non-GAAP). The tax equivalent adjustments to interest income on loans and municipal securities for the years ended December 31, 2022, 2021, and 2020 was 13,000, 18,000, and 24,000, respectively, which is reconciled to the corresponding GAAP measure at the bottom of the table. Differences between the net interest spread and margin from a GAAP basis to a tax-equivalent basis were not material.

	YEAR ENDED DECEMBER 31,								
	2022			2021			2020		
	AVERAGE BALANCE	INTEREST INCOME/EXPENSE	YIELD/RATE	AVERAGE BALANCE	INTEREST INCOME/EXPENSE	YIELD/RATE	AVERAGE BALANCE	INTEREST INCOME/EXPENSE	YIELD/RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)								
Interest earning assets:									
Loans, net of unearned income	\$ 977,541	\$ 41,497	4.25 %	\$ 988,761	\$ 40,603	4.11 %	\$ 923,269	\$ 40,652	4.40 %
Short-term investments and bank deposits	23,213	209	0.90	46,977	58	0.12	19,955	100	0.50
Commercial paper	—	—	—	329	2	0.52	12,013	146	1.21
Investment securities:									
Available for sale	185,710	5,610	3.02	159,458	4,543	2.85	145,788	4,591	3.15
Held to maturity	59,516	1,755	2.95	50,434	1,481	2.94	41,994	1,417	3.37
Total investment securities	245,226	7,365	3.00	209,892	6,024	2.87	187,782	6,008	3.20
TOTAL INTEREST EARNING ASSETS/INTEREST INCOME	1,245,980	49,071	3.95	1,245,959	46,687	3.76	1,143,019	46,906	4.11
Non-interest earning assets:									
Cash and due from banks	17,602			18,736			18,091		
Premises and equipment	17,498			17,749			18,439		
Other assets	77,194			77,806			70,867		
Allowance for loan losses	(11,895)			(11,919)			(9,732)		
TOTAL ASSETS	\$ 1,346,379			\$ 1,348,331			\$ 1,240,684		
Interest bearing liabilities:									
Interest bearing deposits:									
Interest bearing demand	\$ 227,838	\$ 1,198	0.53 %	\$ 213,736	\$ 248	0.12 %	\$ 175,088	\$ 483	0.28 %
Savings	137,845	135	0.10	126,050	173	0.14	104,442	148	0.14
Money market	289,674	2,008	0.69	297,844	673	0.23	234,771	1,031	0.44
Other time	285,760	3,083	1.08	305,251	3,712	1.22	345,228	5,972	1.73
Total interest bearing deposits	941,117	6,424	0.68	942,881	4,806	0.51	859,529	7,634	0.89
Federal funds purchased and other short-term borrowings	9,268	364	3.97	389	1	0.37	4,947	29	0.58
Advances from Federal Home Loan Bank	33,253	553	1.66	49,328	875	1.77	64,046	1,099	1.72
Guaranteed junior subordinated deferrable interest debentures	—	—	—	9,741	944	9.69	13,085	1,121	8.57
Subordinated debt	27,000	1,054	3.90	15,079	854	5.66	7,650	520	6.80
Lease liabilities	3,446	100	2.89	3,729	106	2.86	3,949	112	2.84
TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE	1,014,084	8,495	0.84	1,021,147	7,586	0.75	953,206	10,515	1.10
Non-interest bearing liabilities:									
Demand deposits	215,196			211,557			175,336		
Other liabilities	8,113			6,446			10,340		
Stockholders' equity	108,986			109,181			101,802		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,346,379			\$ 1,348,331			\$ 1,240,684		
Interest rate spread			3.11			3.01			3.01
Net interest income/net interest margin (non-GAAP)		40,576	3.27 %		39,101	3.15 %		36,391	3.19 %
Tax-equivalent adjustment		(13)			(18)			(24)	
Net interest income (GAAP)		\$ 40,563			\$ 39,083			\$ 36,367	

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The table below sets forth an analysis of volume and rate changes in net interest income on a tax-equivalent basis. For purposes of this table, changes in interest income and interest expense are allocated to volume and rate categories based upon the respective percentage changes in average balances and average rates. Changes in net

interest income that could not be specifically identified as either a rate or volume change were allocated proportionately to changes in volume and changes in rate.

	2022 vs. 2021			2021 vs. 2020		
	INCREASE (DECREASE) DUE TO CHANGE IN:			INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL (IN THOUSANDS)	AVERAGE VOLUME	RATE	TOTAL
INTEREST EARNED ON:						
Loans, net of unearned income.	\$ (468)	\$ 1,362	\$ 894	\$ 2,750	\$ (2,799)	\$ (49)
Short-term investments and bank deposits	(42)	193	151	70	(112)	(42)
Commercial paper	(1)	(1)	(2)	(91)	(53)	(144)
Investment securities:						
Available for sale.	783	284	1,067	410	(458)	(48)
Held to maturity.	269	5	274	260	(196)	64
Total investment securities	<u>1,052</u>	<u>289</u>	<u>1,341</u>	<u>670</u>	<u>(654)</u>	<u>16</u>
Total interest income.	<u>541</u>	<u>1,843</u>	<u>2,384</u>	<u>3,399</u>	<u>(3,618)</u>	<u>(219)</u>
INTEREST PAID ON:						
Interest bearing demand deposits	18	932	950	91	(326)	(235)
Savings deposits	16	(54)	(38)	25	—	25
Money market	(19)	1,354	1,335	226	(584)	(358)
Other time deposits	(225)	(404)	(629)	(637)	(1,623)	(2,260)
Federal funds purchased and other short-term borrowings	255	108	363	(20)	(8)	(28)
Advances from Federal Home Loan Bank	(270)	(52)	(322)	(256)	32	(224)
Guaranteed junior subordinated deferrable interest debentures	(472)	(472)	(944)	(311)	134	(177)
Subordinated debt	524	(324)	200	434	(100)	334
Lease liabilities	(7)	1	(6)	(7)	1	(6)
Total interest expense	<u>(180)</u>	<u>1,089</u>	<u>909</u>	<u>(455)</u>	<u>(2,474)</u>	<u>(2,929)</u>
Change in net interest income	<u>\$ 721</u>	<u>\$ 754</u>	<u>\$ 1,475</u>	<u>\$ 3,854</u>	<u>\$ (1,144)</u>	<u>\$ 2,710</u>

LOAN QUALITY. The Company's written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. The Company's policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$1,000,000 within a 12-month period. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business relationships with aggregate balances of \$250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

Overall, the Company continues to maintain good asset quality. The continued successful ongoing problem credit resolution efforts of the Company is demonstrated as levels of non-accrual loans, non-performing assets, and loan delinquency are well below 1% of total loans. Overall, we believe that non-performing assets remain well controlled totaling \$5.2 million, or 0.53% of total loans, at December 31, 2022 which is an increase from the December 31, 2021 total of \$3.3 million, or 0.34% of total loans. The increase in non-performing assets, as well as non-accrual loans, reflects the partial charge-down and transfer of one commercial real estate loan relationship into non-accrual status while the borrower pursues the sale of the property. Total classified loans increased \$6.8 million since the prior year-end and now total \$23.8 million. The increase in classified loans is the result of the risk rating downgrade of a large commercial real estate loan as well as a commercial and industrial loan relationship which were partially offset by the payoff of a substandard credit and the previously mentioned partial charge-down of a substandard credit during 2022.

We also continue to closely monitor the loan portfolio given the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2022, the 25 largest credits represented 21.7% of total loans outstanding, which represents a decrease from December 31, 2021 when it was 22.3%.

ALLOWANCE AND PROVISION FOR LOAN LOSSES. As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, the Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The following table sets forth changes in the ALL and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)			
Loans and loans held for sale, net of unearned income:			
Average for the year:			
Commercial	\$ 225,487	\$ 275,795	\$ 294,630
Commercial loans secured by non-owner occupied real estate	443,406	424,765	378,781
Real estate – residential mortgage	295,528	274,016	242,823
Consumer	14,218	15,796	17,131
Total loans and loans held for sale, net of unearned income.	977,541	988,761	923,269
At December 31,	990,825	986,037	978,345
As a percent of average loans:			
Net charge-offs (recoveries):			
Commercial	0.04 %	0.02 %	0.04 %
Commercial loans secured by non-owner occupied real estate	0.30	(0.01)	(0.01)
Real estate – residential mortgage	—	(0.01)	0.07
Consumer	1.88	0.46	0.44
Total loans and loans held for sale, net of unearned income.	0.17	—	0.03
Provision (credit) for loan losses	0.01	0.11	0.26
Allowance, as a percent of each of the following:			
Total loans, net of unearned income	1.08	1.26	1.16
Total accruing delinquent loans (past due 30 to 89 days)	170.63	195.68	206.12
Total non-accrual loans	208.16	373.10	453.80
Total non-performing assets	206.60	373.10	340.59
Allowance, as a multiple of net charge-offs	6.30x	263.79x	36.72x
Non-accrual loans, as a percentage of total loans, net of unearned income.	0.52 %	0.34 %	0.26 %

For 2022, the Company recorded a \$50,000 provision expense for loan losses compared to a \$1.1 million provision expense in 2021. The \$1,050,000 favorable comparison for total provision expense for the full year of 2022 reflects improved credit quality for the overall portfolio due to several loan upgrades and increased payoff and paydown activity of criticized loans. As demonstrated historically, the Company continues its strategic conviction that a strong allowance for loan losses is needed, which has proven to be essential given the support provided to certain borrowers as they fully recover from the COVID-19 pandemic. Note that the Small Business Administration guarantees 100% of the PPP loans made to eligible borrowers which minimizes the level of credit risk associated with these loans. As a result, such loans are assigned a 0% risk weight for purposes of calculating the Bank's risk-based capital ratios. Therefore, it was deemed appropriate to not allocate any portion of the loan loss reserve for the PPP loans.

Overall non-performing assets remain well controlled totaling \$5.2 million, or 0.53% of total loans, on December 31, 2022. The Company experienced net loan charge-offs of \$1.7 million, or 0.17% of total average loans, for the 2022 year and is higher than net loan charge-offs of \$47,000, which equates to 0.00% of total average loans, for the full year of 2021. The higher level of net charge-offs in 2022 is primarily related to the partial charge-down and transfer of one non-owner occupied commercial real estate loan relationship into non-accrual status while the borrower pursues the sale of the property. In summary, the allowance for loan losses provided 207% coverage of non-performing assets, and 1.08% of total loans, on December 31, 2022, compared to 373% coverage of non-performing assets, and 1.26% of total loans, on December 31, 2021.

For 2021, the Company recorded a \$1.1 million provision expense for loan losses compared to a \$2.4 million provision expense in 2020. The lower 2021 provision reflected an improved credit quality outlook for the overall portfolio due to several loan upgrades as well as reduced criticized asset levels and delinquent loan balances

demonstrating improvement during the year. This was reflective of the Company's loan officers working effectively with our customers as the economy improved and as businesses returned to normal operations with limited restrictions. The Company continued to grow the allowance for loan losses given the portfolio growth achieved during 2021, specifically in the non-owner occupied commercial real estate and residential mortgage portfolios, which was dampened by a decline in the commercial portfolio. The need to fund the allowance for portfolio growth was somewhat eased by numerous upgrades, which occurred during 2021. The Company experienced low net loan charge-offs of \$47,000, which equates to 0.00% of total loans, in 2021 and compared favorably to net loan charge-offs of \$309,000, or 0.03% of total loans, in 2020. Overall, non-performing assets totaled \$3.3 million, or 0.34% of total loans, at December 31, 2021. In summary, the allowance for loan losses provided 373% coverage of non-performing assets, and 1.26% of total loans, at December 31, 2021, compared to 341% coverage of non-performing assets, and 1.16% of total loans, at December 31, 2020.

The following schedule sets forth the allocation of the ALL among various loan categories. This allocation is determined by using the consistent quarterly procedural discipline that was previously discussed. The entire ALL is available to absorb future loan losses in any loan category.

	AT DECEMBER 31,									
	2022		2021		2020		2019		2018	
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL
	(IN THOUSANDS, EXCEPT PERCENTAGES)									
Commercial	\$ 2,653	23.1 %	\$ 3,071	25.5 %	\$ 3,472	31.4 %	\$ 3,951	30.1 %	\$ 3,057	29.0 %
Commercial loans secured by non-owner occupied real estate	5,972	45.5	6,392	43.8	5,373	41.2	3,119	41.2	3,389	41.4
Real estate – residential mortgage	1,380	30.1	1,590	29.2	1,292	25.7	1,159	26.6	1,235	27.6
Consumer	85	1.3	113	1.5	115	1.7	126	2.1	127	2.0
Allocation to general risk	653	—	1,232	—	1,093	—	924	—	863	—
Total	<u>\$ 10,743</u>	<u>100.0 %</u>	<u>\$ 12,398</u>	<u>100.0 %</u>	<u>\$ 11,345</u>	<u>100.0 %</u>	<u>\$ 9,279</u>	<u>100.0 %</u>	<u>\$ 8,671</u>	<u>100.0 %</u>

Even though residential real estate mortgage loans comprise 30.1% of the Company's total loan portfolio, only \$1.4 million, or 12.8%, of the total ALL is allocated against this loan category. The residential real estate mortgage loan allocation is based upon the Company's three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by non-owner occupied real estate reflect the increased credit risk associated with those types of lending, the Company's historical loss experience in these categories, and other qualitative factors.

Based on the Company's current ALL methodology and the related assessment of the inherent risk factors contained within the Company's loan portfolio, we believe that the ALL is adequate at December 31, 2022 to cover losses within the Company's loan portfolio.

NON-INTEREST INCOME. Non-interest income for 2022 totaled \$16.7 million, a decrease of \$1.1 million, or 6.0%, from 2021. Factors contributing to this lower level of non-interest income in 2022 included:

- a \$456,000, or 68.7%, decrease in net gains on loans held for sale due to the lower level of residential mortgage loan production which reflects a reduced level of mortgage loan refinance activity because of the rapid escalation of interest rates since the beginning of 2022. Residential mortgage loan production through twelve months in 2022 totaled \$24.8 million representing a \$65.8 million, or 72.6%, reduction from the 2021 production level. The reduced level of mortgage loan production also caused mortgage related fees to decline by \$243,000, or 67.9%;
- a \$366,000, or 3.1%, decline in wealth management fees due to the unfavorable impact of the declining equity markets as well as the unfavorable impact that the move in the bond market is having on wealth management asset values, both of which were partially offset by new customer business growth. The fair market value of wealth management assets declined since the fourth quarter of 2021 by \$398.3 million, or 14.7%, and totaled \$2.3 billion at December 31, 2022;

- a \$143,000, or 14.8%, increase in service charges on deposit accounts as consumers are more active this year, increasing their spending habits; and
- the Company recognized an \$84,000 gain on investment securities in 2021 as compared to this year when no such gain was recognized.

Non-interest income for 2021 totaled \$17.8 million, an increase of \$1.5 million, or 9.1%, from 2020. Factors contributing to this higher level of non-interest income in 2021 included:

- a \$1.8 million, or 17.4%, increase in wealth management fees as the entire wealth management group had performed exceptionally well through the pandemic, actively working for clients to increase the value of their holdings in the financial markets and adding new business. The fair market value of wealth management assets totaled \$2.7 billion and increased from the early pandemic fair market value low point on March 31, 2020 by \$728.7 million, or 36.7%;
- an \$859,000, or 56.4%, decrease in net gains on loans held for sale due to a lower level of mortgage loan refinance activity in 2021 and the Company's revised strategy to retain a higher percentage of our residential mortgage loan production in the portfolio as opposed to selling into the secondary market. The Company had retained 79% of all residential mortgage loan originations into the loan portfolio in 2021 compared to 40% in 2020;
- a \$335,000, or 42.8%, increase in revenue from bank owned life insurance due to the receipt of \$310,000 in death claims as well as 2021 income being positively impacted by a financial floor taking hold which caused increased earnings and a higher rate of return on certain policies;
- a \$291,000, or 12.7%, increase in other income primarily due to higher interchange fee income that resulted from increased usage of debit cards as the pandemic caused consumers to increase online purchases and many businesses to implement contactless services by not accepting cash due to health safety concerns. Also, service charges on deposit accounts increased by \$62,000, or 6.9%, in 2021 as consumers became more active and increased their spending habits;
- a \$201,000, or 36.0%, decrease in mortgage related fees due to a lower level of residential mortgage loan production; and
- the Company recognized an \$84,000 gain on investment security sales in 2021 as compared to 2020 when no securities were sold.

NON-INTEREST EXPENSE. The Company has demonstrated good expense control in this inflationary environment as non-interest expense for 2022 totaled \$48.0 million and increased by \$1.0 million, or 2.2%, from 2021. Factors contributing to the higher non-interest expense in 2022 included:

- the Company was required to recognize a settlement charge in connection with its defined benefit pension plan in 2022, which is explained in Note 17, Employee Benefit Plans. The amount of the 2022 charge was \$2.5 million which is \$762,000, or 43.9%, higher than the \$1.7 million settlement charge recognized in 2021;
- a \$645,000, or 2.3%, increase in salaries and employee benefits expense. Within total salaries and benefits expense, salaries cost increased by \$1.4 million, or 7.8%, due to merit increases and a higher level of full-time equivalent employees as the Company has been able to fill certain open positions this year. Also, contributing to the higher salaries and employee benefits costs were additional increases to health care, payroll taxes and other employee benefits. Partially offsetting these higher costs within salaries and benefits expense was lower incentive compensation by \$808,000, or 38.2%, due to the reduced level of loan production and no performance related executive incentive payments in 2022;
- a \$338,000, or 11.8%, increase in professional fees due primarily to higher legal costs within our wealth management group;
- no additional costs related to the branch acquisition were recognized in 2022 after \$389,000 was recognized in 2021;

- a \$279,000, or 7.6%, increase in data processing and IT expense resulted from additional costs from our core data provider and increased costs related to monitoring our computing and network environment;
- a \$263,000, or 10.0%, increase in net occupancy expense due to increased utilities cost along with maintenance and repair expense which was primarily related to the new branch office;
- other expense was favorably impacted by a \$243,000 credit for the unfunded commitment reserve after \$117,000 of expense was recognized last year, resulting in a \$360,000 favorable shift; and
- a \$140,000, or 21.4%, reduction in FDIC deposit insurance expense.

The Company anticipates that costs related to its ongoing proxy contest will impact the level of non-interest expense during 2023.

Non-interest expense for 2021 totaled \$47.0 million, which represents a \$2.5 million, or 5.7%, increase from 2020. Factors contributing to the higher non-interest expense in 2021 included:

- a \$1.1 million, or 19.8%, increase in other expense primarily due to the recognition of a \$1.7 million settlement charge in connection with the Company's defined benefit pension plan. Also, contributing to the higher level of other expense was the Company recognizing \$117,000 of expense associated with the unfunded commitment reserve in 2021 which represented a \$271,000 unfavorable shift from 2020;
- a \$457,000, or 1.7%, increase in salaries and employee benefits expense. Factors causing the increase included greater incentive compensation primarily due to commissions earned as a result of strong performance in the wealth management businesses and continued good residential mortgage and commercial loan production. Also, contributing to the higher salaries and employee benefits expense was increased health care costs which were partially offset by the Company's basic salary expense declining due to fewer employees;
- the Company recognized costs for the branch acquisition totaling \$389,000 for 2021;
- a \$238,000, or 6.9%, increase in data processing and IT expense due to increased costs from our core data provider and increased software related expenses;
- a \$174,000, or 36.2%, increase in FDIC deposit insurance expense due to an increase in the asset assessment base and the benefit of the Small Bank Assessment Credit being fully utilized in the first quarter of 2020;
- a \$110,000, or 4.4%, increase in net occupancy expense primarily due to the additional costs related to the branch acquisition; and
- a \$46,000, or 6.4%, decrease in supplies, postage and freight expense as the majority of the personal protective equipment to protect our employees and customers during the pandemic were purchased in 2020.

INCOME TAX EXPENSE. The Company recorded an income tax expense of \$1.8 million, or an effective tax rate of 19.1%, in 2022, compared to income tax expense of \$1.7 million, or a 19.4% effective tax rate, in 2021, and compared to income tax expense of \$1.2 million, or a 20.9% effective tax rate, in 2020. The higher effective tax rate in 2020 resulted from the write-off of a deferred tax asset related to the dissolution of the Company's former small life insurance subsidiary. The Company's deferred tax asset was \$2.8 million at December 31, 2022 compared to a deferred tax liability of \$934,000 at December 31, 2021, resulting primarily from the decrease in the fair value of the available for sale investment securities portfolio.

SEGMENT RESULTS. The community banking segment reported a net income contribution of \$12.4 million in 2022 which improved from the \$12.1 million contribution in 2021 and also increased from the \$10.1 million contribution in 2020. The improvement between years is due to a higher level of net interest income and a reduced loan loss provision which more than offset decreased non-interest income and an increased level of non-interest expense. Net interest income improved between years as the increase in total interest income more than offset the increase to total interest expense. Total loan interest income improved by \$901,000, or 2.2%, and resulted from the favorable impact of higher total loan volumes and the higher interest rate environment which more than offset a \$1.8 million, or 80.9%, reduction in PPP loan fee related income and a \$550,000, or 34.9%, reduction in total loan charge income. This segment

benefitted from the continued strong production of commercial real estate loans in 2022 and the residential real estate loan production that occurred throughout 2021, which resulted in the 2022 full year average balance for both of these loan categories exceeding the 2021 full year average by \$32.1 million. This segment also benefitted from a greater level of production of home equity loans, as the 2022 full year average for this loan category exceeds the 2021 full year average by \$6.2 million. Total interest income from CRE, residential mortgage, and home equity loans was \$2.9 million higher in 2022 when compared to 2021. Deposit interest expense was higher by \$1.6 million, or 33.7%, despite the full year average volume of total deposits remaining relatively consistent with the 2021 full year average. The increased deposit interest expense occurred due to the impact that the higher national interest rates had on deposit costs combined with increased market competition to retain and attract deposits. The rising national interest rates resulted in certain deposit products, particularly public funds, that are tied to a market index, repricing upward with the move in national interest rates and causing interest expense to increase. This segment did benefit from management's decision to allow a high-cost institutional deposit to mature during 2021, which was indexed to the market, and replaced by the low cost deposits from the Somerset County branch acquisition (discussed previously in the MD&A). Overall, total deposit cost of 56 basis points in 2022 was 14 basis points higher than total deposit cost in 2021. The Company recorded a \$50,000 provision expense for loan losses in 2022 compared to a \$1,100,000 provision in 2021. This also was discussed previously in the Allowance and Provision for Loan Losses section within this document. Non-interest income was unfavorably impacted by a reduced level of loan sale gain income by \$456,000 due to the lower level of residential mortgage loan production in 2022, which also caused mortgage related fees to decline by \$243,000. Overall, these unfavorable items more than offset the favorable impact of higher service charges on deposit accounts by \$143,000. Non-interest expense in 2022 compares unfavorably to 2021 results due to higher total employee costs and occupancy expense which more than offset lower FDIC insurance expense and miscellaneous expense. Total employee costs were unfavorably impacted by higher salaries and increased pension costs that were related to the higher settlement charge recognized on the defined benefit pension obligation in 2022. This is explained in Note 17. Both of these items more than offset reduced incentive compensation. Within miscellaneous expense, the Company had \$389,000 of additional costs for the the branch acquisition in 2021 while there was very minimal costs in 2022. Also, the Company recognized a credit to the unfunded commitment reserve of \$243,000 after \$117,000 of expense was recognized last year, resulting in a \$360,000 favorable shift.

The wealth management segment's net income contribution was \$2.2 million in 2022 compared to \$2.9 million in 2021 and \$2.0 million in 2020. The decrease reflects the unfavorable impact of the declining equity markets on wealth management fee income as well as the unfavorable impact that the move in the bond market is having on wealth management asset values. Both unfavorable items were partially offset by new customer business growth. Also contributing to the decline in 2022, were higher levels of legal fees, total employee costs and meals & travel related expenses for business development. Overall, the fair market value of wealth management assets declined since the end of 2021 by \$398.3 million, or 14.7%, and totaled \$2.3 billion at December 31, 2022.

The investment/parent segment reported a net loss of \$7.1 million in 2022, which was lower than the net loss of \$7.8 million in 2021 and \$7.5 million in 2020. The reduced loss results from lower borrowings interest expense primarily due to the favorable impact of the 2021 subordinated debt offering which was used to replace higher cost debt. This transaction effectively lowered debt cost on long-term funds by nearly 4.0%, resulting in \$744,000 of reduced interest expense on long term borrowings. The remaining portion of the favorable variance in borrowings interest expense between years is due to reduced interest expense from Federal Home Loan Bank (FHLB) borrowings. Finally, and also contributing to the reduced loss in this segment, was an increase in interest income from the securities portfolio due to the higher average volume of total securities. The increase to the U.S. Treasury yield curve resulted in improved yields for federal agency mortgage-backed securities and federal agency bonds making purchases of these investments more attractive. Therefore, management was able to more profitably deploy a portion of the increased liquidity on our balance sheet into the securities portfolio.

BALANCE SHEET. The Company's total consolidated assets of \$1.364 billion at December 31, 2022 increased by \$28.3 million, or 2.1%, from the \$1.336 billion level at December 31, 2021. This change was related, primarily, to increased levels of investment securities, loans, and other assets which were partially offset by a decrease in cash and cash equivalents. Specifically, total investment securities increased \$24.5 million, or 11.3%, as the increase in the U.S. Treasury yield curve resulted in a more favorable market for securities purchasing activity in 2022. The higher rates resulted in yields for new federal agency mortgage-backed securities and federal agency bonds improving and exceeding the overall average yield of the existing securities portfolio. As a result, management purchased more of these types of securities. The Company also continued to purchase corporate and taxable municipal securities to maintain a well-diversified portfolio. Loans, net of unearned fees, and loans held for sale modestly increased by \$4.8 million, or 0.5%. Strong loan pipelines resulted in 2022 production more than offsetting a higher than typical level of payoff activity

during the year as growth of commercial real estate and home equity loans along with a higher volume of residential mortgage loans more than offset a decrease in the level of commercial and industrial loans. Other assets increased \$8.8 million, or 35.1%, as a result of an increase in the positive balance of the accrued pension liability, which totaled \$21.3 million and \$19.5 million as of December 31, 2022 and 2021, respectively. Due to the positive (debit) balance of the accrued pension liability, it was reclassified to other assets on the Consolidated Balance Sheets as of December 31, 2022 and 2021. The positive value of the accrued pension liability increased as a result of the \$4.0 million contribution made in 2022 and the revaluation of the obligation due to the recognition of the settlement charge. In addition, the balance of other assets was impacted by a \$5.8 million increase in the fair value of the interest rate swap agreements. These increases were partially offset by a decrease of \$18.1 million, or 44.1%, in cash and cash equivalents. Due to a combination of increased investment in securities, loan growth, and total deposits modestly declining, cash and cash equivalents decreased throughout the year and are now at pre-pandemic levels. Despite this decline, the Company's liquidity position remains strong.

Total deposits decreased by \$30.8 million, or 2.7%, during 2022. Deposit volumes continue to reflect the favorable impact of government stimulus which provided support to many Americans and financial assistance to municipalities and school districts during the pandemic. However, the decrease reflects a portion of the funds from the government stimulus programs leaving the balance sheet and also reflects greater pricing competition in the market to retain deposits because of the increasing national interest rates. As of December 31, 2022, the 25 largest depositors represented 18.8% of total deposits and remained relatively unchanged from December 31, 2021 when it was 18.9%. Total borrowings have increased \$65.5 million, or 90.0%, since year-end 2021. This change was driven by an increase in short-term borrowings which was partially offset by a decrease in FHLB term advances. Specifically, short-term borrowings totaled \$88.6 million at December 31, 2022 compared to no short-term borrowings being outstanding at December 31, 2021. In addition, FHLB term advances decreased by \$22.9 million, or 53.7%, and totaled \$19.8 million at December 31, 2022. The current strong liquidity position has allowed the Company to let higher cost FHLB term advances mature and not be replaced. However, the Company does continue to utilize the FHLB term advances to help manage interest rate risk.

The Company's total shareholders' equity decreased by \$10.4 million, or 8.9%, since year-end 2021. Capital was increased during 2022 by the Company's \$7.4 million of net income and the \$316,000 positive impact on accumulated other comprehensive loss from the recording of the settlement charge in connection with the defined benefit pension plan and the revaluation of the pension obligation. More than offsetting these increases was the \$2.0 million common stock cash dividend and the \$16.3 million negative impact experienced due to the reduced market value of the available for sale investment securities portfolio. The Company returned approximately 26% of our 2022 earnings to our shareholders through the quarterly common stock cash dividend. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 13.87% and an asset leverage ratio of 8.52% at December 31, 2022. The Company's book value per common share was \$6.20, its tangible book value per common share was \$5.40⁽¹⁾ and its tangible common equity to tangible assets ratio was 6.85%⁽¹⁾ at December 31, 2022. The decline in the Company's book value and tangible book value per share in 2022 reflects a decrease in the fair value of the Company's available for sale investment securities due to higher interest rates.

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

LIQUIDITY. The Company's liquidity position continues to be strong. Deposit volumes remain at a high level by historical standards and continue to reflect the favorable impact of government stimulus which provided support to many Americans and financial assistance to municipalities and school districts during the pandemic. Deposit volumes have been positively impacted due to effective business development efforts as well as management's ability to retain the significant influx of deposits that resulted from the government stimulus programs. Also, deposit levels were positively impacted in the second quarter of 2021 by the Somerset County branch acquisition which more than offset the third quarter 2021 maturity of the high cost, institutional deposit. In addition, the Company's loyal core deposit base continues to prove to be a source of strength for the Company during periods of market volatility. Overall, total deposits continued to demonstrate stability during 2022 despite a modest decrease during the fourth quarter of 2022 reflecting the greater pricing competition in the market to retain deposits because of the increasing national interest rates. Total average deposits for the full year of 2022 were \$1.9 million, or 0.2%, higher compared to the full year of 2021. The core deposit base is adequate to fund the Company's operations. Cash flow from maturities, prepayments and amortization of securities is used to help fund loan growth when needed.

Due to a combination of increased investment in securities, loan growth and total deposits modestly declining in the fourth quarter of 2022, short-term investments decreased throughout 2022 and are now at pre-pandemic levels before government stimulus impacted the economy. The challenge remains as to the uncertainty regarding the duration that the

existing government stimulus funds will remain on the balance sheet which will be determined by customer behavior as the economic conditions change. Diligent monitoring and management of our short-term investment position remains a priority. Continued loan growth and prudent investment in securities are critical to achieve the best return on the remaining liquid funds. On an end of period basis, at December 31, 2022, total interest bearing deposits and short-term investments decreased by \$12.2 million since December 31, 2021. Given the increase to national interest rates experienced in 2022, a portion of the increased balance sheet liquidity was invested in additional securities to more profitably deploy these funds. Loan production during 2022 more than offset a higher than typical level of payoff activity causing total loans and loans held for sale to increase since the end of 2021 by \$4.8 million. We strive to operate our loan to deposit ratio in a range of 80% to 100%. The Company's loan to deposit ratio averaged 85.4% in the fourth quarter of 2022, which indicates that the Company has ample capacity to continue to grow its loan portfolio and is well positioned to support our customers and our community during times of economic volatility. We are also well positioned to service our existing loan pipeline and grow our loan to deposit ratio while remaining within our guideline parameters.

Liquidity can also be analyzed by utilizing the Consolidated Statements of Cash Flows. Cash and cash equivalents decreased by \$18.1 million from December 31, 2021, to \$22.9 million at December 31, 2022, due to \$56.3 million of net cash used in investing activities which more than offset \$32.9 million of net cash provided by financing activities and \$5.2 million of net cash provided by operating activities. Within investing activities, cash advanced for new loans originated totaled \$223.7 million and was \$6.9 million higher than the \$216.8 million of cash received from loan principal payments. Within financing activities, total short-term borrowings increased by \$88.6 million, total FHLB borrowings decreased by \$22.9 million and total deposits decreased by \$30.7 million. Within operating activities, \$9.4 million of mortgage loans held for sale were originated while \$10.6 million of mortgage loans were sold into the secondary market.

The holding company had \$9.6 million of cash, short-term investments, and investment securities at December 31, 2022, which represents a \$300,000 increase from the holding company's cash position since December 31, 2021. Dividend payments from our subsidiaries also provide ongoing cash to the holding company. At December 31, 2022, our subsidiary Bank had \$14.4 million of cash available for immediate dividends to the holding company under applicable regulatory formulas. Management follows a policy that limits dividend payments from the Trust Company to 75% of annual net income. Overall, we believe that the holding company has sufficient liquidity to meet its subordinated debt interest payments, and its dividend payout level with respect to its common stock.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investments, interest bearing deposits with banks, and federal funds sold. These assets totaled \$23.0 million and \$41.1 million at December 31, 2022 and December 31, 2021, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company's subsidiary bank is a member of the FHLB, which provides the opportunity to obtain short-term to longer-term advances based upon the Company's investment in certain residential mortgage, commercial real estate, and commercial and industrial loans. At December 31, 2022, the Company had \$302 million of overnight borrowing availability at the FHLB, \$41 million of short-term borrowing availability at the Federal Reserve Bank and \$35 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES. The Bank meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The Company's common equity tier 1 capital ratio was 10.41%, the tier 1 capital ratio was 10.41%, and the total capital ratio was 13.87% at December 31, 2022. The Company's tier 1 leverage ratio was 8.52% at December 31, 2022. We anticipate that we will maintain our strong capital ratios throughout 2023.

Capital generated from earnings will be utilized to pay the common stock cash dividend and will support controlled balance sheet growth. Our common dividend payout ratio for the full year 2022 was 26.7%. Total Parent Company cash was \$9.6 million at December 31, 2022. There is a particular emphasis on ensuring that the subsidiary bank has appropriate levels of capital to support its non-owner occupied commercial real estate loan concentration, which stood at

350% of regulatory capital at December 31, 2022. It should be noted that this ratio weakened slightly from 347% at December 31, 2021 due to growth in total non-owner occupied commercial real estate loans between years.

Our focus is on preserving capital to support customer lending and allow the Company to take advantage of business opportunities as they arise. We currently believe that we have sufficient capital and earnings power to continue to pay our common stock cash dividend at its current rate of \$0.03 per quarter. While the Company has frequently executed common stock buyback programs in the past, we presently do not have one in place due to the drop in our tangible common equity ratio to 6.85%⁽¹⁾ as a result of the decline in value of our AFS securities portfolio in 2022. At December 31, 2022, the Company had approximately 17.1 million common shares outstanding.

The Basel III capital standards establish the minimum capital levels in addition to the well capitalized requirements under the federal banking regulations prompt corrective action. The capital rules also impose a 2.5% capital conservation buffer (CCB) on top of the three minimum risk-weighted asset ratios. Banking institutions that fail to meet the effective minimum ratios once the CCB is taken into account will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution’s “eligible retained income” (four quarter trailing net income, net of distributions and tax effects not reflected in net income). The Company and the Bank meet all capital requirements, including the CCB, and continue to be committed to maintaining strong capital levels that exceed regulatory requirements while also supporting balance sheet growth and providing a return to our shareholders.

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

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

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

INTEREST RATE SENSITIVITY. Asset/liability management involves managing the risks associated with changing interest rates and the resulting impact on the Company’s net interest income, net income and capital. The management and measurement of interest rate risk at the Company is performed by using the following tools: (i) simulation modeling, which analyzes the impact of interest rate changes on net interest income, net income and capital levels over specific future time periods. The simulation modeling forecasts earnings under a variety of scenarios that incorporate changes in the absolute level of interest rates, the shape of the yield curve, prepayments and changes in the volumes and rates of various loan and deposit categories. The simulation modeling incorporates assumptions about reinvestment and the repricing characteristics of certain assets and liabilities without stated contractual maturities; (ii) market value of portfolio equity sensitivity analysis; and (iii) static GAP analysis, which analyzes the extent to which interest rate sensitive assets and interest rate sensitive liabilities are matched at specific points in time. The overall interest rate risk position and strategies are reviewed by senior management and the Company’s Board of Directors on an ongoing basis.

The following table presents a summary of the Company's static GAP positions at December 31, 2022:

INTEREST SENSITIVITY PERIOD	3 MONTHS OR	OVER	OVER	OVER	TOTAL
	LESS	3 MONTHS THROUGH 6 MONTHS	6 MONTHS THROUGH 1 YEAR	1 YEAR	
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)					
RATE SENSITIVE ASSETS:					
Loans and loans held for sale	\$ 275,555	\$ 46,331	\$ 98,507	\$ 570,432	\$ 990,825
Investment securities	28,427	5,721	13,454	193,784	241,386
Short-term assets	4,132	—	—	—	4,132
Regulatory stock	5,754	—	—	2,125	7,879
Bank owned life insurance	—	—	38,895	—	38,895
Total rate sensitive assets	<u>\$ 313,868</u>	<u>\$ 52,052</u>	<u>\$ 150,856</u>	<u>\$ 766,341</u>	<u>\$ 1,283,117</u>
RATE SENSITIVE LIABILITIES:					
Deposits:					
Non-interest bearing demand deposits	\$ —	\$ —	\$ —	\$ 195,123	\$ 195,123
Interest bearing demand deposits	79,611	730	1,461	154,944	236,746
Savings	730	730	1,460	132,876	135,796
Money market	82,930	7,099	14,199	150,640	254,868
Certificates of deposit	116,578	26,792	39,688	102,946	286,004
Total deposits	<u>279,849</u>	<u>35,351</u>	<u>56,808</u>	<u>736,529</u>	<u>1,108,537</u>
Borrowings	98,563	4,790	1,142	33,878	138,373
Total rate sensitive liabilities	<u>\$ 378,412</u>	<u>\$ 40,141</u>	<u>\$ 57,950</u>	<u>\$ 770,407</u>	<u>\$ 1,246,910</u>
INTEREST SENSITIVITY GAP:					
Interval	(64,544)	11,911	92,906	(4,066)	—
Cumulative	<u>\$ (64,544)</u>	<u>\$ (52,633)</u>	<u>\$ 40,273</u>	<u>\$ 36,207</u>	<u>\$ 36,207</u>
Period GAP ratio	0.83X	1.30X	2.60X	0.99X	
Cumulative GAP ratio	0.83	0.87	1.08	1.03	
Ratio of cumulative GAP to total assets	(4.73)%	(3.86)%	2.95 %	2.65 %	

When December 31, 2022 is compared to December 31, 2021, the Company's cumulative GAP ratio through six months indicates that the Company's balance sheet is liability sensitive, representing a shift from an asset sensitivity position at the end of 2021. The shift results from an increased level of short-term borrowings, which are immediately impacted by changes to national interest rates. The Company also experienced an increase balance of deposits that have an interest rate that is indexed to the market. Customers have shifted funds into money market type accounts in order to benefit from the rising interest rates in the economy. We continue to see loan customer preference for fixed rate loans given the expectation for additional futures national interest rate increases. The Company's interest rate sensitivity position shifts from being liability to an asset sensitive position over six months and beyond as more of our loans begin to reprice. Finally, even though the balance of FHLB term advances at December 31, 2022 decreased \$22.9 million, or 53.7%, from the prior year, the Company continues to utilize such advances to help manage our interest rate risk position.

Management places primary emphasis on simulation modeling to manage and measure interest rate risk. The Company's asset/liability management policy seeks to limit net interest income variability over the first twelve months of the forecast period to -5.0% and -7.5%, which include interest rate movements of 100 and 200 basis points, respectively. Additionally, the Company also uses market value sensitivity measures to further evaluate the balance sheet exposure to changes in interest rates. The Company monitors the trends in market value of portfolio equity sensitivity analysis on a quarterly basis.

The following table presents an analysis of the sensitivity inherent in the Company's net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company's base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis

points. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

<u>INTEREST RATE SCENARIO</u>	<u>VARIABILITY OF NET INTEREST INCOME</u>	<u>CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY</u>
200 bp increase	(2.3)%	(3.8)%
100 bp increase	(1.2)	(1.1)
100 bp decrease	0.7	(2.7)
200 bp decrease	0.8	(10.1)

The Company believes that its overall interest rate risk position is well controlled. The variability of net interest income is negative in the upward rate shocks due to the increased short-term borrowings position and increased level of deposit balances that have rates indexed to market interest rates. This is partially offset by the Company's shorter duration investment securities portfolio and the scheduled repricing of loans tied to an index, such as SOFR or prime. Also, the Company has effectively utilized interest rate swaps for interest rate risk management purposes. The interest rate swaps allow our customers to lock in fixed interest rates while the Company retains the benefit of interest rates moving with the market. Regarding interest bearing liabilities, management continues its disciplined approach to price its core term deposit accounts in a controlled but competitive manner. The variability of net interest income is positive in the downward rate scenarios as the Company has more exposure to short-term liabilities repricing downward to a greater extent than assets. As of December 31, 2022, the fed funds rate is at a targeted range of 4.25% to 4.50% as the Federal Reserve took action several times in 2022 to increase the rate a total of 425 basis points. Further, there is an expectation of additional short-term interest rate increases by the Federal Reserve during 2023. Subsequent to year-end, the Company executed a \$50 million swap to fix the cost of certain deposits that are indexed and move with short-term interest rates. This transaction brought the Company's variability of net interest income to a more neutral position. The market value of portfolio equity decreases in the upward rate shocks due to the fact that the improved value of the Company's core deposit base was more than offset by the downward movement in the market value of the AFS investment securities portfolio and loans. Negative variability of market value of portfolio equity occurs in the downward rate shocks due to a reduced value for core deposits.

Within the investment securities portfolio at December 31, 2022, 76.2% of the portfolio is classified as available for sale and 23.8% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 426 securities that are temporarily impaired at December 31, 2022. The Company reviews its securities quarterly and has asserted that at December 31, 2022, the impaired value of securities represents temporary declines due to movements in interest rates and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery. Furthermore, it is the Company's intent to manage its long-term interest rate risk by continuing to sell a portion of newly originated fixed-rate 30-year mortgage loans into the secondary market (excluding construction and any jumbo loans). The Company sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2022, 41.8% of all residential mortgage loan production was sold into the secondary market.

The amount of loans outstanding by category as of December 31, 2022, which are due in (i) one year or less, (ii) more than one year through five years, (iii) more than five years through 15 years, and (iv) over 15 years, are shown in the following table.

	ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	MORE THAN FIVE YEARS THROUGH 15 YEARS	OVER 15 YEARS	TOTAL LOANS
	(IN THOUSANDS, EXCEPT RATIOS)				
Commercial and industrial	\$ 30,392	\$ 73,036	\$ 19,872	\$ 30,098	\$ 153,398
Paycheck Protection Program (PPP)	—	22	—	—	22
Commercial loans secured by owner occupied real estate	5,313	8,196	60,867	782	75,158
Commercial loans secured by non-owner occupied real estate	33,512	129,958	277,381	9,893	450,744
Real estate – residential mortgage	10,934	44,060	136,496	106,540	298,030
Consumer	4,784	3,315	1,061	4,313	13,473
Total	<u>\$ 84,935</u>	<u>\$ 258,587</u>	<u>\$ 495,677</u>	<u>151,626</u>	<u>\$ 990,825</u>
Loans with fixed-rate	\$ 27,218	\$ 158,018	\$ 217,288	70,172	\$ 472,696
Loans with floating-rate	57,717	100,569	278,389	81,454	518,129
Total	<u>\$ 84,935</u>	<u>\$ 258,587</u>	<u>\$ 495,677</u>	<u>151,626</u>	<u>\$ 990,825</u>
Percent composition of maturity	8.6 %	26.1 %	50.0 %	15.3 %	100.0 %
Fixed-rate loans as a percentage of total loans					47.7 %
Floating-rate loans as a percentage of total loans					52.3 %

The loan maturity information is based upon original loan terms and is not adjusted for principal paydowns and rollovers. In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount at interest rates prevailing at the date of renewal.

The following table presents the total loans due after one year that have predetermined (fixed) interest rates and floating interest rates as of December 31, 2022.

	FIXED-RATE LOANS	FLOATING-RATE LOANS	TOTAL
	(IN THOUSANDS)		
Commercial and industrial	\$ 90,306	\$ 32,700	\$ 123,006
Paycheck Protection Program (PPP)	22	—	22
Commercial loans secured by owner occupied real estate	3,416	66,429	69,845
Commercial loans secured by non-owner occupied real estate	119,957	297,275	417,232
Real estate – residential mortgage	227,567	59,529	287,096
Consumer	4,210	4,479	8,689
Total	<u>\$ 445,478</u>	<u>\$ 460,412</u>	<u>\$ 905,890</u>

OFF BALANCE SHEET ARRANGEMENTS. The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating \$227.6 million and standby letters of credit of \$9.0 million as of December 31, 2022. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. As of December 31, 2022, the Company had \$130.9 million in the notional amount of interest rate swaps outstanding, with a fair value of \$7.0 million. In addition, the Company entered into a risk participation agreement (RPA) with the lead bank of a commercial real estate loan arrangement. As a participating bank, the Company

guarantees the performance on a borrower-related interest rate swap contract. The notional amount of the RPA outstanding at December 31, 2022 was \$2.1 million, with a fair value of zero.

As of December 31, 2022 and 2021, municipal deposit letters of credit issued by the Federal Home Loan Bank of Pittsburgh on behalf of AmeriServ Financial Bank naming applicable municipalities as beneficiaries totaled \$72.9 million and \$62.2 million, respectively. The letters of credit serve as collateral, in place of pledged securities, for municipal deposits maintained at AmeriServ Financial Bank.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES. This document contains certain financial information determined by methods other than in accordance with generally accepted accounting policies in the United States (GAAP). These non-GAAP disclosures, which includes adjusted net income, adjusted diluted earnings per share, adjusted return on average assets, and adjusted return on average equity, have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. These non-GAAP measures are used by management in their analysis of the Company's performance or, management believes, facilitate an understanding of the Company's performance. Management also believes that presenting non-GAAP financial measures provides additional information to facilitate comparison of the Company's historical operating results and trends in the underlying operating results. Management considers quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Currently, the only adjustment included is for non-cash settlement charges in connection with the Company's pension plan distributions.

	AT DECEMBER 31,		
	2022	2021	2020
(IN THOUSANDS, EXCEPT PER SHARE AND RATIO DATA)			
<u>Adjusted net income and ratios for pension settlement charge</u>			
Net income (A)	\$ 7,448	\$ 7,072	\$ 4,598
Plus: Pension settlement charge (B)	2,498	1,736	—
Less: Related tax effect (C)	476	337	—
Net income, adjusted (D = A + B - C)	<u>9,470</u>	<u>8,471</u>	<u>4,598</u>
<u>Return on average assets</u>			
Average assets (E)	\$ 1,346,379	\$ 1,348,331	\$ 1,240,684
Return on average assets (= A / E)	0.55 %	0.52 %	0.37 %
Return on average assets, adjusted (= D / E)	0.70	0.63	0.37
<u>Return on average equity</u>			
Average equity (F)	\$ 108,986	\$ 109,181	\$ 101,802
Return on average equity (= A / F)	6.83 %	6.48 %	4.52 %
Return on average equity, adjusted (= D / F)	8.69	7.76	4.52
<u>Earnings per common share (EPS)</u>			
Diluted average number of common shares outstanding (G)	17,146	17,114	17,063
Diluted EPS (= A / G)	\$ 0.43	\$ 0.41	\$ 0.27
Diluted EPS, adjusted (= D / G)	0.55	0.49	0.27

The tangible common equity ratio and tangible book value per share are considered to be non-GAAP measures and are calculated by dividing tangible equity by tangible assets or shares outstanding. The following table sets forth the calculation of the Company's tangible common equity ratio and tangible book value per share at December 31, 2022 and 2021 (in thousands, except share and ratio data):

	<u>AT DECEMBER 31,</u>	
	<u>2022</u>	<u>2021</u>
Total shareholders' equity	\$ 106,178	\$ 116,549
Less: Intangible assets	<u>13,739</u>	<u>13,769</u>
Tangible common equity	92,439	102,780
Total assets	1,363,874	1,335,560
Less: Intangible assets	<u>13,739</u>	<u>13,769</u>
Tangible assets	1,350,135	1,321,791
Tangible common equity ratio (non-GAAP)	6.85 %	7.78 %
Total shares outstanding	17,117,617	17,081,500
Tangible book value per share (non-GAAP)	\$ 5.40	\$ 6.02

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

ACCOUNT — Pension liability

BALANCE SHEET REFERENCE — Other assets

INCOME STATEMENT REFERENCE — Salaries and employee benefits and Other expense

DESCRIPTION

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension obligations and future expense. Additionally, pension expense can also be impacted by settlement accounting charges if the amount of employee selected lump sum distributions exceed the total amount of service and interest component costs of the net periodic pension cost in a particular year. Our pension benefits are described further in Note 17 of the Notes to Consolidated Financial Statements.

ACCOUNT — Allowance for loan losses

BALANCE SHEET REFERENCE — Allowance for loan losses

INCOME STATEMENT REFERENCE — Provision for loan losses

DESCRIPTION

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this quarterly evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management's judgment concerning those trends.

Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan losses. Approximately \$8.6 million, or 80%, of the total allowance for loan losses at December 31, 2022 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies,

levels of non-performing and troubled debt restructured (TDR) loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for loan losses may be required that would adversely impact earnings in future periods.

ACCOUNT — Intangible assets
BALANCE SHEET REFERENCE — Intangible assets
INCOME STATEMENT REFERENCE — Other expense
DESCRIPTION

The Company considers our accounting policies related to goodwill and core deposit intangible to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

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

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

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

ACCOUNT — Income taxes
BALANCE SHEET REFERENCE — Net deferred tax asset and Net deferred tax liability
INCOME STATEMENT REFERENCE — Provision for income taxes
DESCRIPTION

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

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will

not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2022, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

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

ACCOUNT — Investment securities

BALANCE SHEET REFERENCE — Investment securities

INCOME STATEMENT REFERENCE — Net realized gains on investment securities

DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2022, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate and taxable municipal securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

FORWARD LOOKING STATEMENTS

THE STRATEGIC FOCUS:

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

- Shareholders — We strive to increase earnings per share; identifying and managing revenue growth and expense control; and managing risk. Our goal is to increase value for AmeriServ shareholders by growing earnings per share and narrowing the financial performance gap between AmeriServ and its peer banks. We try to return earnings to shareholders through a combination of dividends and share repurchases (none currently authorized) subject to maintaining sufficient capital to support balance sheet growth and economic uncertainty. We strive to educate our employee base as to the meaning/importance of earnings per share as a performance measure. We will develop a value added combination for increasing revenue and controlling expenses that is rooted in developing and offering high-quality financial products and services; an existing branch network; electronic banking capabilities with 24/7 convenience; and providing truly exceptional customer service. We will explore branch consolidation opportunities and further leverage union affiliated revenue streams, prudently manage the Company's risk profile to improve asset yields and increase profitability and continue to identify and implement technological opportunities and advancements to drive efficiency for the holding company and its affiliates.

- Customers — The Company expects to provide exceptional customer service, identifying opportunities to enhance the Banking for Life philosophy by providing products and services to meet the financial needs in every step through a customer’s life cycle, and further defining the role technology plays in anticipating and satisfying customer needs. We anticipate providing leading banking systems and solutions to improve and enhance customers’ Banking for Life experience. We will provide customers with a comprehensive offering of financial solutions including retail and business banking, home mortgages and wealth management at one location. We have upgraded and modernized select branches to be more inviting and technologically savvy to meet the needs of the next generation of AmeriServ customers without abandoning the needs of our existing demographic.
- Staff — We are committed to developing high-performing employees, establishing and maintaining a culture of trust and effectively and efficiently managing staff attrition. We will employ a work force succession plan to manage anticipated staff attrition while identifying and grooming high performing staff members to assume positions with greater responsibility within the organization. We will employ technological systems and solutions to provide staff with the tools they need to perform more efficiently and effectively.
- Communities — We will continue to promote and encourage employee community involvement and leadership while fostering a positive corporate image. This will be accomplished by demonstrating our commitment to the communities we serve through assistance in providing affordable housing programs for low-to-moderate-income families; donations to qualified charities; and the time and talent contributions of AmeriServ staff to a wide-range of charitable and civic organizations.

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

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company’s market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors’ products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; (xii) potential risks and uncertainties also include those relating to the duration of the COVID-19 outbreak and its variants, and actions that may be taken by governmental authorities to contain the outbreak or to treat its impact, including the distribution and effectiveness of COVID-19 vaccines; (xiii) expense and reputational impact on the Company as a result of its ongoing proxy contest, and (xiv) other external developments which could materially impact the Company’s operational and financial performance.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, including interest rate, credit, and liquidity risk. The Company seeks to identify, manage and monitor these risks with policies, procedures, and various levels of managerial and Board oversight. The Company's objective is to optimize profitability while managing and monitoring risk within Board approved policy limits.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets, liabilities, and hedges. The Company uses its asset liability management policy and hedging policy to control and manage interest rate risk. For information regarding the effect of changing interest rates on the Company's net interest income and market value of its investment portfolio, see "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations — Interest Rate Sensitivity."

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as, the obligations to depositors, debtholders and to fund operating expenses. The Company uses its asset liability management policy and contingency funding plan to control and manage liquidity risk. See "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations — Liquidity."

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. The Company's primary credit risk occurs in the loan portfolio and to a lesser extent in the corporate and municipal portions of the investment portfolio. The Company uses its credit policy and disciplined approach to evaluating the adequacy of the allowance for loan losses to control and manage credit risk. The Company's investment policy and hedging policy strictly limit the amount of credit risk that may be assumed in the investment portfolio and through hedging activities.

For information regarding the market risk of the Company's financial instruments, see "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations — Interest Rate Sensitivity." The Company's principal market risk exposure is to interest rates.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**AMERISERV FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS**

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and due from depository institutions	\$ 18,830	\$ 24,748
Interest bearing deposits	4,132	10,942
Short-term investments	—	5,411
Cash and cash equivalents	<u>22,962</u>	<u>41,101</u>
Investment securities:		
Available for sale, at fair value	179,508	163,171
Held to maturity (fair value \$55,192 on December 31, 2022 and \$55,516 on December 31, 2021)	61,878	53,751
Loans held for sale	59	983
Loans	991,109	985,880
Less: Unearned income	343	826
Less: Allowance for loan losses	<u>10,743</u>	<u>12,398</u>
Net loans	<u>980,023</u>	<u>972,656</u>
Premises and equipment:		
Operating lease right-of-use asset	630	667
Financing lease right-of-use asset	2,413	2,684
Other premises and equipment, net	14,460	14,082
Accrued interest income receivable	4,804	3,984
Intangible assets:		
Goodwill	13,611	13,611
Core deposit intangible	128	158
Bank owned life insurance	38,895	38,842
Net deferred tax asset	2,789	—
Federal Home Loan Bank stock	5,754	2,692
Federal Reserve Bank stock	2,125	2,125
Other assets	<u>33,835</u>	<u>25,053</u>
TOTAL ASSETS	<u>\$ 1,363,874</u>	<u>\$ 1,335,560</u>
LIABILITIES		
Non-interest bearing deposits	\$ 195,123	\$ 211,106
Interest bearing deposits	<u>913,414</u>	<u>928,272</u>
Total deposits	<u>1,108,537</u>	<u>1,139,378</u>
Short-term borrowings	88,641	—
Advances from Federal Home Loan Bank	19,765	42,653
Operating lease liabilities	643	682
Financing lease liabilities	2,680	2,899
Subordinated debt	<u>26,644</u>	<u>26,603</u>
Total borrowed funds	<u>138,373</u>	<u>72,837</u>
Net deferred tax liability	—	934
Other liabilities	<u>10,786</u>	<u>5,862</u>
TOTAL LIABILITIES	<u>1,257,696</u>	<u>1,219,011</u>
SHAREHOLDERS' EQUITY		
Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,746,436 shares issued and 17,117,617 shares outstanding on December 31, 2022; 26,710,319 shares issued and 17,081,500 shares outstanding on December 31, 2021	267	267
Treasury stock at cost, 9,628,819 shares on December 31, 2022 and December 31, 2021	<u>(83,280)</u>	<u>(83,280)</u>
Capital surplus	146,225	146,069
Retained earnings	65,486	60,005
Accumulated other comprehensive loss, net	<u>(22,520)</u>	<u>(6,512)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>106,178</u>	<u>116,549</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,363,874</u>	<u>\$ 1,335,560</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	EXCEPT PER SHARE DATA)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	\$ 41,413	\$ 40,496	\$ 40,518
Tax exempt	71	89	110
Interest bearing deposits	26	6	15
Short-term investments	183	54	231
Investment securities:			
Available for sale	5,610	4,543	4,591
Held to maturity	1,755	1,481	1,417
Total Interest Income	<u>49,058</u>	<u>46,669</u>	<u>46,882</u>
INTEREST EXPENSE			
Deposits	6,424	4,806	7,634
Short-term borrowings	364	1	29
Advances from Federal Home Loan Bank	553	875	1,099
Financing lease liabilities	100	106	112
Guaranteed junior subordinated deferrable interest debentures	—	944	1,121
Subordinated debt	1,054	854	520
Total Interest Expense	<u>8,495</u>	<u>7,586</u>	<u>10,515</u>
Net Interest Income	<u>40,563</u>	<u>39,083</u>	<u>36,367</u>
Provision for loan losses	50	1,100	2,375
Net Interest Income after Provision for Loan Losses	<u>40,513</u>	<u>37,983</u>	<u>33,992</u>
NON-INTEREST INCOME			
Wealth management fees	11,620	11,986	10,212
Service charges on deposit accounts	1,108	965	903
Net gains on loans held for sale	208	664	1,523
Mortgage related fees	115	358	559
Net realized gains on investment securities	—	84	—
Bank owned life insurance	1,089	1,117	782
Other income	2,552	2,587	2,296
Total Non-Interest Income	<u>16,692</u>	<u>17,761</u>	<u>16,275</u>
NON-INTEREST EXPENSE			
Salaries and employee benefits	28,492	27,847	27,390
Net occupancy expense	2,883	2,620	2,510
Equipment expense	1,636	1,582	1,559
Professional fees ⁽¹⁾	3,210	2,872	2,909
Data processing and IT expense ⁽¹⁾	3,945	3,666	3,428
Supplies, postage and freight	651	668	714
Miscellaneous taxes and insurance	1,373	1,236	1,143
Federal deposit insurance expense	515	655	481
Branch acquisition costs	—	389	—
Other expense ⁽¹⁾	5,299	5,435	4,321
Total Non-Interest Expense	<u>48,004</u>	<u>46,970</u>	<u>44,455</u>
PRETAX INCOME	<u>9,201</u>	<u>8,774</u>	<u>5,812</u>
Provision for income taxes	1,753	1,702	1,214
NET INCOME	<u>\$ 7,448</u>	<u>\$ 7,072</u>	<u>\$ 4,598</u>

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PER COMMON SHARE DATA:			
Basic:			
Net income	\$ 0.44	\$ 0.41	\$ 0.27
Average number of shares outstanding.....	17,107	17,073	17,053
Diluted:			
Net income	\$ 0.43	\$ 0.41	\$ 0.27
Average number of shares outstanding.....	17,146	17,114	17,063
Cash dividends declared	\$ 0.115	\$ 0.100	\$ 0.100

⁽¹⁾ Certain comparative amounts for prior years have been reclassified to conform with current-year presentations. Such reclassifications did not affect net income or retained earnings.

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
COMPREHENSIVE (LOSS) INCOME			
Net income.	\$ 7,448	\$ 7,072	\$ 4,598
Other comprehensive (loss) income			
Pension obligation change for defined benefit plan	400	11,189	1,454
Income tax effect	(84)	(2,350)	(305)
Unrealized holding (losses) gains on available for sale securities arising during period	(20,664)	(2,642)	2,309
Income tax effect	4,340	555	(485)
Reclassification adjustment for net realized gains on available for sale securities included in net income.	—	(84)	—
Income tax effect	—	18	—
Other comprehensive (loss) income.	(16,008)	6,686	2,973
Comprehensive (loss) income	\$ (8,560)	\$ 13,758	\$ 7,571

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
COMMON STOCK			
Balance at beginning of period	\$ 267	\$ 267	\$ 267
New common shares issued for exercise of stock options (36,117, 21,356, and 38,235 shares in 2022, 2021, and 2020, respectively)	<u>—</u>	<u>—</u>	<u>—</u>
Balance at end of period	<u>267</u>	<u>267</u>	<u>267</u>
TREASURY STOCK			
Balance at beginning of period	(83,280)	(83,280)	(83,129)
Treasury stock purchased (35,962 shares in 2020)	<u>—</u>	<u>—</u>	<u>(151)</u>
Balance at end of period	<u>(83,280)</u>	<u>(83,280)</u>	<u>(83,280)</u>
CAPITAL SURPLUS			
Balance at beginning of period	146,069	145,969	145,888
New common shares issued for exercise of stock options (36,117, 21,356, and 38,235 shares in 2022, 2021, and 2020, respectively)	106	57	78
Stock option expense	<u>50</u>	<u>43</u>	<u>3</u>
Balance at end of period	<u>146,225</u>	<u>146,069</u>	<u>145,969</u>
RETAINED EARNINGS			
Balance at beginning of period	60,005	54,641	51,759
Net income	7,448	7,072	4,598
Cash dividend declared on common stock (\$0.115, \$0.100, and \$0.100 per share in 2022, 2021, and 2020, respectively)	<u>(1,967)</u>	<u>(1,708)</u>	<u>(1,716)</u>
Balance at end of period	<u>65,486</u>	<u>60,005</u>	<u>54,641</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET			
Balance at beginning of period	(6,512)	(13,198)	(16,171)
Other comprehensive (loss) income	<u>(16,008)</u>	<u>6,686</u>	<u>2,973</u>
Balance at end of period	<u>(22,520)</u>	<u>(6,512)</u>	<u>(13,198)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 106,178</u>	<u>\$ 116,549</u>	<u>\$ 104,399</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2022	2021	2020
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 7,448	\$ 7,072	\$ 4,598
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	50	1,100	2,375
Depreciation and amortization expense	2,066	2,016	1,996
Amortization expense of core deposit intangible	30	19	—
Amortization of fair value adjustment on acquired time deposits	(101)	(98)	—
Net amortization of investment securities	108	222	285
Net realized gains on investment securities — available for sale	—	(84)	—
Net amortization of deferred loan fees	(553)	(1,351)	(707)
Net gains on loans held for sale	(208)	(664)	(1,523)
Origination of mortgage loans held for sale	(9,421)	(13,806)	(87,140)
Sales of mortgage loans held for sale	10,553	19,737	87,281
(Increase) decrease in accrued interest receivable	(820)	1,084	(1,619)
Increase (decrease) in accrued interest payable	45	(490)	(525)
Earnings on bank-owned life insurance	(1,089)	(1,117)	(782)
Deferred income taxes	533	729	1,614
Stock compensation expense	50	43	3
Net change in operating leases	(84)	(94)	(89)
Other, net	(3,398)	(4,379)	(7,140)
Net cash provided by (used in) operating activities	<u>5,209</u>	<u>9,939</u>	<u>(1,373)</u>
INVESTING ACTIVITIES			
Purchase of investment securities — available for sale	(58,207)	(61,578)	(36,519)
Purchase of investment securities — held to maturity	(11,104)	(16,272)	(9,359)
Proceeds from maturities of investment securities — available for sale	19,638	38,826	36,215
Proceeds from maturities of investment securities — held to maturity	2,918	6,665	4,985
Proceeds from sales of investment securities — available for sale	1,519	960	—
Purchase of regulatory stock	(11,143)	(1,799)	(9,979)
Proceeds from redemption of regulatory stock	8,081	3,928	9,143
Long-term loans originated	(223,704)	(313,125)	(301,210)
Principal collected on long-term loans	216,787	301,498	212,179
Purchases of premises and equipment	(2,080)	(1,241)	(1,325)
Proceeds from sale of other real estate owned and repossessed assets	14	8	63
Cash acquired in branch acquisition, net	—	40,431	—
Proceeds from life insurance policies	1,000	1,211	490
Net cash used in investing activities	<u>(56,281)</u>	<u>(488)</u>	<u>(95,317)</u>
FINANCING ACTIVITIES			
Net (decrease) increase in deposit balances	(30,740)	42,124	94,407
Net increase (decrease) in other short-term borrowings	88,641	(24,702)	2,290
Principal borrowings on advances from Federal Home Loan Bank	—	2,000	36,050
Principal repayments on advances from Federal Home Loan Bank	(22,888)	(24,336)	(24,729)
Principal payments on financing lease liabilities	(219)	(210)	(203)
Redemption of guaranteed junior subordinated deferrable interest debentures	—	(12,018)	—
Subordinated debt issuance, net	—	26,589	—
Redemption of subordinated debt	—	(7,650)	—
Stock options exercised	106	57	78
Purchases of treasury stock	—	—	(151)
Common stock dividend paid	(1,967)	(1,708)	(1,716)
Net cash provided by financing activities	<u>32,933</u>	<u>146</u>	<u>106,026</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(18,139)</u>	<u>9,597</u>	<u>9,336</u>
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>41,101</u>	<u>31,504</u>	<u>22,168</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31	<u>\$ 22,962</u>	<u>\$ 41,101</u>	<u>\$ 31,504</u>

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND NATURE OF OPERATIONS:

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary, the Company operates 17 banking locations in five southwestern Pennsylvania counties and Hagerstown, Maryland. These branches provide a full range of consumer, mortgage, and commercial financial products.

The AmeriServ Trust and Financial Services Company (the Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately \$2.3 billion that are not recognized on the Company's Consolidated Balance Sheets at December 31, 2022.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), the Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 16 locations in Pennsylvania and 1 location in Maryland. AmeriServ Life was a captive insurance company that was formally closed on December 31, 2020.

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

INVESTMENT SECURITIES:

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income/loss within shareholders' equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis. The Company does not engage in trading activity.

Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. The Company believes the unrealized losses on certain securities within the investments portfolio are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

Additionally, the Company holds equity securities which are comprised of mutual funds held within a rabbi trust for the executive deferred compensation plan. Such securities are reported at fair value within other assets on the Consolidated Balance Sheets. Unrealized holding gains and losses on equity securities are included in earnings.

FEDERAL HOME LOAN BANK STOCK:

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time any such situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (3) the impact of legislative and regulatory changes on the customer base of FHLB; and (4) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

LOANS:

Interest income is recognized using the level yield method related to principal amounts outstanding. The Company typically discontinues the accrual of interest income when loans become 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. Payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; or the loan has been returned to accrual status. The only exception to this policy is for residential mortgage loans wherein interest income is recognized on a cash basis as payments are received. A non-accrual commercial loan is placed on accrual status after becoming current and remaining current for twelve consecutive payments. Residential mortgage loans are placed on accrual status upon becoming current.

LOAN FEES:

Loan origination and commitment fees, net of associated direct costs, are deferred and amortized into interest and fees on loans over the loan or commitment period. Fee amortization is determined by the effective interest method.

LOANS HELD FOR SALE:

Certain newly originated residential mortgage loans are classified as held for sale, because it is management's intent to sell these residential mortgage loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or fair value.

TRANSFERS OF FINANCIAL ASSETS:

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation is charged to operations over the estimated useful lives of the premises and equipment using the straight-line method with a half-year convention. Useful lives of up to 30 years for buildings and up to 10 years for equipment are utilized. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor alterations are charged to current operations as expenditures are incurred.

LEASES:

The Company has operating and financing leases for several office locations and equipment. Generally, the underlying lease agreements do not contain any material residual value guarantees or material restrictive covenants. Many of our leases include both lease (e.g., minimum rent payments) and non-lease components, such as common area maintenance charges, utilities, real estate taxes, and insurance. The Company has elected to account for the variable non-lease components separately from the lease component. Such variable non-lease components are reported in net occupancy expense on the Consolidated Statements of Operations when incurred. These variable non-lease components were excluded from the calculation of the present value of the remaining lease payments, therefore, they are not included in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheets.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease is the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease.

Under Topic 842, the lessee can elect to not record on the Consolidated Balance Sheets a lease whose term is twelve months or less and does not include a purchase option that the lessee is reasonably certain to exercise. As of December 31, 2022, the Company had one short-term lease for an office location compared to no short-term leases as of December 31, 2021.

ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:

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

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:

The allowance for unfunded loan commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for unfunded loan commitments and letters of credit are provided for in the unfunded commitment reserve expense line item within other expense in the Consolidated Statements of Operations and a separate reserve is recorded within the other liabilities line item of the Consolidated Balance Sheets.

BANK-OWNED LIFE INSURANCE:

The Company has purchased life insurance policies on certain current and previous employees. These policies are recorded on the Consolidated Balance Sheets at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in bank owned life insurance within non-interest income. Additionally, income is accrued on certain policies that have reached the minimum floor rate of return. This guaranteed portion of income is not added to the cash surrender value of the policy until the policy anniversary date and is reported in other assets on the Consolidated Balance Sheets.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INTANGIBLE ASSETS:

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill is not amortized, but is periodically evaluated for impairment. The Company tests goodwill for impairment on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

Identifiable intangible assets are amortized to their estimated residual values over their expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. The identifiable intangible assets consist of a core deposit intangible which is being amortized on an accelerated basis over a ten-year useful life.

EARNINGS PER COMMON SHARE:

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are excluded for earnings per share purposes. Options to purchase 22,000, 22,000, and 139,759 shares of common stock were outstanding during 2022, 2021 and 2020, respectively, but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive. Exercise prices of anti-dilutive options to purchase common stock outstanding were \$4.00-\$4.22, \$4.00-\$4.22, and \$3.18-\$4.22 during 2022, 2021 and 2020, respectively.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Numerator:			
Net income	\$ 7,448	\$ 7,072	\$ 4,598
Denominator:			
Weighted average common shares outstanding (basic)	17,107	17,073	17,053
Effect of stock options	39	41	10
Weighted average common shares outstanding (diluted)	17,146	17,114	17,063
Earnings per common share:			
Basic	\$ 0.44	\$ 0.41	\$ 0.27
Diluted	0.43	0.41	0.27

STOCK-BASED COMPENSATION:

The Company uses the modified prospective method for accounting of stock-based compensation. The fair value of each option grant is estimated on the grant date using the Binomial or Black-Scholes option pricing model and the expense is recognized ratably over the service period. Forfeitures are recognized as they occur. See Note 19 for details on the assumptions used.

ACCUMULATED OTHER COMPREHENSIVE LOSS:

The Company presents the components of other comprehensive (loss) income in the Consolidated Statements of Comprehensive (Loss) Income. These components are comprised of the change in the defined benefit pension obligation and the unrealized holding gains (losses) on available for sale securities, net of any reclassification adjustments for realized gains and losses.

CONSOLIDATED STATEMENT OF CASH FLOWS:

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest bearing deposits, and short-term investments in both money market funds and commercial paper. The Company made \$1.1 million in income tax payments in 2022; \$200,000 in 2021; and \$315,000 in 2020. The Company had non-cash

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

transfers to other real estate owned (OREO) and repossessed assets in the amounts of \$53,000 in 2022; \$8,000 in 2021; and \$40,000 in 2020. During 2022, the Company entered into a new operating lease related to an office location and recorded a right-of-use asset and lease liability of \$45,000. During 2021, the Company did not enter into any new lease agreements. During 2020, the Company entered into two new financing leases, one related to office equipment and the other to a branch location, and recorded a right-of-use asset and lease liability of \$149,000. The Company made total interest payments of \$8,450,000 in 2022; \$8,049,000 in 2021; and \$11,040,000 in 2020.

On May 21, 2021, AmeriServ Financial Bank completed its acquisition from Citizen’s Neighborhood Bank (CNB), an operating division of Riverview Bank, the branch and related deposit customers in Meyersdale, Pennsylvania and the deposit customers in Somerset, Pennsylvania. In addition to the branch acquisition related information disclosed on the Consolidated Statements of Cash Flows, the following were recorded as non-cash transfers on the corresponding lines of the Consolidated Balance Sheets as of December 31, 2021 (in thousands).

Acquisition of Riverview Bank Branches

<u>Non-cash assets acquired</u>	
Loans	\$ 36
Other premises and equipment, net	158
Intangible assets	1,844
	2,038
<u>Non-cash liabilities assumed</u>	
Non-interest bearing deposits	(7,372)
Interest bearing deposits	(35,060)
Other liabilities	(37)
	(42,469)
Net non-cash liabilities assumed	\$ (40,431)

INCOME TAXES:

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the corresponding asset or liability from period to period. Deferred tax assets are reduced, if necessary, by the amounts of such benefits that are not expected to be realized based upon available evidence.

INTEREST RATE CONTRACTS:

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

The Company periodically enters into derivative instruments to meet the financing, interest rate and equity risk management needs of its customers or the Bank. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings in amounts that offset. These instruments and their offsetting positions are recorded in other assets and other liabilities on the Consolidated Balance Sheets.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENSION:

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's pension obligations and future expense. Additionally, pension expense can also be impacted by settlement accounting charges if the amount of employees selected lump sum distributions exceed the total amount of service and interest component costs of the net periodic pension cost in a particular year.

The service cost component of net periodic benefit cost is determined by aggregating the product of the discounted cash flows of the plan's service cost for each year and an individual spot rate (referred to as the "spot rate" approach). The interest cost component is determined by aggregating the product of the discounted cash flows of the plan's projected benefit obligations for each year and an individual spot rate. Management believes this methodology is an appropriate measure of the service cost and interest cost as each year's cash flows are specifically linked to the interest rates of bond payments in the same respective year. Our pension benefits are described further in Note 17 of the Notes to Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

We group our assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level I — Valuation is based upon quoted prices for identical instruments traded in active markets.

Level II — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

We base our fair values on 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. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in generally accepted accounting principles.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which changes the impairment model for most financial assets. This update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This update is effective for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company, as a smaller reporting company, evaluated the impact that ASU 2016-13 will have on our consolidated financial statements. We worked with an industry leading third-party consultant and software provider to assist us in the implementation of ASU 2016-13. Our implementation plan included assessment and documentation of processes, internal controls and data sources; model development, documentation and validation, including loan segmentation procedures and analyzing the methodology options; and system configuration, among other things. The Company intends to adopt ASU 2016-13 effective January 1, 2023.

The allowance for credit losses (ACL) will be based on our historical loss experience, borrower characteristics, reasonable and supportable forecasts of future economic conditions, and other relevant factors. We will also apply qualitative factors to account for information that may not be reflected in quantitatively derived results to ensure that the ACL reflects the best estimate of current expected credit losses.

Our team, under the direction of senior management, has completed the initial data gap assessment, enhancement of existing data, finalized the loan segmentation selections, and analyzed the methodology options regarding the calculation of expected credit losses. After analyzing our data and the nature of our portfolio in relation to the CECL transition, the team agreed to utilize the static pool analysis (cohort) method. This methodology most closely aligns with the Company's current methodology leveraged in our incurred loss model calculation. The Company's current methodology will be adjusted to appropriately incorporate and comply with ASU 2016-13 and, thus, offers an effective and efficient path to CECL compliance.

The static pool analysis methodology captures loans that qualify for a segment (i.e. balance of a pool of loans with similar risk characteristics) as of a point in time to form a cohort, then tracks that cohort over their remaining lives to determine their loss behavior. The remaining lifetime loss rate is then applied to current loans that qualify for the same segmentation criteria to form a remaining life expectation on current loans. Based on a preliminary parallel calculation as of December 31, 2022, the Company believes that the adoption of ASU 2016-13 will not have a significant impact on our financial statements. The allowance of credit losses under the CECL methodology is estimated to be between \$11.8 million and \$12.2 million for our loan portfolio.

Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses for held to maturity (HTM) debt securities. Based on the credit quality of the Company's HTM debt securities portfolio, we do not expect the ACL to be significant and estimate it will be between \$50,000 and \$150,000.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*. The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of an existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments of ASC 326 require that an entity disclose current-period gross writeoffs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments of ASU 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations which will be adopted with ASU 2016-13 effective January 1, 2023.

3. REVENUE RECOGNITION

ASU 2014-09, *Revenue from Contracts with Customers – Topic 606*, requires the Company to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers at the time the transfer of goods or services takes place. Management determined that the primary sources of revenue associated with financial instruments, including interest and fee income on loans and interest on investments, along with certain non-

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest revenue sources including net realized gains (losses) on investment securities, mortgage related fees, net gains on loans held for sale, and bank owned life insurance are not within the scope of Topic 606. These sources of revenue cumulatively comprise 77.6% of the total revenue of the Company.

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

- Wealth management fees – Wealth management fee income is primarily comprised of fees earned from the management and administration of trusts and customer investment portfolios. The Company's performance obligation is generally satisfied over a period of time and the resulting fees are billed monthly or quarterly, based upon the month end market value of the assets under management. Payment is generally received after month end through a direct charge to customers' accounts. Due to this delay in payment, a receivable of \$850,000 has been established as of December 31, 2022 and is included in other assets on the Consolidated Balance Sheets in order to properly recognize the revenue earned but not yet received. Other performance obligations (such as delivery of account statements to customers) are generally considered immaterial to the overall transactions' price. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed. Also included within wealth management fees are commissions from the sale of mutual funds, annuities, and life insurance products. Commissions on the sale of mutual funds, annuities, and life insurance products are recognized when sold, which is when the Company has satisfied its performance obligation.
- Service charges on deposit accounts — The Company has contracts with its deposit account customers where fees are charged for certain items or services. Service charges include account analysis fees, monthly service fees, overdraft fees, and other deposit account related fees. Revenue related to account analysis fees and service fees is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. Fees attributable to specific performance obligations of the Company (i.e. overdraft fees, etc.) are recognized at a defined point in time based on completion of the requested service or transaction.
- Other non-interest income — Other non-interest income consists of other recurring revenue streams such as safe deposit box rental fees, gain (loss) on sale of other real estate owned, ATM and VISA debit card fees, and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized when billed. However, if the safe deposit box rental fee is prepaid (i.e. paid prior to issuance of annual bill), the revenue is recognized upon receipt of payment. The Company has determined that since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Gains and losses on the sale of other real estate owned are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Company have been satisfied. The Company offers ATM and VISA debit cards to deposit account holders which allows our customers to access their account electronically at ATMs and POS terminals. Fees related to ATM and VISA debit card transactions are recognized when the transactions are completed and the Company has satisfied its performance obligation.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2022, 2021, and 2020 (in thousands).

	AT DECEMBER 31,		
	2022	2021	2020
Non-interest income:			
In-scope of Topic 606			
Wealth management fees	\$ 11,620	\$ 11,986	\$ 10,212
Service charges on deposit accounts	1,108	965	903
Other	2,009	2,017	1,708
Non-interest income (in-scope of topic 606)	14,737	14,968	12,823
Non-interest income (out-of-scope of topic 606)	1,955	2,793	3,452
Total non-interest income	\$ 16,692	\$ 17,761	\$ 16,275

4. CASH AND DUE FROM DEPOSITORY INSTITUTIONS

Cash and due from depository institutions totaled \$18.8 million and \$24.7 million as of December 31, 2022 and 2021, respectively. The Federal Reserve reduced reserve requirements to zero as of March 26, 2020.

5. INVESTMENT SECURITIES

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

Investment securities available for sale:

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

Investment securities held to maturity:

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment securities available for sale:

	DECEMBER 31, 2021			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
		(IN THOUSANDS)		
U.S. Agency	\$ 7,371	\$ 86	\$ (70)	\$ 7,387
U.S. Agency mortgage-backed securities	80,136	1,202	(1,171)	80,167
Municipal	20,066	851	(25)	20,892
Corporate bonds	53,843	1,028	(146)	54,725
Total	<u>\$ 161,416</u>	<u>\$ 3,167</u>	<u>\$ (1,412)</u>	<u>\$ 163,171</u>

Investment securities held to maturity:

	DECEMBER 31, 2021			FAIR VALUE
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
		(IN THOUSANDS)		
U.S. Agency	\$ 2,500	\$ —	\$ (11)	\$ 2,489
U.S. Agency mortgage-backed securities	10,556	203	(115)	10,644
Municipal	33,188	1,734	(103)	34,819
Corporate bonds and other securities	7,507	64	(7)	7,564
Total	<u>\$ 53,751</u>	<u>\$ 2,001</u>	<u>\$ (236)</u>	<u>\$ 55,516</u>

Maintaining investment quality is a primary objective of the Company’s investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody’s Investors Service or Standard & Poor’s rating of A. At December 31, 2022, 52.5% of the portfolio was rated AAA as compared to 47.1% at December 31, 2021. Approximately 14.7% of the portfolio was rated below A or unrated on December 31, 2022 and 2021. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. agencies, that exceeded 10% of shareholders’ equity at December 31, 2022.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits was \$134,002,000 at December 31, 2022 and \$122,574,000 at December 31, 2021.

The Company realized \$5,000 of gross investment security gains and \$5,000 of gross investment security losses in 2022, realized \$84,000 of gross investment security gains in 2021, and sold no investment securities during 2020. On a net basis, the realized gain for 2022 was zero and the realized gain for 2021 was \$66,000 after factoring in tax expense of \$18,000. Proceeds from sales of investment securities available for sale were \$1.5 million for 2022 and \$960,000 for 2021.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's consolidated investment securities portfolio had an effective duration of approximately 4.67 years. The weighted average expected maturity for available for sale securities at December 31, 2022 for U.S. agency, U.S. agency mortgage-backed, corporate bond, and municipal securities was 5.62, 6.99, 4.18, and 4.06 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2022 for U.S. agency, U.S. agency mortgage-backed, corporate bond/other securities, and municipal securities was 7.57, 7.39, 2.97, and 5.37 years, respectively. The following table sets forth the contractual maturity distribution of the investment securities, cost basis and fair market values as of December 31, 2022.

Investment securities available for sale:

	AT DECEMBER 31, 2022				
	U. S. AGENCY	MUNICIPAL	CORPORATE BONDS (IN THOUSANDS)	U.S. AGENCY MORTGAGE- BACKED SECURITIES	TOTAL INVESTMENT SECURITIES AVAILABLE FOR SALE
COST BASIS					
Within 1 year	\$ —	\$ 1,065	\$ 6,000	\$ —	\$ 7,065
After 1 year but within 5 years	4,279	12,538	26,039	1,488	44,344
After 5 years but within 10 years	6,000	7,234	30,463	5,577	49,274
Over 10 years	1,518	—	650	95,566	97,734
Total	\$ 11,797	\$ 20,837	\$ 63,152	\$ 102,631	\$ 198,417
FAIR VALUE					
Within 1 year	\$ —	\$ 1,045	\$ 5,970	\$ —	\$ 7,015
After 1 year but within 5 years	4,102	11,873	25,084	1,431	42,490
After 5 years but within 10 years	5,048	6,120	28,364	5,264	44,796
Over 10 years	1,383	—	534	83,290	85,207
Total	\$ 10,533	\$ 19,038	\$ 59,952	\$ 89,985	\$ 179,508

Investment securities held to maturity:

	AT DECEMBER 31, 2022				
	U.S. AGENCY	MUNICIPAL	CORPORATE BONDS AND OTHER (IN THOUSANDS)	U.S. AGENCY MORTGAGE- BACKED SECURITIES	TOTAL INVESTMENT SECURITIES HELD TO MATURITY
COST BASIS					
Within 1 year	\$ —	\$ 425	\$ 2,000	\$ —	\$ 2,425
After 1 year but within 5 years	—	8,874	3,015	1,005	12,894
After 5 years but within 10 years	2,500	21,315	500	812	25,127
Over 10 years	—	3,379	993	17,060	21,432
Total	\$ 2,500	\$ 33,993	\$ 6,508	\$ 18,877	\$ 61,878
FAIR VALUE					
Within 1 year	\$ —	\$ 419	\$ 1,942	\$ —	\$ 2,361
After 1 year but within 5 years	—	8,411	2,901	979	12,291
After 5 years but within 10 years	2,068	18,550	500	779	21,897
Over 10 years	—	2,735	993	14,915	18,643
Total	\$ 2,068	\$ 30,115	\$ 6,336	\$ 16,673	\$ 55,192

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information concerning investments with unrealized losses as of December 31, 2022 (in thousands):

Total investment securities:

	DECEMBER 31, 2022					
	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$ 5,446	\$ (350)	\$ 6,653	\$ (1,347)	\$ 12,099	\$ (1,697)
U.S. Agency mortgage-backed securities	57,193	(4,018)	44,083	(10,904)	101,276	(14,922)
Municipal	37,175	(3,113)	11,475	(2,566)	48,650	(5,679)
Corporate bonds and other securities	39,549	(1,923)	16,721	(1,479)	56,270	(3,402)
Total	<u>\$ 139,363</u>	<u>\$ (9,404)</u>	<u>\$ 78,932</u>	<u>\$ (16,296)</u>	<u>\$ 218,295</u>	<u>\$ (25,700)</u>

The following table presents information concerning investments with unrealized losses as of December 31, 2021 (in thousands):

Total investment securities:

	DECEMBER 31, 2021					
	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$ 7,419	\$ (81)	\$ —	\$ —	\$ 7,419	\$ (81)
U.S. Agency mortgage-backed securities . .	45,422	(972)	6,691	(314)	52,113	(1,286)
Municipal	7,832	(128)	—	—	7,832	(128)
Corporate bonds and other securities	14,558	(92)	2,439	(61)	16,997	(153)
Total	<u>\$ 75,231</u>	<u>\$ (1,273)</u>	<u>\$ 9,130</u>	<u>\$ (375)</u>	<u>\$ 84,361</u>	<u>\$ (1,648)</u>

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. There are 426 positions that are considered temporarily impaired at December 31, 2022. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value or mature.

The interest rate environment and market yields can also have a significant impact on the yield earned on mortgage-backed securities (MBS). Prepayment speed assumptions are an important factor to consider when evaluating the returns on an MBS. Generally, as interest rates decline, borrowers have more incentive to refinance into a lower rate, so prepayments will rise. Conversely, as interest rates increase, prepayments will decline. When an MBS is purchased at a premium, the yield will decrease as prepayments increase and the yield will increase as prepayments decrease. As of December 31, 2022, the Company had low premium risk as the book value of our mortgage-backed securities purchased at a premium was only 100.9% of the par value.

As of December 31, 2022, 2021, and 2020, the Company reported \$502,000, \$526,000, and \$443,000, respectively, of equity securities within other assets on the Consolidated Balance Sheets. These equity securities are held within a nonqualified deferred compensation plan in which a select group of executives of the Company can participate. An eligible executive can defer a certain percentage of their current salary to be placed into the plan and

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

held within a rabbi trust. The assets of the rabbi trust are invested in various publicly listed mutual funds. The gain or loss on the equity securities (both realized and unrealized) is reported within other income on the Consolidated Statements of Operations. The realized loss on equity securities was \$9,000 during 2022 while the realized gain on equity securities was \$36,000 and \$2,000 during 2021 and 2020, respectively. The unrealized loss was \$13,000 in 2022 compared to an unrealized gain of \$7,000 and \$3,000 in 2021 and 2020, respectively. Additionally, the Company has recognized a deferred compensation liability, which is equal to the balance of the equity securities and is reported within other liabilities on the Consolidated Balance Sheets.

6. LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
Commercial:		
Commercial and industrial	\$ 153,398	\$ 134,182
Paycheck Protection Program (PPP)	22	17,311
Commercial loans secured by owner occupied real estate ⁽¹⁾	75,158	99,644
Commercial loans secured by non-owner occupied real estate ⁽¹⁾	450,744	430,825
Real estate – residential mortgage ⁽¹⁾	297,971	287,996
Consumer	13,473	15,096
Loans, net of unearned income	\$ 990,766	\$ 985,054

⁽¹⁾ Real estate construction loans constituted 4.7% and 5.6% of the Company’s total loans, net of unearned income as of December 31, 2022 and 2021, respectively.

Loan balances at December 31, 2022 and 2021 are net of unearned income of \$343,000 and \$826,000, respectively. The unearned income balance at December 31, 2022 includes no unrecognized fee income from PPP loan originations compared to \$386,000 at December 31, 2021. The Company has no exposure to subprime mortgage loans in either the loan or investment portfolios. The Company has no direct loan exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2022 and 2021, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company’s lending occurs within a 250-mile radius of the Johnstown market.

In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. In management’s opinion, these transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled \$587,000 and \$601,000 at December 31, 2022 and 2021, respectively.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides information regarding our potential risk concentrations for commercial and commercial real estate loans by industry type at December 31, 2022 and 2021 (in thousands).

	DECEMBER 31, 2022				Total
	Commercial and industrial	Paycheck Protection Program	Commercial loans secured by owner occupied real estate	Commercial loans secured by non-owner occupied real estate	
1-4 unit residential	\$ —	\$ —	\$ —	\$ 7,690	\$ 7,690
Multifamily/apartments/student housing	—	—	65	83,033	83,098
Office	44,959	—	7,428	23,775	76,162
Retail	6,478	—	17,072	147,601	171,151
Industrial/manufacturing/warehouse	82,540	—	11,016	77,640	171,196
Hotels	—	—	—	36,214	36,214
Eating and drinking places	276	22	4,575	1,354	6,227
Personal care	881	—	—	2,647	3,528
Amusement and recreation	66	—	3,223	3	3,292
Mixed use	—	—	4,268	51,222	55,490
Other	18,198	—	27,511	19,565	65,274
Total	\$ 153,398	\$ 22	\$ 75,158	\$ 450,744	\$ 679,322

	DECEMBER 31, 2021				Total
	Commercial and industrial	Paycheck Protection Program	Commercial loans secured by owner occupied real estate	Commercial loans secured by non-owner occupied real estate	
1-4 unit residential	\$ 1,246	\$ —	\$ 96	\$ 8,565	\$ 9,907
Multifamily/apartments/student housing	—	—	245	73,912	74,157
Office	37,386	203	8,644	28,500	74,733
Retail	7,253	444	20,439	148,668	176,804
Industrial/manufacturing/warehouse	74,508	5,940	21,468	44,316	146,232
Hotels	154	1,764	—	42,425	44,343
Eating and drinking places	484	6,591	4,537	1,752	13,364
Personal care	1,197	173	—	4,315	5,685
Amusement and recreation	92	53	5,402	12	5,559
Mixed use	—	—	4,031	62,088	66,119
Other	11,862	2,143	34,782	16,272	65,059
Total	\$ 134,182	\$ 17,311	\$ 99,644	\$ 430,825	\$ 681,962

Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provides emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act and subsequent legislation authorized the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Company was automatically authorized to originate PPP loans.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly payroll costs; or (2) \$10.0 million. PPP loans have: (a) an interest rate of 1.0%; (b) a two-year (if originated prior to June 5, 2020) or five-year (if originated after June 5, 2020) loan term to maturity; and (c) principal and interest payments deferred for six months from the date of disbursement. The SBA will guarantee 100% of the PPP loans made to eligible borrowers pursuant to standards as defined by the SBA. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and at least 60% of the loan proceeds are used for payroll expenses,

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

with the remaining loan proceeds being used for other qualifying expenses such as interest on mortgages, rent, and utilities.

In addition, PPP allows certain eligible borrowers that previously received a PPP loan to apply for a second draw loan with the same general terms described above. The maximum loan amount of a second draw PPP loan is 2.5 times, or 3.5 times for borrowers within the hospitality industry, the average monthly 2019 or 2020 payroll costs up to \$2.0 million. Eligibility for a second draw PPP loan is based on the following criteria: (a) borrower previously received a first draw PPP loan and used the full amount for only authorized expenditures; (b) borrower has 300 or less employees; and (c) borrower can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020. The PPP loan program expired on May 31, 2021 for originating new loans.

As of December 31, 2022, the Company had 1 PPP loan outstanding totaling \$22,000 and has recorded a total of \$434,000 of processing fee income and interest income from PPP lending activity for the year ended. As of December 31, 2021, the Company had 114 PPP loans outstanding totaling \$17.3 million and had recorded a total of \$2.3 million of processing fee income and interest income from PPP lending activity for the year ended.

7. ALLOWANCE FOR LOAN LOSSES

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

The following table summarizes the rollforward of the allowance for loan losses by portfolio segment (in thousands).

	<u>BALANCE AT DECEMBER 31, 2021</u>	<u>CHARGE- OFFS</u>	<u>RECOVERIES</u>	<u>PROVISION (CREDIT)</u>	<u>BALANCE AT DECEMBER 31, 2022</u>
Commercial	\$ 3,071	\$ (97)	\$ 4	\$ (325)	\$ 2,653
Commercial loans secured by non- owner occupied real estate.....	6,392	(1,390)	54	916	5,972
Real estate – residential mortgage ..	1,590	(28)	19	(201)	1,380
Consumer	113	(334)	67	239	85
Allocation for general risk	1,232	—	—	(579)	653
Total	<u>\$ 12,398</u>	<u>\$ (1,849)</u>	<u>\$ 144</u>	<u>\$ 50</u>	<u>\$ 10,743</u>

	<u>BALANCE AT DECEMBER 31, 2020</u>	<u>CHARGE- OFFS</u>	<u>RECOVERIES</u>	<u>PROVISION (CREDIT)</u>	<u>BALANCE AT DECEMBER 31, 2021</u>
Commercial	\$ 3,472	\$ (146)	\$ 89	\$ (344)	\$ 3,071
Commercial loans secured by non- owner occupied real estate.....	5,373	—	51	968	6,392
Real estate – residential mortgage ..	1,292	(17)	49	266	1,590
Consumer.....	115	(131)	58	71	113
Allocation for general risk	1,093	—	—	139	1,232
Total.....	<u>\$ 11,345</u>	<u>\$ (294)</u>	<u>\$ 247</u>	<u>\$ 1,100</u>	<u>\$ 12,398</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>BALANCE AT DECEMBER 31, 2019</u>	<u>CHARGE- OFFS</u>	<u>RECOVERIES</u>	<u>PROVISION (CREDIT)</u>	<u>BALANCE AT DECEMBER 31, 2020</u>
Commercial	\$ 3,951	\$ (111)	\$ 4	\$ (372)	\$ 3,472
Commercial loans secured by non-owner occupied real estate	3,119	—	44	2,210	5,373
Real estate – residential mortgage ...	1,159	(233)	62	304	1,292
Consumer	126	(143)	68	64	115
Allocation for general risk	924	—	—	169	1,093
Total	<u>\$ 9,279</u>	<u>\$ (487)</u>	<u>\$ 178</u>	<u>\$ 2,375</u>	<u>\$ 11,345</u>

The \$325,000 allowance for loan losses credit recorded during the year ended December 31, 2022 within the commercial portfolio was due to a lower level of criticized assets and, to a lesser extent, portfolio contraction. A \$916,000 allowance for loan losses provision was recorded for the non-owner occupied commercial real estate portfolio as a result of the partial charge-down and transfer of one loan relationship into non-accrual status during the third quarter of the year while the borrower pursues the sale of the property. Additionally, the non-owner occupied commercial real estate portfolio was impacted by the risk rating downgrade of another loan relationship as well as portfolio growth. It is further noted that the allocation for general risk eased due to improvement in the qualitative adjustment as the economy demonstrated improvement coming out of the pandemic during 2022.

The \$344,000 allowance for loan losses credit recorded during the year ended December 31, 2021 within the commercial portfolio was attributable to lower criticized commercial and industrial loans outstanding resulting from upgrades of certain credits originally impacted by the pandemic, as well as lower historical loss rates. While a \$968,000 allowance for loan losses provision was recorded for the non-owner occupied commercial real estate portfolio which stemmed from overall portfolio growth as well as elevated classified commercial real estate balances.

For the year ended December 31, 2020, a \$372,000 allowance for loan losses credit was recognized for the commercial portfolio due to portfolio contraction, reduced classified asset levels, and lower historical loss factors. In addition, a \$2.2 million allowance for loan losses provision was recorded for the non-owner occupied commercial real estate portfolio which resulted from overall portfolio growth coupled with escalated criticized asset levels driven primarily by pandemic related downgrades.

The following tables summarize the loan portfolio and allowance for loan losses by the primary segments of the loan portfolio.

	<u>AT DECEMBER 31, 2022</u>				
	<u>COMMERCIAL LOANS</u>				
	<u>COMMERCIAL</u>	<u>SECURED BY NON- OWNER OCCUPIED REAL ESTATE</u>	<u>REAL ESTATE – RESIDENTIAL MORTGAGE</u>	<u>CONSUMER</u>	<u>TOTAL</u>
<u>Loans:</u>	<u>(IN THOUSANDS)</u>				
Individually evaluated for impairment	\$ 1,989	\$ 1,586	\$ —	\$ —	\$ 3,575
Collectively evaluated for impairment	226,589	449,158	297,971	13,473	987,191
Total loans	<u>\$ 228,578</u>	<u>\$ 450,744</u>	<u>\$ 297,971</u>	<u>\$ 13,473</u>	<u>\$ 990,766</u>

	<u>AT DECEMBER 31, 2022</u>				
	<u>COMMERCIAL LOANS</u>				<u>ALLOCATION</u>
	<u>COMMERCIAL</u>	<u>SECURED BY NON- OWNER OCCUPIED REAL ESTATE</u>	<u>REAL ESTATE – RESIDENTIAL MORTGAGE</u>	<u>CONSUMER</u>	<u>FOR GENERAL RISK</u>
<u>Allowance for loan losses:</u>	<u>(IN THOUSANDS)</u>				
Specific reserve allocation ..	\$ 520	\$ 3	\$ —	\$ —	\$ 523
General reserve allocation ..	2,133	5,969	1,380	85	10,220
Total allowance for loan losses	<u>\$ 2,653</u>	<u>\$ 5,972</u>	<u>\$ 1,380</u>	<u>\$ 85</u>	<u>\$ 10,743</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2021					
Loans:	COMMERCIAL LOANS			CONSUMER	TOTAL
	COMMERCIAL	SECURED BY NON-OWNER OCCUPIED REAL ESTATE	REAL ESTATE – RESIDENTIAL MORTGAGE		
(IN THOUSANDS)					
Individually evaluated for impairment	\$ 2,165	\$ 5	\$ —	\$ —	\$ 2,170
Collectively evaluated for impairment	248,972	430,820	287,996	15,096	982,884
Total loans	<u>\$ 251,137</u>	<u>\$ 430,825</u>	<u>\$ 287,996</u>	<u>\$ 15,096</u>	<u>\$ 985,054</u>

AT DECEMBER 31, 2021						
Allowance for loan losses:	COMMERCIAL LOANS			CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
	COMMERCIAL	SECURED BY NON-OWNER OCCUPIED REAL ESTATE	REAL ESTATE – RESIDENTIAL MORTGAGE			
(IN THOUSANDS)						
Specific reserve allocation	\$ 628	\$ 5	\$ —	\$ —	\$ —	\$ 633
General reserve allocation	2,443	6,387	1,590	113	1,232	11,765
Total allowance for loan losses	<u>\$ 3,071</u>	<u>\$ 6,392</u>	<u>\$ 1,590</u>	<u>\$ 113</u>	<u>\$ 1,232</u>	<u>\$ 12,398</u>

Management evaluates for possible impairment any individual loan in the commercial or commercial real estate segment that is in non-accrual status or classified as a Troubled Debt Restructure (TDR). In addition, consumer and residential mortgage loans with a balance of \$150,000 or more are evaluated for impairment. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs for collateral dependent loans. The method is selected on a loan-by-loan basis, with management primarily utilizing either the discounted cash flows or the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

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

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

- the passage of time;
- the volatility of the local market;

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following tables present impaired loans by portfolio segment, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary.

	AT DECEMBER 31, 2022				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE		TOTAL IMPAIRED LOANS
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(IN THOUSANDS)				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Commercial	\$ 1,989	\$ 520	\$ —	\$ 1,989	\$ 2,240
Commercial loans secured by non-owner occupied real estate	<u>3</u>	<u>3</u>	<u>1,583</u>	<u>1,586</u>	<u>1,643</u>
Total impaired loans	<u>\$ 1,992</u>	<u>\$ 523</u>	<u>\$ 1,583</u>	<u>\$ 3,575</u>	<u>\$ 3,883</u>

	AT DECEMBER 31, 2021				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE		TOTAL IMPAIRED LOANS
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(IN THOUSANDS)				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Commercial	\$ 2,165	\$ 628	\$ —	\$ 2,165	\$ 2,260
Commercial loans secured by non-owner occupied real estate	<u>5</u>	<u>5</u>	<u>—</u>	<u>5</u>	<u>27</u>
Total impaired loans	<u>\$ 2,170</u>	<u>\$ 633</u>	<u>\$ —</u>	<u>\$ 2,170</u>	<u>\$ 2,287</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
Average impaired balance:			
Commercial	\$ 2,062	\$ 2,301	\$ 839
Commercial loans secured by non-owner occupied real estate	805	7	8
Average investment in impaired loans.	<u>\$ 2,867</u>	<u>\$ 2,308</u>	<u>\$ 847</u>
Interest income recognized:			
Commercial	\$ —	\$ 15	\$ 38
Commercial loans secured by non-owner occupied real estate	—	—	—
Interest income recognized on a cash basis on impaired loans	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ 38</u>

Management uses a nine-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five “Pass” categories are aggregated, while the Pass-6, Special Mention, Substandard and Doubtful categories are disaggregated to separate pools. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for loan losses are placed in Substandard or Doubtful.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$1,000,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company’s commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review and rating concurrence from the Company’s internal Loan Review Department. The Loan Review Department is an experienced, independent function which reports directly to the Board’s Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2022 required review of approximately 40% of the commercial loan portfolio.

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the classes of the commercial and commercial real estate loan portfolios summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system.

	AT DECEMBER 31, 2022				
	<u>PASS</u>	<u>SPECIAL MENTION</u>	<u>SUBSTANDARD</u>	<u>DOUBTFUL</u>	<u>TOTAL</u>
	(IN THOUSANDS)				
Commercial and industrial	\$ 148,361	\$ —	\$ 5,037	\$ —	\$ 153,398
Paycheck Protection Program (PPP)	22	—	—	—	22
Commercial loans secured by owner occupied real estate	74,187	—	971	—	75,158
Commercial loans secured by non-owner occupied real estate	423,486	11,015	16,240	3	450,744
Total	<u>\$ 646,056</u>	<u>\$ 11,015</u>	<u>\$ 22,248</u>	<u>\$ 3</u>	<u>\$ 679,322</u>

	AT DECEMBER 31, 2021				
	<u>PASS</u>	<u>SPECIAL MENTION</u>	<u>SUBSTANDARD</u>	<u>DOUBTFUL</u>	<u>TOTAL</u>
	(IN THOUSANDS)				
Commercial and industrial	\$ 125,079	\$ 6,722	\$ 738	\$ 1,643	\$ 134,182
Paycheck Protection Program (PPP)	17,311	—	—	—	17,311
Commercial loans secured by owner occupied real estate	98,271	297	1,076	—	99,644
Commercial loans secured by non-owner occupied real estate	399,104	19,322	12,394	5	430,825
Total	<u>\$ 639,765</u>	<u>\$ 26,341</u>	<u>\$ 14,208</u>	<u>\$ 1,648</u>	<u>\$ 681,962</u>

It is generally the policy of the Bank that the outstanding balance of any residential mortgage loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs, unless the balance is minor. A charge-down is recorded for any deficiency balance determined from the collateral evaluation. The remaining non-accrual balance is reported as impaired with no specific allowance. It is generally the policy of the Bank that the outstanding balance of any consumer loan that exceeds 90-days past due as to principal and/or interest is charged-off. The following tables present the performing and non-performing outstanding balances of the residential and consumer portfolio classes.

	AT DECEMBER 31, 2022		
	<u>PERFORMING</u>	<u>NON-PERFORMING</u>	<u>TOTAL</u>
	(IN THOUSANDS)		
Real estate – residential mortgage	\$ 296,401	\$ 1,570	\$ 297,971
Consumer	13,457	16	13,473
Total	<u>\$ 309,858</u>	<u>\$ 1,586</u>	<u>\$ 311,444</u>

	AT DECEMBER 31, 2021		
	<u>PERFORMING</u>	<u>NON-PERFORMING</u>	<u>TOTAL</u>
	(IN THOUSANDS)		
Real estate – residential mortgage	\$ 286,843	\$ 1,153	\$ 287,996
Consumer	15,096	—	15,096
Total	<u>\$ 301,939</u>	<u>\$ 1,153</u>	<u>\$ 303,092</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	AT DECEMBER 31, 2021						
	CURRENT	30 – 59 DAYS PAST DUE	60 – 89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE	TOTAL LOANS	90 DAYS PAST DUE AND STILL ACCRUING
	(IN THOUSANDS)						
Commercial and industrial	\$ 133,918	\$ 14	\$ 250	\$ —	\$ 264	\$ 134,182	\$ —
Paycheck Protection Program (PPP)	17,311	—	—	—	—	17,311	—
Commercial loans secured by owner occupied real estate	99,454	—	190	—	190	99,644	—
Commercial loans secured by non-owner occupied real estate	428,790	2,035	—	—	2,035	430,825	—
Real estate – residential mortgage	283,178	2,449	1,240	1,129	4,818	287,996	—
Consumer	14,938	151	7	—	158	15,096	—
Total	<u>\$ 977,589</u>	<u>\$ 4,649</u>	<u>\$ 1,687</u>	<u>\$ 1,129</u>	<u>\$ 7,465</u>	<u>\$ 985,054</u>	<u>\$ —</u>

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

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are complemented by consideration of other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three-year historical average of actual loss experience.

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

estimates and judgments. The allowance consists of three elements: (1) an allowance established on specifically identified problem loans, (2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and (3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company’s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company’s management to establish allocations which accommodate each of the listed risk factors.

“Pass” rated credits are segregated from “Criticized” and “Classified” credits for the application of qualitative factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

8. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT RESTRUCTURINGS (TDR)

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

The following table presents information concerning non-performing assets including TDR:

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS, EXCEPT PERCENTAGES)	
Non-accrual loans:		
Commercial and industrial	\$ 1,989	\$ 2,165
Commercial loans secured by non-owner occupied real estate	1,586	5
Real estate – residential mortgage	1,577	1,153
Consumer	9	—
Total	5,161	3,323
Other real estate owned and repossessed assets:		
Real estate – residential mortgage	38	—
Consumer	1	—
Total	39	—
Total non-performing assets including TDR	\$ 5,200	\$ 3,323
Total non-performing assets as a percent of loans, net of unearned income, other real estate owned and repossessed assets	0.53 %	0.34 %

The Company had no loans past due 90 days or more for the periods presented which were accruing interest.

Consistent with accounting and regulatory guidance, the Bank recognizes a TDR when the Bank, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank’s objective in offering a TDR is to increase the probability of repayment of the borrower’s loan.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To be considered a TDR, both of the following criteria must be met:

- the borrower must be experiencing financial difficulties; and
- the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would not otherwise be considered.

Factors that indicate a borrower is experiencing financial difficulties include, but are not limited to:

- the borrower is currently in default on their loan(s);
- the borrower has filed for bankruptcy;
- the borrower has insufficient cash flows to service their loan(s); or
- the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.

Factors that indicate that a concession has been granted include, but are not limited to:

- the borrower is granted an interest rate reduction to a level below market rates for debt with similar risk; or
- the borrower is granted a material maturity date extension, or extension of the amortization plan to provide payment relief. For purposes of this policy, a material maturity date extension will generally include any maturity date extension, or the aggregate of multiple consecutive maturity date extensions, that exceed 120 days. A restructuring that results in an insignificant delay in payment, i.e. 120 days or less, is not necessarily a TDR. Insignificant payment delays occur when the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value, and will result in an insignificant shortfall in the originally scheduled contractual amount due, and/or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the original maturity or the original amortization.

The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the modification. No single factor is determinative of whether a restructuring is a TDR. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean that the borrower is experiencing financial difficulty. Accordingly, determination of whether a modification is a TDR involves a large degree of judgment.

Any loan modification where the loan currently maintains a criticized or classified risk rating, i.e. Special Mention, Substandard or Doubtful, or where the loan will be assigned a criticized or classified rating after the modification is evaluated to determine the need for TDR classification. The specific ALL reserve for loans modified as TDR's was \$123,000 and \$132,000 as of December 31, 2022 and 2021, respectively.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table details the loans modified as TDRs during the year ended December 31, 2022 (dollars in thousands).

<u>Loans in non-accrual status</u>	<u># of Loans</u>	<u>Current Balance</u>	<u>Concession Granted</u>
			Subsequent modification of a TDR - Extension of maturity date with a below market interest rate
Commercial and industrial	1	\$ 452	Extension of maturity date with an interest only period at below market interest rate
Commercial loans secured by non-owner occupied real estate .	1	\$ 1,583	

The following table details the loan modified as a TDR during the year ended December 31, 2021 (dollars in thousands).

<u>Loans in non-accrual status</u>	<u># of Loans</u>	<u>Current Balance</u>	<u>Concession Granted</u>
			Subsequent modification of a TDR - Extension of maturity date with a below market interest rate
Commercial and industrial	1	\$ 477	

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same.

Once a loan is classified as a TDR, this classification will remain until documented improvement in the financial position of the borrower supports confidence that all principal and interest will be paid according to terms. Additionally, the customer must have re-established a track record of timely payments according to the restructured contract terms for a minimum of six consecutive months prior to consideration for removing the loan from non-accrual TDR status. However, a loan will continue to be on non-accrual status until, consistent with our policy, the borrower has made a minimum of six consecutive payments in accordance with the terms of the loan.

There were no loans that were modified as TDRs in the previous 12 months and defaulted during the reporting periods ending December 31, 2022, 2021 or 2020, respectively

All TDRs are individually evaluated for impairment and a related allowance is recorded, as needed.

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. OREO and repossessed assets are recorded at the lower of (1) fair value minus estimated costs to sell or (2) carrying cost.

Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in other assets on the Consolidated Balance Sheets. As of December 31, 2022, a total of \$38,000 of residential real estate foreclosed assets were included in other assets. As of December 31, 2021, there were no residential real estate foreclosed assets included in other assets. As of December 31, 2022, the Company had initiated formal foreclosure procedures on \$258,000 of consumer residential mortgages.

Loan Modifications Related to COVID-19

Under section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. A financial institution can then suspend the requirements under GAAP for loan

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

modifications related to COVID-19 that would otherwise be categorized as a TDR, and suspend any determination of a loan modified as a result of COVID-19 as being a TDR, including the requirement to determine impairment for accounting purposes and reporting the loan as past due. Financial institutions wishing to utilize this authority must make a policy election, which applies to any COVID-19 modification made between March 1, 2020 and the earlier of either December 31, 2020 or the 60th day after the end of the COVID-19 national emergency so long as the loan was current on payments as of December 31, 2019. The suspension of TDR identification and accounting triggered by the effects of the COVID-19 pandemic was extended by the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020. The period established by Section 4013 of the CARES Act was extended to the earlier of January 1, 2022 or 60 days after the date on which the national COVID-19 emergency terminates. Additionally, the Financial Accounting Standards Board has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs.

In response to the COVID-19 pandemic, the Company remains committed to prudently working with and supporting our borrowers that have been hardest hit by the pandemic by granting them loan payment modifications. The following table presents information comparing loans which were subject to a loan modification related to COVID-19, as of December 31, 2022 and 2021. Note that the percentage of outstanding loans presented below was calculated based on loan totals excluding PPP loans. Management believes that this method more accurately reflects the concentration of COVID-19 related modifications within the loan portfolio.

	<u>AT DECEMBER 31, 2022</u>		<u>AT DECEMBER 31, 2021</u>	
	<u>Balance</u> <u>(in thousands)</u>	<u>% of Outstanding</u> <u>Non-PPP Loans</u>	<u>Balance</u> <u>(in thousands)</u>	<u>% of Outstanding</u> <u>Non-PPP Loans</u>
CRE/Commercial	\$ 199	0.03 %	\$ 7,488	1.08 %
Home Equity/Consumer	—	—	57	0.06
Residential Mortgage	32	0.02	203	0.11
Total	<u>\$ 231</u>	<u>0.02</u>	<u>\$ 7,748</u>	<u>0.80</u>

The balance of loan modifications related to COVID-19 at December 31, 2022 represents a decrease of \$7.5 million, or 97.0%, from the balance of loans modified for COVID-19 at December 31, 2021. In addition, this current level of borrowers requesting payment deferrals is down sharply from its peak level of approximately \$200 million that occurred at June 30, 2020. As a result of these loan modifications, the Company has recorded \$503,000 of accrued interest income that has not been received as of December 31, 2022.

Borrower requested modifications primarily consist of the deferral of principal and/or interest payments. The following table presents the composition of the types of payment relief that have been granted.

<u>Type of Payment Relief</u>	<u>AT DECEMBER 31, 2022</u>		<u>AT DECEMBER 31, 2021</u>	
	<u>Number of Loans</u>	<u>Balance</u> <u>(in thousands)</u>	<u>Number of Loans</u>	<u>Balance</u> <u>(in thousands)</u>
Interest only payments	1	\$ 199	6	\$ 3,768
Complete payment deferrals	2	32	5	3,980
Total	<u>3</u>	<u>\$ 231</u>	<u>11</u>	<u>\$ 7,748</u>

Management continues to carefully monitor asset quality with a particular focus on customers that have requested payment deferrals during this difficult economic time. Deferral extension requests were considered based upon the customer's needs and their impacted industry, borrower and guarantor capacity to service debt as well as issued regulatory guidance. At December 31, 2022, the COVID-19 related modification within the commercial real estate and commercial loan portfolios is to one borrower in the personal care industry. In order to properly monitor the increased credit risk associated with modified loans, the Asset Quality Task Force meets periodically to review these particular relationships, receiving input from the business lenders regarding their ongoing discussions with the borrowers.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. PREMISES AND EQUIPMENT

An analysis of premises and equipment follows:

	AT DECEMBER 31,	
	2022	2021
(IN THOUSANDS)		
Land	\$ 1,225	\$ 1,225
Premises	30,079	28,944
Furniture and equipment	8,428	8,908
Leasehold improvements	1,202	1,174
Total at cost	40,934	40,251
Less: Accumulated depreciation and amortization	26,474	26,169
Premises and equipment, net	\$ 14,460	\$ 14,082

The Company recorded depreciation and amortization expense of \$1.7 million for 2022, \$1.7 million for 2021, and \$1.6 million for 2020.

The Company utilizes a contract cleaner to provide janitorial services for several office locations. The contract cleaner is owned by a Director of the Company. The amount paid to this related party totaled \$200,000, \$241,000, and \$232,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

10. LEASE COMMITMENTS

The Company has operating and financing leases for several office locations and equipment. Several assumptions and judgments were made when applying the requirements of ASU 2016-02, *Leases (Topic 842)*, to the Company's lease commitments, including the allocation of consideration in the contracts between lease and non-lease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments. See Note 1 for information on policy elections.

The following table presents the lease cost associated with both operating and financing leases for the years ended December 31, 2022, 2021, and 2020.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
(IN THOUSANDS)			
Lease cost			
Financing lease cost:			
Amortization of right-of-use asset	\$ 271	\$ 272	\$ 271
Interest expense	100	106	112
Operating lease cost	106	116	116
Total lease cost	\$ 477	\$ 494	\$ 499

The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at December 31, 2022 and 2021.

	AT DECEMBER 31,			
	2022		2021	
	OPERATING	FINANCING	OPERATING	FINANCING
Weighted-average remaining term (years)	10.0	15.1	11.0	15.5
Weighted-average discount rate	3.54 %	3.62 %	3.53 %	3.56 %

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the undiscounted cash flows due related to operating and financing leases as of December 31, 2022 and 2021, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets.

DECEMBER 31, 2022		
	OPERATING	FINANCING
	(IN THOUSANDS)	
Undiscounted cash flows due in:		
2023	\$ 85	\$ 309
2024	85	249
2025	75	248
2026	69	181
2027	69	181
Thereafter	382	2,397
Total undiscounted cash flows	765	3,565
Discount on cash flows	(122)	(885)
Total lease liabilities	\$ 643	\$ 2,680

DECEMBER 31, 2021		
	OPERATING	FINANCING
	(IN THOUSANDS)	
Undiscounted cash flows due in:		
2022	\$ 98	\$ 320
2023	69	309
2024	69	249
2025	69	248
2026	69	181
Thereafter	452	2,578
Total undiscounted cash flows	826	3,885
Discount on cash flows	(144)	(986)
Total lease liabilities	\$ 682	\$ 2,899

The Company leases approximately 1,049 square feet of office space within its headquarters building to a Director of the Company. The amount paid by this related party totaled \$13,000 for the years ended December 31, 2022, 2021, and 2020 and is reported in net occupancy expense on the Consolidated Statements of Operations.

11. DEPOSITS

The following table sets forth the balance of the Company's deposits:

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
Demand:		
Non-interest bearing	\$ 195,123	\$ 211,106
Interest bearing	236,746	235,582
Savings	135,796	133,163
Money market	254,868	267,202
Certificates of deposit	286,004	292,325
Total deposits	\$ 1,108,537	\$ 1,139,378

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the balance of certificates of deposit as of December 31, 2022 maturing in the periods presented:

YEAR:	CERTIFICATES OF DEPOSIT (IN THOUSANDS)
2023	\$ 166,109
2024	79,097
2025	14,550
2026	7,566
2027	7,044
2028 and after	11,638
Total	<u>\$ 286,004</u>

The aggregate amount of certificates of deposit that exceed the FDIC insurance limit of \$250,000 at December 31, 2022 and 2021 are \$74.0 million and \$66.7 million, respectively.

The amount of related party deposits totaled \$3,135,000 and \$3,499,000 at December 31, 2022 and 2021, respectively

12. SHORT-TERM BORROWINGS

Short-term borrowings, which consist of federal funds purchased and other short-term borrowings are summarized as follows:

	AT DECEMBER 31, 2022	
	FEDERAL FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$ —	\$ 88,641
Maximum balance at any month end	—	88,641
Average balance during year	113	9,155
Average rate paid for the year	3.11 %	3.93 %
Interest rate on year-end balance	—	4.45

	AT DECEMBER 31, 2021	
	FEDERAL FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$ —	\$ —
Maximum balance at any month end	—	4,077
Average balance during year	—	389
Average rate paid for the year	— %	0.37 %
Interest rate on year-end balance	—	0.28

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	AT DECEMBER 31, 2020	
	FEDERAL FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$ —	\$ 24,702
Maximum balance at any month end	2,000	41,632
Average balance during year	18	4,929
Average rate paid for the year	0.87 %	0.58 %
Interest rate on year-end balance	—	0.41

Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances.

These borrowing transactions have an average maturity of overnight.

13. ADVANCES FROM FEDERAL HOME LOAN BANK AND SUBORDINATED DEBT

Advances from the Federal Home Loan Bank (FHLB) consist of the following:

	AT DECEMBER 31, 2022	
	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS, EXCEPT RATES)	
MATURING		
2023	1.59 %	\$ 15,568
2024	1.19	4,197
Total advances from FHLB	1.50	\$ 19,765

	AT DECEMBER 31, 2021	
	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS, EXCEPT RATES)	
MATURING		
2022	1.88 %	\$ 22,888
2023	1.59	15,568
2024	1.19	4,197
Total advances from FHLB	1.71	\$ 42,653

The Company's subsidiary Bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the Company's investment in assets secured by one- to four-family residential real estate and certain types of commercial and commercial real estate loans. The rate on open repo plus advances, which are typically overnight borrowings, can change daily, while the rates on the advances are fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage, commercial real estate, and commercial and industrial loans with an aggregate statutory value equal to the amount of the advances, are pledged as collateral to the FHLB of Pittsburgh to support these borrowings. At December 31, 2022, the Company had immediately available \$302 million of overnight borrowing capability at the FHLB, \$41 million of short-term borrowing availability at the Federal Reserve Bank and \$35 million of unsecured federal funds lines with correspondent banks.

Subordinated Debt:

On August 26, 2021, the Company completed a private placement of \$27 million in fixed-to-floating rate subordinated notes to certain accredited investors. The notes mature September 1, 2031 and are non-callable for five years. The notes have a fixed annual interest rate of 3.75%, payable until September 1, 2026. From and including September 1, 2026, the interest rate will reset quarterly to the then-current three-month Secured Overnight Financing Rate (SOFR) plus 3.11%. The subordinated debt was structured to qualify as tier 2 capital under the Federal Reserve's capital guidelines.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company used approximately \$20 million of the net proceeds to retire its existing subordinated debt and guaranteed junior subordinated deferrable interest debentures (trust preferred securities) on September 30, 2021. Specifically, the Company retired \$12 million of 8.45% trust preferred securities which had been issued on April 28, 1998 and \$7.7 million of 6.50% subordinated debt which had been issued on December 29, 2015. The remainder of the proceeds were utilized for general corporate purposes, including the downstream of \$3.5 million as capital to the Bank in the third quarter of 2021. The net balance of subordinated debt as of December 31, 2022 and 2021 was \$26.6 million.

14. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS

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

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

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

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

Assets and Liability Measured and Recorded on a Recurring Basis

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

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

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the assets and liabilities measured and reported on the Consolidated Balance Sheets on a recurring basis at their fair value as of December 31, 2022 and 2021 by level within the fair value hierarchy (in thousands).

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2022 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Equity securities ⁽¹⁾	\$ 502	\$ 502	\$ —	\$ —
Available for sale securities:				
U.S. Agency	10,533	—	10,533	—
U.S. Agency mortgage-backed securities	89,985	—	89,985	—
Municipal	19,038	—	19,038	—
Corporate bonds	59,952	—	59,952	—
Interest rate swap asset ⁽¹⁾	6,992	—	6,992	—
Interest rate swap liability ⁽²⁾	(6,872)	—	(6,872)	—
Risk participation agreement ⁽²⁾	—	—	—	—
	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2021 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Equity securities ⁽¹⁾	\$ 526	\$ 526	\$ —	\$ —
Available for sale securities:				
U.S. Agency	7,387	—	7,387	—
U.S. Agency mortgage-backed securities	80,167	—	80,167	—
Municipal	20,892	—	20,892	—
Corporate bonds	54,725	—	54,725	—
Interest rate swap asset ⁽¹⁾	1,226	—	1,226	—
Interest rate swap liability ⁽²⁾	(1,226)	—	(1,226)	—
Risk participation agreement ⁽²⁾	—	—	—	—

⁽¹⁾ Included within other assets on the Consolidated Balance Sheets.

⁽²⁾ Included within other liabilities on the Consolidated Balance Sheets.

Assets Measured and Recorded on a Non-Recurring Basis

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at the fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on observable market data which at times are discounted using unobservable inputs. At December 31, 2022, impaired loans evaluated using the collateral method with a carrying value of \$1.6 million were reduced by a specific valuation allowance totaling \$3,000 resulting in a net fair value of \$1.6 million. At December 31, 2021, impaired loans evaluated using the collateral method with a carrying value of \$5,000 were reduced by a specific valuation allowance totaling \$5,000 resulting in a net fair value of zero.

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2022 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Impaired loans	\$ 1,583	\$ —	\$ —	\$ 1,583
Other real estate owned and repossessed assets	39	—	—	39

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2021 USING			
	TOTAL	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Impaired loans	\$ —	\$ —	\$ —	\$ —

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

	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Wgtd Avg)
December 31, 2021				
Impaired loans	\$ —	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	100% (100%)

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

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

15. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.

Fair values have been determined by the Company using independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash and cash equivalents, bank owned life insurance, regulatory stock, accrued interest receivable and payable, deposits with no stated maturities, and short-term borrowings have fair values which approximate the recorded carrying values. The fair value measurements for all of these financial instruments are Level 1 measurements.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair values based on US GAAP measurements and recorded carrying values at December 31, 2022 and 2021, for the remaining financial instruments not required to be reported at fair value were as follows:

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

	AT DECEMBER 31, 2021				
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
(IN THOUSANDS)					
FINANCIAL ASSETS:					
Investment securities – HTM	\$ 53,751	\$ 55,516	\$ —	\$ 52,523	\$ 2,993
Loans held for sale	983	1,022	1,022	—	—
Loans, net of allowance for loan loss and unearned income	972,656	969,681	—	—	969,681
FINANCIAL LIABILITIES:					
Deposits with stated maturities	292,325	294,280	—	—	294,280
All other borrowings ⁽¹⁾	69,256	69,506	—	—	69,506

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

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

16. INCOME TAXES

The expense for income taxes is summarized below and includes both federal and applicable state corporate income taxes:

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
(IN THOUSANDS)			
Current	\$ 1,220	\$ 973	\$ (400)
Deferred	533	729	1,614
Income tax expense	<u>\$ 1,753</u>	<u>\$ 1,702</u>	<u>\$ 1,214</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The reconciliation between the federal statutory tax rate and the Company's effective consolidated income tax rate is as follows:

	YEAR ENDED DECEMBER 31,					
	2022		2021		2020	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Income tax expense based on federal statutory rate	\$ 1,932	21.0 %	\$ 1,843	21.0 %	\$ 1,221	21.0 %
Tax exempt income	(244)	(2.6)	(253)	(2.9)	(188)	(3.2)
Other	65	0.7	112	1.3	181	3.1
Total expense for income taxes	\$ 1,753	19.1 %	\$ 1,702	19.4 %	\$ 1,214	20.9 %

The following table highlights the major components comprising the deferred tax assets and liabilities for each of the periods presented:

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
DEFERRED TAX ASSETS:		
Allowance for loan losses	\$ 2,256	\$ 2,604
Unfunded commitment reserve	157	208
Unrealized investment security losses	3,971	—
Premises and equipment	955	743
Lease liabilities	698	752
Other	185	175
Total tax assets	8,222	4,482
DEFERRED TAX LIABILITIES:		
Investment accretion	(107)	(51)
Unrealized investment security gains	—	(369)
Lease right-of-use assets	(639)	(704)
Accrued pension obligation	(4,494)	(4,098)
Other	(193)	(194)
Total tax liabilities	(5,433)	(5,416)
Net deferred tax asset (liability)	\$ 2,789	\$ (934)

At December 31, 2022 and 2021, the Company had no valuation allowance established against its deferred tax assets as we believe the Company will generate sufficient future taxable income to fully utilize these assets.

The Company utilizes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company has no tax liability for uncertain tax positions. The Company's federal and state income tax returns for taxable years through 2018 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. EMPLOYEE BENEFIT PLANS

PENSION PLAN:

The Company has a noncontributory defined benefit pension plan covering certain employees who work at least 1,000 hours per year. The participants shall have a vested interest in their accrued benefit after five full years of service. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten-year period of employment. Effective January 1, 2013, the Company implemented a soft freeze of its defined benefit pension plan for non-union employees. A soft freeze means that all existing employees as of December 31, 2012 will remain in the defined benefit pension plan but any new non-union employees hired after January 1, 2013 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401(k) program. The Company implemented a similar soft freeze of its defined benefit pension plan for union employees effective January 1, 2014. The Company executed these changes to help reduce its pension costs in future years. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of the Company's common stock valued at \$1.9 million and is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The following actuarial tables are based upon data provided by an independent third party as of December 31.

PENSION BENEFITS:

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	\$ 50,287	\$ 54,861
Service cost	1,419	1,708
Interest cost	1,462	894
Actuarial (gain) loss	(9,787)	273
Settlements	(7,541)	(6,516)
Benefits paid	(934)	(933)
Benefit obligation at end of year	34,906	50,287
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	70,432	58,447
Actual return on plan assets	(9,700)	11,434
Employer contributions	4,000	8,000
Settlements	(7,541)	(6,516)
Benefits paid	(934)	(933)
Fair value of plan assets at end of year	56,257	70,432
Funded status of the plan	\$ 21,351	\$ 20,145

YEAR ENDED DECEMBER 31,	
2022	2021
(IN THOUSANDS)	

AMOUNTS NOT YET RECOGNIZED AS A COMPONENT OF NET PERIODIC

PENSION COST:

Amounts recognized in accumulated other comprehensive loss consists of:

Net actuarial loss	\$ 9,597	\$ 9,319
Total	\$ 9,597	\$ 9,319

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
ACCUMULATED BENEFIT OBLIGATION:		
Accumulated benefit obligation	\$ 32,190	\$ 46,319

The weighted-average assumptions used to determine benefit obligations at December 31, 2022 and 2021 were as follows:

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
WEIGHTED AVERAGE ASSUMPTIONS:		
Discount rate	5.45 %	2.80 %
Salary scale		
Ages 30-34	5.00	2.50
Ages 35-44	4.00	2.50
Ages 45-54	3.00	2.50
Ages 55+	2.50	2.50

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	\$ 1,419	\$ 1,708	\$ 1,676
Interest cost	1,462	894	1,281
Expected return on plan assets	(4,193)	(4,008)	(3,241)
Amortization of net loss	1,330	2,421	2,453
Settlement charge	2,498	1,736	—
Net periodic pension cost	\$ 2,516	\$ 2,751	\$ 2,169

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

The Company recognized a settlement charge in connection with its defined benefit pension plan of \$2.5 million and \$1.7 million in 2022 and 2021, respectively. A settlement charge must be recognized when the total dollar amount of lump sum distributions paid from the pension plan to retired employees exceeds a threshold of expected annual service and interest costs in the current year. The value of the lump sums continued to be elevated this year due to the lower interest rate levels late in 2021 when the lump sums were calculated. It is important to note that since the retired employees have chosen to take the lump sum payments, these individuals are no longer included in the pension plan. Therefore, we anticipate that the Company's normal annual pension expense should be lower in the future. This was evident in 2022 as the basic amount of pension expense required to be recognized, excluding the impact of settlement charges, was \$997,000, or 98.2%, lower for the full year of 2022 compared to basic pension expense for the full year of 2021.

Note that pension settlement charges are dependent upon the level of national interest rates from the previous year and the impact that interest rates have on lump sum distributions to those employees eligible to retire. Pension settlement charges are also dependent upon the choice of retiring employees to either take a lump sum distribution or receive future monthly annuity payments.

The accrued pension liability, which had a positive (debit) balance of \$21.3 million and \$19.5 million, was reclassified to other assets on the Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively. The

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

balance of the accrued pension liability remained a positive value as a result of the Company's contributions to the plan during the year and the revaluation of the obligation due to the recognition of the settlement charge.

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE LOSS			
Net loss (gain)	\$ 4,106	\$ (7,153)	\$ 968
Recognized loss	(3,828)	(4,157)	(2,453)
Total recognized in other comprehensive loss before tax effect	\$ 278	\$ (11,310)	\$ (1,485)
Total recognized in net benefit cost and other comprehensive loss before tax effect	\$ 2,794	\$ (8,559)	\$ 684

For the year ended December 31, 2022, actuarial gains in the projected benefit obligation were primarily the result of the increase in discount rate. Other sources of gain/loss such as plan experience, updated census data, and minor adjustments to actuarial assumptions, including updates to the retirement rates, form of payment election, salary scale, lump sum interest rates, and lump sum mortality tables, generated a combined gain of about 19% of expected year end obligations.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2022, 2021 and 2020 were as follows:

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
WEIGHTED AVERAGE ASSUMPTIONS:			
Discount rate	2.81 %	2.48 %	3.20 %
Expected return on plan assets	7.00	7.00	7.00
Rate of compensation increase	2.50	2.50	2.50

The Company has assumed a 7.00% long-term expected return on plan assets. This assumption was based upon the plan's historical investment performance over a longer-term period of 20 years combined with the plan's investment objective of balanced growth and income. Additionally, this assumption also incorporates a targeted range for equity securities of approximately 0% to 60% of plan assets.

PLAN ASSETS:

The plan's measurement date is December 31, 2022. This plan's asset allocation at December 31, 2022 and 2021, by asset category are as follows:

	YEAR ENDED DECEMBER 31,	
	2022	2021
ASSET CATEGORY:		
Cash and cash equivalents	89.9 %	0.1 %
Domestic equities	7.1	12.1
Mutual funds/ETFs	—	84.1
International equities	—	0.3
Corporate bonds	3.0	3.4
Total	100.0 %	100.0 %

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The major categories of assets in the Company’s pension plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value.

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
Level 1:		
Cash and cash equivalents	\$ 50,553	\$ 56
Domestic equities	4,026	8,488
Mutual funds/ETFs	—	59,306
International equities	—	199
Level 2:		
Corporate bonds	1,678	2,383
Total fair value of plan assets	<u>\$ 56,257</u>	<u>\$ 70,432</u>

Cash and cash equivalents may include uninvested cash balances along with money market mutual funds, treasury bills, or other assets normally categorized as cash equivalents. Domestic equities may include common or preferred stocks, covered options, rights or warrants, or American Depository Receipts which are traded on any U.S. equity market. Mutual funds/ETFs may include any equity, fixed income, balanced, international, or global mutual fund or exchange traded fund including any propriety fund managed by the Trust Company. Agencies may include any U.S. government agency security or asset-backed security. Collective investment funds may include equity, fixed income, or balanced collective investment funds managed by West Chester Capital Advisors. Corporate bonds may include any corporate bond or note.

The investment strategy objective for the pension plan is a balance of growth and income. This objective seeks to develop a portfolio for acceptable levels of current income together with the opportunity for capital appreciation. The balanced growth and income objective reflects an equal balance between equity and fixed income investments such as debt securities. The allocation between equity and fixed income assets may vary by a moderate degree during normal market cycles. The pension plan’s allocation to equities is 0% to 60% while the allocation to fixed income can fall within the range of 0% to 100% of the plan assets. In addition, cash equivalents can range from 0% to 100% of the plan assets. The plan is also able to invest in ASRV common stock up to a maximum level of 10% of the market value of the plan assets (at December 31, 2022, 3.3% of the plan assets were invested in ASRV common stock). This asset mix is intended to ensure that there is a steady stream of cash from maturing investments to fund benefit payments. The plan’s investment manager temporarily shifted the majority of plan assets to cash in 2022 to protect the plan’s assets due to declines in both equities and bonds as a result of the higher interest rate environment.

CASH FLOWS:

The Company presently expects that the contribution to be made to the plan in 2023 will approximate \$2.0 million. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan’s actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the Company may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ESTIMATED FUTURE BENEFIT PAYMENTS:

The following benefit payments, which reflect future service, as appropriate, are expected to be paid.

YEAR:	ESTIMATED FUTURE BENEFIT PAYMENTS (IN THOUSANDS)
2023	\$ 3,422
2024	4,177
2025	3,934
2026	4,059
2027	3,534
Years 2028-2032	12,780

401(k) PLAN:

The Company maintains a qualified 401(k) plan that allows for participation by Company employees. Under the plan, employees may elect to make voluntary contributions to their accounts which the Company will match one half on the first 2% of contribution up to a maximum of 1%. The Company also contributes 4% of salaries for union members who are in the plan. These contribution percentages apply to employees who are eligible to participate in our defined benefit pension plan.

Effective January 1, 2013, any new non-union employees receive a 4% non-elective contribution and these employees may elect to make voluntary contributions to their accounts which the Company will match one half on the first 6% of contribution up to a maximum of 3%. Effective January 1, 2014, any new union employees receive a 4% non-elective contribution and these employees may elect to make voluntary contributions to their accounts which the Company will match dollar for dollar up to a maximum of 4%. Contributions by the Company charged to operations were \$808,000, \$704,000 and \$653,000 for the years ended December 31, 2022, 2021 and 2020, respectively. The fair value of plan assets includes \$425,000 pertaining to the value of the Company's common stock that was held by the plan at December 31, 2022.

DEFERRED COMPENSATION PLAN:

The Company maintains a nonqualified deferred compensation plan in which a select group of executives are permitted to participate. An eligible executive can defer a certain percentage of their current salary to be placed into the plan. The Company has established a rabbi trust to provide funding for the benefits payable under our deferred compensation plan. As of December 31, 2022 and 2021, the Company reported a deferred compensation liability of \$502,000 and \$526,000, respectively, within other liabilities on the Consolidated Balance Sheets. For the year ended December 31, 2022, the Company recognized deferred compensation plan income of \$15,000 compared to \$44,000 and \$7,000 of deferred compensation plan expense for the years ended December 31, 2021 and 2020, respectively. The deferred compensation plan income/expense is reported within other expense on the Consolidated Statements of Operations. See Note 5 (Investment Securities) for additional disclosures related to the nonqualified deferred compensation plan and assets held within the rabbi trust.

Except for the above described benefit plans, the Company has no significant additional exposure for any other post-retirement or post-employment benefits.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. COMMITMENTS AND CONTINGENT LIABILITIES

The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are obligations to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral which secures these types of commitments is the same as for other types of secured lending such as accounts receivable, inventory, fixed assets, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal business activities, bond financings, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Letters of credit are issued both on an unsecured and secured basis. Collateral securing these types of transactions is similar to collateral securing the Company's commercial loans.

The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. At December 31, 2022, the Company had various outstanding commitments to extend credit approximating \$227.6 million and standby letters of credit of \$9.0 million, compared to commitments to extend credit of \$216.6 million and standby letters of credit of \$13.1 million at December 31, 2021.

Standby letters of credit had terms ranging from one to five years with annual extension options available. Standby letters of credit of approximately \$5.6 million and \$8.5 million were secured as of December 31, 2022 and 2021, respectively. The carrying amount of the liability for AmeriServ obligations related to unfunded commitments and standby letters of credit was \$746,000 at December 31, 2022 and \$989,000 at December 31, 2021.

Pursuant to its bylaws, the Company provides indemnification to its directors and officers against certain liabilities incurred as a result of their service on behalf of the Company. In connection with this indemnification obligation, the Company can advance on behalf of covered individuals costs incurred in defending against certain claims. Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

19. STOCK COMPENSATION PLANS

The Company uses the modified prospective method for accounting for stock-based compensation and recognized \$50,000 of compensation expense for the year 2022, \$43,000 in 2021 and \$3,000 in 2020.

During 2021, the Company's Board adopted, and its shareholders approved, the AmeriServ Financial, Inc. 2021 Equity Incentive Plan (the Plan) authorizing the grant of options or restricted stock covering 600,000 shares of common stock. This Plan replaced the expired 2011 Stock Incentive Plan. Under the Plan, options or restricted stock can be granted (the Grant Date) to directors, officers, and employees that provide services to the Company and its affiliates, as selected by the compensation committee of the Board. The option price at which a granted stock option may be exercised will not be less than 100% of the fair market value per share of common stock on the Grant Date. The maximum term of any option granted under the Plan cannot exceed 10 years. Generally, options vest over a three-year period and become exercisable in equal installments over the vesting period. At times, options with a one year vesting period may also be issued.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the Company's Equity Incentive Plan at December 31, 2022, 2021, and 2020, and changes during the years then ended is presented in the table and narrative following:

	YEAR ENDED DECEMBER 31,					
	2022		2021		2020	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	369,047	\$ 3.47	230,913	\$ 3.14	296,648	\$ 3.02
Granted	—	—	160,000	3.84	—	—
Exercised	(36,117)	2.96	(21,356)	2.68	(38,235)	2.06
Forfeited	(9,144)	3.62	(510)	3.23	(27,500)	3.30
Outstanding at end of year	<u>323,786</u>	<u>3.52</u>	<u>369,047</u>	<u>3.47</u>	<u>230,913</u>	<u>3.14</u>
Exercisable at end of year	223,784	3.38	206,713	3.18	224,580	3.11
Weighted average fair value of options granted in current year	\$ —	—	\$ 1.78	1.78	\$ —	—

A total of 223,784 of the 323,786 options outstanding at December 31, 2022, are exercisable and have exercise prices between \$2.96 and \$4.22, with a weighted average exercise price of \$3.38 and a weighted average remaining contractual life of 3.51 years. The remaining 100,002 options that are not yet exercisable have exercise prices between \$3.83 and \$3.84, with a weighted average exercise price of \$3.84 and a weighted average remaining contractual life of 8.13 years. The fair value of each option grant is estimated on the date of grant using the Binomial or Black-Scholes option pricing model with the following assumptions used for grants in 2021. No stock options were granted during 2022 and 2020.

PRICING MODEL ASSUMPTION RANGES	YEAR ENDED DECEMBER 31,
	2021
Risk-free interest rate	1.27 - 1.42 %
Expected lives in years	10
Expected volatility	40.38 - 45.03 %
Expected dividend rate	2.60 - 2.61 %

The intrinsic value of stock options exercised was \$47,000, \$27,000, and \$56,000 in 2022, 2021, and 2020, respectively.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the periods ending December 31, 2022, 2021, and 2020 (in thousands):

	<u>YEAR ENDING DECEMBER 31, 2022</u>			<u>YEAR ENDED DECEMBER 31, 2021</u>			<u>YEAR ENDING DECEMBER 31, 2020</u>		
	Net Unrealized Gains and Losses on Investment Securities		Defined Benefit Pension Items ⁽¹⁾	Net Unrealized Gains and Losses on Investment Securities		Defined Benefit Pension Items ⁽¹⁾	Net Unrealized Gains and Losses on Investment Securities		Defined Benefit Pension Items ⁽¹⁾
	AFS ⁽¹⁾	Total ⁽¹⁾		AFS ⁽¹⁾	Total ⁽¹⁾		AFS ⁽¹⁾	Total ⁽¹⁾	
Beginning balance	\$ 1,386	\$ (7,898)	\$ (6,512)	\$ 3,539	\$ (16,737)	\$ (13,198)	\$ 1,715	\$ (17,886)	\$ (16,171)
Other comprehensive income (loss) before reclassifications	(16,324)	(2,708)	(19,032)	(2,087)	5,555	3,468	1,824	(789)	1,035
Amounts reclassified from accumulated other comprehensive loss	—	3,024	3,024	(66)	3,284	3,218	—	1,938	1,938
Net current period other comprehensive income (loss)	(16,324)	316	(16,008)	(2,153)	8,839	6,686	1,824	1,149	2,973
Ending balance	\$ (14,938)	\$ (7,582)	\$ (22,520)	\$ 1,386	\$ (7,898)	\$ (6,512)	\$ 3,539	\$ (16,737)	\$ (13,198)

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

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the periods ending December 31, 2022, 2021, and 2020 (in thousands):

<u>Details about accumulated other comprehensive loss components</u>	<u>Amount reclassified from accumulated other comprehensive loss⁽¹⁾</u>			<u>Affected line item in the statement of operations</u>
	<u>YEAR ENDING DECEMBER 31, 2022</u>	<u>YEAR ENDING DECEMBER 31, 2021</u>	<u>YEAR ENDING DECEMBER 31, 2020</u>	
Realized gains on sale of securities	\$ —	\$ (84)	\$ —	Net realized gains on investment securities
	—	18	—	Provision for income taxes
	<u>\$ —</u>	<u>\$ (66)</u>	<u>\$ —</u>	
Amortization of estimated defined benefit pension plan loss ⁽²⁾	\$ 3,828	\$ 4,157	\$ 2,453	Other expense
	(804)	(873)	(515)	Provision for income taxes
	<u>\$ 3,024</u>	<u>\$ 3,284</u>	<u>\$ 1,938</u>	
Total reclassifications for the period	<u>\$ 3,024</u>	<u>\$ 3,218</u>	<u>\$ 1,938</u>	

⁽¹⁾ Amounts in parentheses indicate credits.

⁽²⁾ These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost (see Note 17 for additional details).

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. INTANGIBLE ASSETS

The Company's Consolidated Balance Sheets show both tangible assets (such as loans, buildings, and investments) and intangible assets (such as goodwill and core deposit intangible). Goodwill has an indefinite life and is not amortized. Instead such intangible is evaluated for impairment at the reporting unit level at least annually, or more frequently if indicators of impairment are present. Any resulting impairment would be reflected as a non-interest expense. Based on this analysis, no impairment was recorded in 2022 or 2021. Of the Company's goodwill of \$13.6 million, \$11.2 million is allocated to the community banking segment and \$2.4 million relates to the WCCA acquisition which is included in the wealth management segment. The balance of the Company's goodwill at December 31, 2022 and 2021 was \$13.6 million. During 2021, the Company recorded \$1.7 million of goodwill as a result of the Riverview Bank branch acquisition.

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
<u>GOODWILL</u>		
Balance at beginning of year	\$ 13,611	\$ 11,944
Goodwill acquired	—	1,667
Balance at end of year	\$ 13,611	\$ 13,611

Other identifiable intangible assets, such as core deposit intangible, are assigned useful lives, which are amortized on an accelerated basis over their useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. During the years ended December 31, 2022 and 2021, no such adjustments were recorded. During 2021, the Company recorded a core deposit intangible of \$177,000 as a result of the Riverview Bank branch acquisition. As of December 31, 2022 and 2021, accumulated amortization on the core deposit intangible totaled \$49,000 and \$19,000, respectively.

	YEAR ENDED DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
<u>CORE DEPOSIT INTANGIBLE</u>		
Balance at beginning of year	\$ 158	\$ —
Core deposit intangible acquired	—	177
Amortization	(30)	(19)
Balance at end of year	\$ 128	\$ 158

As of December 31, 2022, the estimated future amortization expense for the core deposit intangible associated with the Riverview branch acquisition is as follows (in thousands):

2023	\$	27
2024		24
2025		21
2026		17
2027		14
After five years		25
	\$	128

22. DERIVATIVE HEDGING INSTRUMENTS

The Company can use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company can use derivative instruments, primarily interest rate swaps, to manage interest rate risk and match the rates on certain assets by hedging the fair value of certain fixed rate debt, which converts the debt to variable rates and by hedging the cash flow variability associated with certain variable rate debt by converting the debt to fixed rates.

Interest Rate Swap Agreements

To accommodate the needs of our customers and support the Company's asset/liability positioning, we may enter into interest rate swap agreements with customers and a large financial institution that specializes in these types of transactions. These arrangements involve the exchange of interest payments based on the notional amounts. The Company entered into floating rate loans and fixed rate swaps with our customers. Simultaneously, the Company entered into offsetting fixed rate swaps with this large financial institution. In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay the large financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company's customers to effectively convert a variable rate loan to a fixed rate. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company's results of operations. For the years ended December 31, 2022 and 2021, the Company received \$8,000 and \$191,000, respectively, in fees on the interest rate swap transactions, which are recognized as revenue when received.

These swaps are considered free-standing derivatives and are reported at fair value within other assets and other liabilities on the Consolidated Balance Sheets. Disclosures related to the fair value of the swap transactions can be found in Note 14.

The following table summarizes the interest rate swap transactions that impacted the Company's 2022 and 2021 performance (in thousands, except percentages).

DECEMBER 31, 2022					
HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE	
Swap assets	N/A	\$ 65,431	4.23 %	Monthly	\$ 21
Swap liabilities	N/A	(65,431)	(4.23)	Monthly	(21)
Net exposure	—	—			—
DECEMBER 31, 2021					
HEDGE TYPE	AGGREGATE NOTIONAL AMOUNT	WEIGHTED AVERAGE RATE RECEIVED/(PAID)	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE	
Swap assets	N/A	\$ 67,280	2.59 %	Monthly	\$ (857)
Swap liabilities	N/A	(67,280)	(2.59)	Monthly	857
Net exposure	—	—			—

Risk Participation Agreement

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPAs are derivative financial instruments and are recorded at fair value. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings with a corresponding offset within other liabilities. Disclosures related to the fair value of the RPA can be found in Note 14. The notional amount of the risk participation agreement outstanding at December 31, 2022 and 2021 was \$2.1 million and \$2.5 million, respectively.

The Company monitors and controls all derivative products with a comprehensive Board of Directors approved Hedging Policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors, unless otherwise approved, as per the terms, within the Board of Directors approved Hedging Policy. The Company had no caps or floors outstanding at December 31, 2022 and 2021. None of the Company's derivatives are designated as hedging instruments.

23. SEGMENT RESULTS

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

The community banking segment includes both retail and commercial banking activities. Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, business services, and CRE loans. The wealth management segment includes the Trust Company, West Chester Capital Advisors (WCCA), our registered investment advisory firm, and Financial Services. Wealth management activities include personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. Financial Services include the sale of mutual funds, annuities, and insurance products. The wealth management businesses also include the union collective investment funds (ERECT funds) which are designed to use union pension dollars in construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on corporate debt, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the Consolidated Statements of Operations were as follows:

	YEAR ENDED DECEMBER 31, 2022			TOTAL
	COMMUNITY BANKING	WEALTH MANAGEMENT	INVESTMENT/ PARENT	
	(IN THOUSANDS)			
Net interest income (expense)	\$ 46,135	\$ 65	\$ (5,637)	\$ 40,563
Provision for loan loss	50	—	—	50
Non-interest income (loss)	5,174	11,620	(102)	16,692
Non-interest expense	36,216	8,834	2,954	48,004
Income (loss) before income taxes	15,043	2,851	(8,693)	9,201
Income tax expense (benefit)	2,638	688	(1,573)	1,753
Net income (loss)	<u>\$ 12,405</u>	<u>\$ 2,163</u>	<u>\$ (7,120)</u>	<u>\$ 7,448</u>
Total assets	<u>\$ 1,114,923</u>	<u>\$ 10,867</u>	<u>\$ 238,084</u>	<u>\$ 1,363,874</u>

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	YEAR ENDED DECEMBER 31, 2021			
	COMMUNITY	WEALTH	INVESTMENT/	TOTAL
	BANKING	MANAGEMENT	PARENT	
	(IN THOUSANDS)			
Net interest income (expense)	\$ 45,934	\$ 72	\$ (6,923)	\$ 39,083
Provision for loan loss	1,100	—	—	1,100
Non-interest income	5,649	11,986	126	17,761
Non-interest expense	35,636	8,349	2,985	46,970
Income (loss) before income taxes	14,847	3,709	(9,782)	8,774
Income tax expense (benefit)	2,797	841	(1,936)	1,702
Net income (loss)	<u>\$ 12,050</u>	<u>\$ 2,868</u>	<u>\$ (7,846)</u>	<u>\$ 7,072</u>
Total assets.	<u>\$ 1,111,856</u>	<u>\$ 10,822</u>	<u>\$ 212,882</u>	<u>\$ 1,335,560</u>

	YEAR ENDED DECEMBER 31, 2020			
	COMMUNITY	WEALTH	INVESTMENT/	TOTAL
	BANKING	MANAGEMENT	PARENT	
	(IN THOUSANDS)			
Net interest income (expense)	\$ 42,862	\$ 55	\$ (6,550)	\$ 36,367
Provision for loan loss	2,375	—	—	2,375
Non-interest income	6,022	10,212	41	16,275
Non-interest expense	34,136	7,683	2,636	44,455
Income (loss) before income taxes	12,373	2,584	(9,145)	5,812
Income tax expense (benefit)	2,303	598	(1,687)	1,214
Net income (loss)	<u>\$ 10,070</u>	<u>\$ 1,986</u>	<u>\$ (7,458)</u>	<u>\$ 4,598</u>
Total assets.	<u>\$ 1,086,653</u>	<u>\$ 10,471</u>	<u>\$ 185,609</u>	<u>\$ 1,282,733</u>

24. REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total, common equity tier 1, and tier 1 capital to risk-weighted assets (as defined) and tier 1 capital to average assets. Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2022 and 2021, the Company was categorized as “well capitalized” under the regulatory framework for prompt corrective action promulgated by the Federal Reserve. The Company believes that no conditions or events have occurred that would change this conclusion as of such date. To be categorized as well capitalized, the Company must maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and tier 1 leverage ratios as set forth in the table.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

AT DECEMBER 31, 2021						
	<u>COMPANY</u>		<u>BANK</u>		<u>MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES RATIO</u>	<u>TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS* RATIO</u>
	<u>AMOUNT</u>	<u>RATIO</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>RATIO</u>	<u>RATIO</u>
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)	\$ 149,177	14.04 %	\$ 133,881	12.66 %	8.00 %	10.00 %
Common Equity Tier 1 Capital (To Risk Weighted Assets)	109,292	10.29	120,656	11.41	4.50	6.50
Tier 1 Capital (To Risk Weighted Assets)	109,292	10.29	120,656	11.41	6.00	8.00
Tier 1 Capital (To Average Assets)	109,292	8.17	120,656	9.12	4.00	5.00

* Applies to the Bank only.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. PARENT COMPANY FINANCIAL INFORMATION

The parent company functions primarily as a coordinating and servicing unit for all subsidiary entities. Provided services include general management, accounting and taxes, loan review, internal auditing, investment advisory, marketing, insurance, risk management, general corporate services, and financial and strategic planning. The following financial information relates only to the parent company operations:

BALANCE SHEETS

	AT DECEMBER 31,	
	2022	2021
	(IN THOUSANDS)	
ASSETS		
Cash	\$ 100	\$ 100
Short-term investments	3,178	5,533
Cash and cash equivalents	3,278	5,633
Investment securities available for sale	6,334	3,692
Equity investment in banking subsidiary	117,432	127,874
Equity investment in non-banking subsidiaries	6,533	6,707
Other assets	1,008	866
TOTAL ASSETS	\$ 134,585	\$ 144,772
LIABILITIES		
Subordinated debt	\$ 26,644	\$ 26,603
Other liabilities	1,763	1,620
TOTAL LIABILITIES	28,407	28,223
STOCKHOLDERS' EQUITY		
Total stockholders' equity	106,178	116,549
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 134,585	\$ 144,772

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
INCOME			
Inter-entity management and other fees	\$ 2,566	\$ 2,520	\$ 2,708
Dividends from banking subsidiary	4,000	2,000	2,000
Dividends from non-banking subsidiaries	1,055	1,550	1,944
Interest, dividend and other income	146	115	106
TOTAL INCOME	7,767	6,185	6,758
EXPENSE			
Interest expense	1,054	1,798	1,642
Salaries and employee benefits	2,811	2,871	2,667
Other expense	1,948	1,783	1,749
TOTAL EXPENSE	5,813	6,452	6,058
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN			
UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	1,954	(267)	700
Benefit for income taxes	(652)	(802)	(681)
Equity in undistributed earnings of subsidiaries	4,842	6,537	3,217
NET INCOME	\$ 7,448	\$ 7,072	\$ 4,598
COMPREHENSIVE (LOSS) INCOME	\$ (8,560)	\$ 13,758	\$ 7,571

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2022	2021	2020
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	\$ 7,448	\$ 7,072	\$ 4,598
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(4,842)	(6,537)	(3,217)
Stock compensation expense	50	43	3
Other – net	189	1,204	(133)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,845	1,782	1,251
INVESTING ACTIVITIES			
Purchase of investment securities – available for sale	(3,994)	(1,008)	(1,254)
Proceeds from maturity and sales of investment securities – available for sale	655	991	1,246
Capital contribution to banking subsidiary	—	(3,500)	—
NET CASH USED IN INVESTING ACTIVITIES	(3,339)	(3,517)	(8)
FINANCING ACTIVITIES			
Redemption of guaranteed junior subordinated deferrable interest debentures	—	(12,018)	—
Subordinated debt issuance, net	—	26,589	—
Redemption of subordinated debt	—	(7,650)	—
Stock options exercised.	106	57	78
Purchases of treasury stock.	—	—	(151)
Common stock dividends paid	(1,967)	(1,708)	(1,716)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,861)	5,270	(1,789)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,355)	3,535	(546)
CASH AND CASH EQUIVALENTS AT JANUARY 1	5,633	2,098	2,644
CASH AND CASH EQUIVALENTS AT DECEMBER 31	\$ 3,278	\$ 5,633	\$ 2,098

The ability of the subsidiary Bank to upstream cash to the parent company is restricted by regulations. Federal law prevents the parent company from borrowing from its subsidiary Bank unless the loans are secured by specified assets. Further, such secured loans are limited in amount to ten percent of the subsidiary Bank’s capital and surplus. In addition, the Bank is subject to legal limitations on the amount of dividends that can be paid to its shareholder. The dividend limitation generally restricts dividend payments to a bank’s retained net income for the current and preceding two calendar years. The subsidiary Bank had a combined \$121,974,000 of restricted surplus and retained earnings at December 31, 2022. Cash may also be upstreamed to the parent company by the subsidiaries as an inter-entity management fee.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (unaudited)

The following table sets forth certain unaudited quarterly consolidated financial data regarding the Company:

	2022 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$ 13,803	\$ 12,700	\$ 11,527	\$ 11,028
Interest expense	3,660	2,171	1,403	1,261
Net interest income	10,143	10,529	10,124	9,767
Provision (credit) for loan losses	275	500	(325)	(400)
Net interest income after provision (credit) for loan losses	9,868	10,029	10,449	10,167
Non-interest income	3,893	4,326	4,138	4,335
Non-interest expense	12,688	11,727	12,110	11,479
Income before income taxes	1,073	2,628	2,477	3,023
Provision for income taxes	126	526	496	605
Net income	\$ 947	\$ 2,102	\$ 1,981	\$ 2,418
Basic earnings per common share	\$ 0.06	\$ 0.12	\$ 0.12	\$ 0.14
Diluted earnings per common share	0.06	0.12	0.12	0.14
Cash dividends declared per common share	0.030	0.030	0.030	0.025

	2021 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$ 11,690	\$ 11,372	\$ 11,838	\$ 11,769
Interest expense	1,392	2,146	1,971	2,077
Net interest income	10,298	9,226	9,867	9,692
Provision for loan losses	250	350	100	400
Net interest income after provision for loan losses	10,048	8,876	9,767	9,292
Non-interest income	4,332	4,416	4,399	4,614
Non-interest expense	12,107	11,520	12,038	11,305
Income before income taxes	2,273	1,772	2,128	2,601
Provision for income taxes	421	341	420	520
Net income	\$ 1,852	\$ 1,431	\$ 1,708	\$ 2,081
Basic earnings per common share	\$ 0.11	\$ 0.08	\$ 0.10	\$ 0.12
Diluted earnings per common share	0.11	0.08	0.10	0.12
Cash dividends declared per common share	0.025	0.025	0.025	0.025

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the filing of this Form 10-K, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements except for the following:

The Company has a \$918,000 investment in a debt security with Signature Bank which was closed by the banking regulators on March 12, 2023. In a press release issued by the Federal Deposit Insurance Corporation (FDIC), it was disclosed that unsecured debt holders of the institution will not be protected, therefore, the Company expects to recognize a substantial loss on this investment in the first quarter of 2023. Management has reviewed the December 31, 2022 Form 10-K filed by Signature and determined that no circumstances existed to indicate that the debt security held by the Company was impaired as of year-end. Specifically, as of December 31, 2022, Signature had total assets of \$110.4 billion, net income of \$1.3 billion for the year ended, and demonstrated strong regulatory capital ratios.

On March 17, 2023, AmeriServ Financial Bank agreed to sell all 7,859 shares of the Class B common stock of Visa Inc. that the bank owned for a purchase price of \$1.7 million. The shares had no carrying value on the Bank's balance sheet and, as the Bank had no historical cost basis in the shares, the entire purchase will be realized as a pre-tax gain. The Company believes that this was an appropriate time to capture the gain on these shares due to the current volatility and future uncertainty in the financial markets. The transaction will have a positive impact on the Company's first quarter 2023 earnings.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of AmeriServ Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AmeriServ Financial Inc. and subsidiaries (the “Company”) as of December 31, 2022 and 2021; the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2022; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involve our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses (ALL) – Qualitative Factors

Description of the Matter

The Company’s loan portfolio totaled \$990.8 million as of December 31, 2022, and the associated ALL was \$10.7 million. As discussed in Notes 1, 6 and 7 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio mix and volumes, trends in loan delinquencies and classified loans, collateral values, and concentrations of credit risk for the commercial loan portfolios.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

How We Addressed the Matter in Our Audit

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and considered the existence of new and contrary information. We also compared the ALL to the base range of historical losses to evaluate the level of reserves, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, various internal risk metrics, and asset quality trends.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes, to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

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

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

Cranberry Township, Pennsylvania
March 27, 2023

REPORT ON MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as management of AmeriServ Financial, Inc., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Company’s system of internal control over financial reporting as of December 31, 2022, in relation to criteria for effective internal control over financial reporting as described in “2013 Internal Control — Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2022, its system of internal control over financial reporting is effective and meets the criteria of the “2013 Internal Control — Integrated Framework”.

Management is responsible for compliance with the federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the Federal Reserve as safety and soundness laws and regulations.

Management has assessed compliance by the Company with the designated laws and regulations relating to safety and soundness. Based on the assessment, management believes that the Company complied, in all significant respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 2022.

/s/ JEFFREY A. STOPKO

Jeffrey A. Stopko
President & Chief Executive Officer

/s/ MICHAEL D. LYNCH

Michael D. Lynch
Executive Vice President & Chief Financial Officer

Johnstown, PA
March 27, 2023

STATEMENT OF MANAGEMENT RESPONSIBILITY

March 27, 2023

To the Stockholders and Board of Directors of AmeriServ Financial, Inc.

Management of AmeriServ Financial, Inc. and its subsidiaries have prepared the consolidated financial statements and other information in the Annual Report and Form 10-K in accordance with United States generally accepted accounting principles and are responsible for its accuracy.

In meeting its responsibility, management relies on internal accounting and related control systems, which include selection and training of qualified personnel, establishment and communication of accounting and administrative policies and procedures, appropriate segregation of responsibilities, and programs of internal audit. These systems are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against unauthorized use or disposition. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of proprietary information, and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of independent directors. The Audit Committee meets periodically with management and the independent auditors to discuss audit, financial reporting, and related matters. S.R. Snodgrass P.C. and the Company's internal auditors have direct access to the Audit Committee.

/s/ JEFFREY A. STOPKO

Jeffrey A. Stopko
President & Chief Executive Officer

/s/ MICHAEL D. LYNCH

Michael D. Lynch
Executive Vice President & Chief Financial Officer

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of December 31, 2022, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2022.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Management's assessment of internal control over financial reporting for the fiscal year ended December 31, 2022 is included in Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this section relating to Directors of the Registrant is presented in the “Election of ASRV Directors” section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this section is presented in the “Compensation/Human Resources Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” and “Compensation Paid to Executive Officers” sections of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table summarizes the number of shares remaining for issuance under the Company’s outstanding equity incentive plans as of December 31, 2022.

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders.....	323,786	\$ 3.52	600,000
Equity compensation plans not approved by security holders.....	—	—	—
Total.....	<u>323,786</u>	<u>\$ 3.52</u>	<u>600,000</u>

Information required by this section is presented in the “Principal Shareholders” and “Security Ownership of Directors and Management” sections of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this section is presented in the “Director Independence and Transactions with Related Parties” section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this section is presented in the “Independent Registered Accounting Firm” section of the Proxy Statement for the Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

CONSOLIDATED FINANCIAL STATEMENTS FILED:

The consolidated financial statements listed below are from this 2022 Form 10-K and Part II — Item 8. Page references are to this Form 10-K.

CONSOLIDATED FINANCIAL STATEMENTS:

AmeriServ Financial, Inc. and Subsidiaries	
Consolidated Balance Sheets	40
Consolidated Statements of Operations	41
Consolidated Statements of Comprehensive (Loss) Income	43
Consolidated Statements of Changes in Shareholders' Equity	44
Consolidated Statements of Cash Flows	45
Notes to Consolidated Financial Statements	46
Report of Independent Registered Public Accounting Firm (PCAOB ID 00074)	98
Report of Management's Assessment of Internal Control Over Financial Reporting	100
Statement of Management Responsibility	101

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:

These schedules are not required or are not applicable under SEC accounting regulations and therefore have been omitted.

EXHIBITS:

The exhibits listed below are filed herewith or to other filings.

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>	<u>PRIOR FILING OR EXHIBIT PAGE NUMBER HEREIN</u>
3.1	Amended and Restated Articles of Incorporation as amended through August 11, 2011.	Exhibit 3.1 to the Registration Statement on Form S-8 (File No. 333-176869) filed on September 16, 2011
3.2	Bylaws, as amended and restated effective April 2, 2020.	Exhibit 3.1 to the Current Report on Form 8-K filed on April 6, 2020
4.1	Description of Capital Stock	Attached
10.1	Employment Agreement, dated April 27, 2015, between AmeriServ Financial, Inc. and Jeffrey A. Stopko.	Exhibit 10.1 to the Current Report on Form 8-K filed on April 28, 2015
10.2	AmeriServ Financial, Inc. 2021 Stock Incentive Plan	Appendix A to the Definitive Proxy Statement, filed under Schedule 14A, filed on March 23, 2021
10.3	AmeriServ Financial, Inc. Deferred Compensation Plan	Exhibit 10.1 to the Current Report on Form 8-K filed on October 21, 2014

EXHIBIT NUMBER	DESCRIPTION	PRIOR FILING OR EXHIBIT PAGE NUMBER HEREIN
10.4	Employment Agreement, dated February 19, 2016, between AmeriServ Financial, Inc. and Michael D. Lynch	Exhibit 10.1 to the Current Report on Form 8-K filed on February 24, 2016
21.1	Subsidiaries of the Registrant.	Attached
23.1	Consent of Independent Registered Public Accounting Firm	Attached
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Attached
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Attached
101	The following information from AMERISERV FINANCIAL, INC.'s Annual Report on Form 10-K for the year ended December 31, 2022, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive (Loss) Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.	Attached
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Attached

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AmeriServ Financial, Inc.
(Registrant)

By : /s/ Jeffrey A. Stopko

Jeffrey A. Stopko
President & CEO

Date: March 27, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 27, 2023:

<u>/s/ Allan R. Dennison</u> Allan R. Dennison	Chairman Director	<u>/s/ Michael D. Lynch</u> Michael D. Lynch	EVP & CFO
<u>/s/ Jeffrey A. Stopko</u> Jeffrey A. Stopko	President & CEO Director	<u>/s/ Margaret A. O'Malley</u> Margaret A. O'Malley	Director
<u>/s/ J. Michael Adams, Jr.</u> J. Michael Adams, Jr.	Director	<u>/s/ Daniel A. Onorato</u> Daniel A. Onorato	Director
<u>/s/ Amy M. Bradley</u> Amy M. Bradley	Director	<u>/s/ Mark E. Pasquerilla</u> Mark E. Pasquerilla	Director
<u>/s/ Kim W. Kunkle</u> Kim W. Kunkle	Director	<u>/s/ Sara A. Sargent</u> Sara A. Sargent	Director

AMERISERV FINANCIAL, INC.

**AMERISERV FINANCIAL BANK
OFFICE LOCATIONS**

HEADQUARTERS

Main Office Johnstown
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)

Carrolltown
101 S. Main Street
Carrolltown, PA 15722

Central City
104 Sunshine Avenue
Central City, PA 15926

Derry
112 S. Chestnut Street
Derry, PA 15627

East Hills Drive Up
1213 Scalp Avenue
Johnstown, PA 15904

Eighth Ward
1059 Franklin Street
Johnstown, PA 15905

Hagerstown
12806 Shank Farm Way
Hagerstown, MD 21742

Lovell Park
179 Lovell Avenue
Ebensburg, PA 15931

Meyersdale
135 Center Street
Meyersdale, PA 15552

Nanty Glo
1383 Shoemaker Street
Nanty Glo, PA 15943

North Atherton
1857 N. Atherton Street
State College, PA 16803

Northern Cambria
4206 Crawford Avenue
Suite 1
Northern Cambria, PA 15714

Pittsburgh
United Steelworkers Building
60 Boulevard of the Allies
Suite 100
Pittsburgh, PA 15222

Seward
6858 Route 711
Suite 1
Seward, PA 15954

Somerset
108 W. Main Street
Somerset, PA 15501

University Heights
1404 Eisenhower Boulevard
Johnstown, PA 15904

Westmont
110 Plaza Drive
Johnstown, PA 15905

Windber
1501 Somerset Avenue
Windber, PA 15963

**AMERISERV LOAN
PRODUCTION LOCATIONS**

Altoona
3415 Pleasant Valley Boulevard
Pleasant Valley Shopping Center
Altoona, PA 16602

Wilkins Township
201 Penn Center Boulevard
Suite 200
Pittsburgh, PA 15235

24-hr ATM available at all branches except Pittsburgh where there is no ATM available

SHAREHOLDER INFORMATION

SECURITIES MARKETS

AmeriServ Financial, Inc. Common Stock is publicly traded and quoted on the NASDAQ National Market System. The common stock is traded under the symbol of "ASRV." The listed market makers for the stock are:

Piper Sandler Companies 1251 Avenue of the Americas 6th Floor New York, NY 10020 Telephone: (800) 635-6860	Stifel Nicolaus 7111 Fairway Drive, STE 301 Palm Beach Gardens, FL 33418 Telephone: (561) 615-5300
---	---

Raymond James & Associates 222 S. Riverside Plaza, 7th Floor Chicago, IL 60606 Telephone: (312) 655-2961	Virtu Financial, Inc. 1 Liberty Plaza New York, NY 10006 Telephone: (888) 931-4357
---	---

CORPORATE OFFICES

The corporate offices of AmeriServ Financial, Inc. are located at 216 Franklin Street, Johnstown, PA 15901.

Mailing address:
P.O. Box 430
Johnstown, PA 15907-0430
(814) 533-5300

AGENTS

The transfer agent and registrar for AmeriServ Financial, Inc.'s common stock is:

Computershare Investor Services
P.O. Box 505000
Louisville, KY 40233-5000
Shareholder Inquiries: 1-800-730-4001
Internet Address: <http://www.Computershare.com>

INFORMATION

Analysts, investors, shareholders, and others seeking financial data about AmeriServ Financial, Inc. or any of its subsidiaries' annual and quarterly reports, proxy statements, 10-K, 10-Q, 8-K, and call reports — are asked to contact Jeffrey A. Stopko, President & Chief Executive Officer at (814) 533-5310 or by e-mail at JStopko@AmeriServ.com. The Company also maintains a website (www.AmeriServ.com) that makes available, free of charge, such reports and proxy statements and other current financial information, such as press releases and SEC documents, as well as the corporate governance documents under the Investor Relations tab on the Company's website. Information contained on the Company's website is not incorporated by reference into this Annual Report on Form 10-K.

AMERISERV FINANCIAL, INC.

AMERISERV FINANCIAL, INC.

Board of Directors

J. Michael Adams, Jr.
Managing Member of Mike Adams & Associates, LLC
Non-Executive Vice Chairman of the Board of all Subsidiaries

Amy M. Bradley
President & CEO, Cambria Regional Chamber of Commerce

Allan R. Dennison
Non-Executive Chairman of the Board of all Subsidiaries

Kim W. Kunkle
President & CEO, Laurel Holdings, Inc

Margaret A. O'Malley
Attorney-at-Law
Yost & O'Malley

Daniel A. Onorato
Executive Vice President, Chief Corporate Affairs and Communications Officer of Highmark Health

Mark E. Pasquerilla
President, Pasquerilla Enterprises L.P.

Sara A. Sargent
Owner/President, The Sargent's Group

Jeffrey A. Stopko, CPA
President & Chief Executive Officer AmeriServ Financial, Inc. & AmeriServ Financial Bank

General Officers

Jeffrey A. Stopko, CPA
President & Chief Executive Officer

Michael D. Lynch
Executive Vice President, Chief Financial Officer, Chief Investment Officer & Chief Risk Officer

Susan Tomera Angeletti
Senior Vice President, Director of Marketing & Alternative Delivery

Laura L. Fiore, CPA
Senior Vice President, Chief Auditor

Wendy M. Gressick
Senior Vice President, Chief Loan Review Officer

Anthony M. Gojmerac
Vice President, Purchasing & Facilities Officer

Jessica L. Johnson
Vice President, Manager of Regulatory Accounting

Tammie L. Slavick
Vice President, Financial & Profitability Analysis

Sharon M. Callihan
Corporate Secretary

AMERISERV FINANCIAL, INC.

AMERISERV FINANCIAL BANK

Board of Directors

J. Michael Adams, Jr.
*Managing Member of Mike Adams & Associates, LLC
Non-Executive Vice Chairman of the Board of all
Subsidiaries*

Amy M. Bradley
*President & CEO, Cambria Regional Chamber of
Commerce*

Allan R. Dennison
*Non-Executive Chairman of the Board of all
Subsidiaries*

Kim W. Kunkle
*President & CEO,
Laurel Holdings, Inc.*

Margaret A. O'Malley
*Attorney-at-Law
Yost & O'Malley*

Daniel A. Onorato
*Executive Vice President, Chief Corporate Affairs and
Communications Officer of Highmark Health*

Mark E. Pasquerilla
President, Pasquerilla Enterprises L.P.

Sara A. Sargent
*Owner/President,
The Sargent's Group*

Jeffrey A. Stopko, CPA
*President & Chief Executive Officer AmeriServ
Financial, Inc. & AmeriServ Financial Bank*

General Officers

Jeffrey A. Stopko, CPA
President & Chief Executive Officer

Michael R. Baylor
*Executive Vice President & Chief Commercial
Banking Officer*

Michael D. Lynch
*Executive Vice President, Chief Financial Officer,
Chief Investment Officer & Chief Risk Officer*

Robert J. Cabala
Senior Vice President, Area Executive, Johnstown

Mitchell D. Edwards
*Senior Vice President, Area Executive, Wilkins
Township*

Russell B. Flynn
Senior Vice President, Retail Lending

Bettina D. Fochler
Senior Vice President, Chief Credit Officer

Kerri L. Mueller
Senior Vice President, Retail Banking

Michele M. Scanlan
*Senior Vice President, Chief Human Resources
Officer*

Tara M. Shaffer
Senior Vice President, Area Executive, State College

Shana M. Stiles
*Senior Vice President, BSA & Chief Compliance
Officer*

Charlene J. Tessari
Senior Vice President, Operations & Applications

Catherine M. Torok
Senior Vice President, Chief Information Officer

Scott Berardinelli
Vice President, Portfolio Manager

Thomas R. Boyd, Jr.
Vice President, Commercial Relationship Manager

Carie L. Braniff
Vice President, Corporate Security Officer

Angela M. Briggs
Vice President, Deposit Operations Manager

George T. Chaney II
Vice President, Commercial Relationship Manager

Lori L. Czekaj-Thompson
Vice President, Commercial Relationship Manager

Benjamin M. Danley
Vice President, Commercial Relationship Manager

Jason D. Eminhizer
Vice President, Commercial Relationship Manager

Kurt Fetzer
Vice President, Commercial Relationship Manager

Christine E. Fisher
Vice President, Business Services Officer

Stephen M. Gagan
Vice President, Manager of Technology

Anthony M. Gojmerac
Vice President, Purchasing & Facilities Officer

Chelsea M. Hartnett
Vice President, Manager Credit Analysis

Janet Isman
Vice President, Chief Information Security Officer

Nathan Kirk
Vice President, Consumer Underwriting Manager

Melissa A. Lohr
Vice President, Collections & Loan Administration

Randy S. McLaughlin
Vice President, Regional Sales Officer

Patrick Miles
Vice President, Commercial Relationship Manager

David J. O'Leary
Vice President, Residential Mortgage Lending

Heidi L. Rosenberger
Vice President, Retail Operations

Cynthia L. Stewart
Vice President, Mortgage Administrator

Anthony T. Weisenburger
Vice President, Commercial Relationship Manager

Michelle D. Wyandt
Vice President, Credit Specialist Project Manager

AMERISERV FINANCIAL, INC.

AMERISERV TRUST & FINANCIAL SERVICES COMPANY

Board of Directors

J. Michael Adams, Jr.
Managing Member of Mike Adams & Associates, LLC
Non-Executive Vice Chairman of the Board of all Subsidiaries

Richard W. Bloomingdale
Retired President, PA AFL-CIO

Allan R. Dennison
Non-Executive Chairman of the Board of all Subsidiaries

James T. Huerth
President & Chief Executive Officer, AmeriServ Trust & Financial Services Company

George B. Kaufman
Attorney-at-Law

Kim W. Kunkle
President & CEO, Laurel Holdings, Inc.

Mark E. Miller
Retired VP of Facilities and Support Services, UPMC Somerset & President, Pine Grill, Inc.

Margaret A. O'Malley
Attorney-at-Law
Yost & O'Malley

Sara A. Sargent
Owner/President
The Sargent's Group

Jeffrey A. Stopko, CPA
President & Chief Executive Officer, AmeriServ Financial, Inc. & AmeriServ Financial Bank

General Officers

James T. Huerth
President & Chief Executive Officer

David A. Finui
Executive Vice President, Director of Wealth and Capital Management

Michael D. Lynch
Executive Vice President, Treasurer

Robert J. Cabala
Senior Vice President, Area Executive, Johnstown

Nicholas E. Debias, Jr., CTA
Senior Vice President, Senior Wealth Management Advisor

Bettina D. Fochler
Senior Vice President, Chief Credit Officer

Michael P. Geiser
Senior Vice President, Trust Operations Manager

Christopher C. Sheedy
Senior Vice President, Director of Specialty Real Estate

Kathleen M. Wallace, CPA, CRPP
Senior Vice President, Chief Admin Officer

Timothy E. Walters
Senior Vice President, Diversified Services Wealth Advisor

Cortnie Beaver
Vice President, Retirement Services Manager

Mary Ann Brustle
Vice President, Risk Management & Trust Compliance Officer

Keashia R. Holtzman-Kishlock
Vice President, Trust Accounting Officer

James A. Hotchkiss
Vice President, Wealth Management Advisor

Mark F. Lumley
Vice President, Assistant Trust Operations Manager

Justin F. Maser
Vice President, Portfolio Manager

Scott D. Porterfield
Vice President, Wealth Management Advisor

Trust Company Office Locations

216 Franklin Street
AmeriServ Financial Bank Building
Johnstown, PA 15901-1911

140 South Main Street
Greensburg, PA 15601

WEST CHESTER CAPITAL ADVISORS

Board of Directors

J. Michael Adams, Jr.
Managing Member of Mike Adams & Associates, LLC
Non-Executive Vice Chairman of the Board of all Subsidiaries

Allan R. Dennison
Non-Executive Chairman of the Board of all Subsidiaries

James T. Huerth
President & Chief Executive Officer, AmeriServ Trust & Financial Services Company

Steven M. Krawick, AAMS, CMFC
President & Chief Executive Officer, West Chester Capital Advisors

Jeffrey A. Stopko, CPA
President & Chief Executive Officer, AmeriServ Financial, Inc. & AmeriServ Financial Bank

General Officers

Steven M. Krawick, AAMS, CMFC
President & Chief Executive Officer

Michael D. Lynch
Executive Vice President, Chief Financial Officer & Treasurer

Frank J. Lapinsky
Senior Vice President, Chief Administrative Officer & COO

Eric Ludy
Vice President, Portfolio Manager

Ron Shostek
Vice President, Portfolio Manager

Office Location

216 Franklin Street
AmeriServ Financial Bank Building
Johnstown, PA 15901-1911

[This Page Intentionally Left Blank]

DESCRIPTION OF CAPITAL STOCK

As of March 1, 2023, AmeriServ Financial, Inc. (the “Corporation”) had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, \$0.01 par value per share (the “Common Stock”). The following summarizes the provisions of the Common Stock under the articles of incorporation and bylaws of the Corporation and under the provisions of the Pennsylvania Business Corporation Law of 1988, as amended (the “PBCL”). The summary should be read in conjunction to the complete text of the articles of incorporation and bylaws and the PBCL.

Authorized Shares of Capital Stock

The authorized capital stock consists of 30,000,000 shares of Common Stock and 2,000,000 shares of preferred stock. No shares of preferred stock were issued and outstanding as of March 1, 2023.

Common Stock

Voting Rights

Holdings of Common Stock have cumulative voting rights in the election of directors. On all other matters, holders of Common Stock are entitled to one vote for every share having voting power on all matters submitted for action by the shareholders. The rights of holders of Common Stock will be subject to any rights and preferences pertaining to any class of preferred stock or any series thereof to the extent set forth in any resolution of the Corporation’s board of directors (the “Board of Directors”) fixing the terms thereof.

Dividends and Distributions

Holdings of Common Stock are entitled to receive dividends ratably if, as and when dividends are declared from time to time by the Board of Directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any.

Ranking

Upon liquidation, dissolution or winding up, the holders of Common Stock are entitled to receive ratably the assets available for distribution to the shareholders after payment of liabilities and accumulated and unpaid dividends and liquidation preferences on outstanding preferred stock, if any.

No Conversion Rights; No Preemptive Rights; No Redemption

Holdings of Common Stock have no preemptive or conversion rights and are not subject to further calls or assessment by the Corporation. There are no redemption or sinking fund provisions applicable to the Common Stock. The rights, preferences and privileges of holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock, which the Board of Directors may designate and issue in the future without further shareholder approval.

Stock Exchange Listing

The Common Stock is listed on the Nasdaq Global Market under the symbol, “ASRV.”

Fully Paid and Nonassessable

Outstanding shares of Common Stock are validly issued, fully-paid and nonassessable.

Preferred Stock

The Corporation's articles of incorporation authorize the Board of Directors to fix by resolution the voting rights, designations and preferences, priorities, qualifications, privileges, limitations, restrictions, options, conversion rights, dividend features, retirement features, liquidation features, redemption features and other special or relative rights of the preferred stock and any series thereof. The Board of Directors has full authority to issue authorized preferred stock from time to time in one or more series, without further shareholder approval.

Anti-Takeover Provisions

Certain provisions of the Corporation's articles of incorporation, bylaws and the PBCL may have the effect of delaying, deferring, or preventing a change in control of the Corporation:

Pennsylvania Anti-Takeover Provisions

Certain anti-takeover provisions of the PBCL apply to Pennsylvania registered corporations (e.g., publicly traded companies) including those relating to (1) control share acquisitions, (2) disgorgement of profits by certain controlling persons, (3) business combination transactions with interested shareholders, and (4) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows corporations to opt-out of these anti-takeover sections under certain circumstances, but the Corporation has not opted out of any of these anti-takeover provisions. A general summary of these applicable anti-takeover provisions is set forth below.

Control Share Acquisitions. Pennsylvania law regarding control share acquisitions relates to the act of acquiring for the first time voting power over voting shares (other than (i) shares owned continuously by the same natural person since January 1, 1988, (ii) shares beneficially owned by any natural person or trust, estate, foundation or similar entity to the extent such shares were acquired solely by gift, inheritance, bequest, devise or other testamentary distribution, directly or indirectly, from a natural person who beneficially owned the shares prior to January 1, 1988 or (iii) shares acquired pursuant to a stock split, stock dividend or similar distribution with respect to shares that have been beneficially owned continuously since their issuance by the Corporation by the shareholder that acquired them from the Corporation or that were acquired from such shareholder pursuant to (ii) above) equal to: (a) at least 20% but less than 33 1/3%; (b) at least 33 1/3% but less than 50%; or (c) 50% or more of the voting power of the corporation. Once a control share acquisition has occurred, then all shares in excess of the triggering threshold, plus shares purchased at any time with the intention of acquiring such voting power or shares purchased within 180 days of the date the triggering threshold was exceeded, are considered control shares. Control shares cannot vote either until their voting rights have been restored by two separate votes of the shareholders, as described below, or until they have been transferred to a person who is not an affiliate of the transferor and does not thereby also become the holder of control shares.

The holder of control shares may wait until the next annual or special meeting after the acquisition took place to submit the question of the restoration of voting rights to the shareholders, or the acquiring person may accelerate the process by agreeing to underwrite the cost of a special meeting of shareholders for that purpose. In either case, the acquiring person is required to furnish for distribution to the shareholders an information statement containing a detailed disclosure concerning the acquiring person, its intentions with respect to ownership of securities of the corporation and other matters. As an alternative, a person submitting a bona fide written offer to make a control share acquisition may request prospective approval by the shareholders of the exercise of the voting rights of the shares proposed to be acquired, provided that the control share acquisition is consummated within 90 days after shareholder approval is obtained. Two shareholder votes are required to approve the restoration of voting rights. First, the approval of a majority of all voting power must be obtained. Second, the approval of a majority of all disinterested shareholders must be obtained.

For a period of 24 months after the later of (a) a control share acquisition by an acquiring person who does not properly request consideration of voting rights, or (b) the denial of such a request or lapse of voting rights, the corporation may redeem all the control shares at the average of the high and low public market sales price of the shares on the date notice of the call for redemption is given by the corporation.

Disgorgement of Profits by Certain Controlling Persons. Pennsylvania law regarding disgorgement of profits by certain controlling persons applies in the event that (a) any person or group directly or indirectly publicly discloses or causes to be disclosed that the person or group may seek to acquire control of the corporation, or (b) a person or group

acquires, offers to acquire or directly or indirectly publicly discloses or causes to be disclosed an intent to acquire) 20% or more of the voting power of the corporation and, in either case, sells shares within 18 months thereafter. Any profits from sales of equity securities of the corporation received by the person or group during such 18-month period will belong to the corporation if the securities that were sold were acquired during the 18-month period after or within 24 months prior to becoming a controlling person.

Business Combination Transactions with Interested Shareholders. Pennsylvania law regarding business combination transactions with interested shareholders provides that a person who acquires the direct or indirect beneficial ownership of shares entitled to cast at least 20% of the votes entitled to be cast for the election of directors or an affiliate or associate of the corporation who at any time within the prior five years was the beneficial owner, directly or indirectly, of 20% of the voting shares of the corporation is an “interested shareholder.” A corporation subject to this provision may not effect mergers or certain other business combinations with the interested shareholder for a period of five years, unless:

- the business combination or the acquisition of stock by means of which the interested shareholder became an interested shareholder is approved by the Board of Directors prior to such stock acquisition;
- the business combination is approved by the affirmative vote of the holders of all the outstanding common shares of the corporation; or
- the business combination is approved by the affirmative vote of the holders of a majority of all shares entitled to vote, excluding votes of shares held by the interested shareholders or their affiliates, and at the time of such vote, the interested shareholder is the beneficial owner of at least 80% of the voting shares of the corporation. This exception applies only if the value of the consideration to be paid by the interested shareholder in connection with the business combination satisfies certain fair price requirements.

After the five-year restricted period, an interested shareholder of the corporation may engage in a business combination with the corporation if (a) the business combination is approved by the affirmative vote of a majority of the shares other than those beneficially owned by the interested shareholder and its affiliates, or (b) the merger is approved at a shareholders meeting and certain fair price requirements are met.

Rights of Shareholders to Demand Full Value for their Stock Following Control Transaction. Under Pennsylvania law, a control transaction is an acquisition by a person or group of the voting power over at least 20% of the voting shares of the corporation. Subject to exceptions, if a Pennsylvania registered corporation is subject to a control transaction, the controlling person or group must provide prompt notice of the transaction to the court and each shareholder of record holding voting shares. Any holder of voting shares may make a written demand on the controlling person or group for payment in cash of the fair value of each voting share at the date on which the control transaction occurs. The minimum value that a shareholder can receive is the highest price paid per share by the controlling person or group within the 90-day period ending on and including the date of the control transaction. If any shareholder believes the fair value of her shares is higher than the price offered by the controlling person or group, the shareholder may file a petition with the court seeking appraisal of the shares.

Blank Check Preferred Stock

The articles of incorporation provide for the issuance of preferred stock having terms established by the Board of Directors without shareholder approval.

Staggered Board of Directors

The articles of incorporation provide for the classification of the Board of Directors into three classes with each class serving a staggered three-year term. As a result of this classification, only one third of the entire Board of Directors stands for election in any one year and a minimum of two annual meetings would be required to elect a majority of the Board of Directors.

Calling of Special Meetings of Shareholders

Pursuant to the bylaws, special meetings of shareholders may only be called by the Non-Executive Chairperson of the Board of Directors, by the Non-Executive Vice Chairperson of the Board of Directors, by a majority of the Board of Directors, by the Chief Executive Officer of the Corporation, or by the President of the Corporation.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

The bylaws provide that notice of any proposal by a shareholder which the shareholder desires to submit to a vote at an annual meeting, including any director nominations, must be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to any annual meeting of shareholders. The bylaws also specify requirements as to the contents of the shareholder's notice or nomination. If notice is not provided in accordance with these provisions, a shareholder's proposal will not appear on the meeting agenda.

Removal of Directors

Under the articles of incorporation, any director can be removed from office by a shareholder vote at any time, without assigning any cause, but only if the holders of not less than two-thirds of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote at an annual election of directors voting together as a single class, shall vote in favor of such removal.

Amendments to Articles of Incorporation

Under the PBCL, an amendment to the articles of incorporation requires, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter and the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class. The PBCL also provides that our shareholders are not entitled by statute to propose amendments to the articles of incorporation.

Amendments to Bylaws

The bylaws provide that our bylaws may be amended or repealed, in whole or in part, by the affirmative vote of a majority of the Board of Directors at any regular or special meeting of the Board of Directors. The PBCL provides that the ability of the Board of Directors to adopt, amend or repeal the bylaws is subject to the power of shareholders to change such action. The PBCL also provides that the Board of Directors does not have the authority to adopt or change a bylaw on specified subjects, including, but not limited to, authorized capital, the personal liability of directors, various matters relating to the Board of Directors, and matters relating to the voting rights of shareholders.

SUBSIDIARIES OF THE REGISTRANT

NAME	PERCENT OF OWNERSHIP	JURISDICTION OF ORGANIZATION
AmeriServ Financial Bank 216 Franklin Street Johnstown, PA 15901-1911	100%	Commonwealth of Pennsylvania
AmeriServ Trust and Financial Services Company 216 Franklin Street Johnstown, PA 15901-1911	100%	Commonwealth of Pennsylvania

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-176869 and File No. 333-67600 on Form S-8 of AmeriServ Financial, Inc. of our report dated March 27, 2023, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of AmeriServ Financial, Inc. for the year ended December 31, 2022.

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

Cranberry Township, Pennsylvania
March 27, 2023

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

I, Jeffrey A. Stopko, certify that:

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

Date: March 27, 2023

/s/Jeffrey A. Stopko
Jeffrey A. Stopko
President & CEO

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

I, Michael D. Lynch, certify that:

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

Date: March 27, 2023

/s/Michael D. Lynch

Michael D. Lynch
Executive Vice President & CFO

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

In connection with the Annual Report of AmeriServ Financial, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey A. Stopko, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

President and Chief Executive Officer

March 27, 2023

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

In connection with the Annual Report of AmeriServ Financial, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Lynch, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Michael D. Lynch

Michael D. Lynch

Executive Vice President and Chief Financial Officer

March 27, 2023

[This Page Intentionally Left Blank]

[This Page Intentionally Left Blank]

Headquarters
216 Franklin Street
Johnstown, PA 15901
1-800-837-BANK (2265)