REFINITIV

DELTA REPORT

10-K

CZFS - CITIZENS FINANCIAL SERVIC

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3908
CHANGES	538
DELETIONS	1168
ADDITIONS	2202

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**December 31, 2023**

or

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

For the transition period from_____________________ to ___________________

Commission file number **000-13222**

CITIZENS FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2265045**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

15 South Main Street, Mansfield, Pennsylvania	**16933**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(570) 662-2121**

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, Par value $1.0 per share	CZFS	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 the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended reporting transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) if 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; $261,264,000 $330,697,000 as of June 30, 2022 June 30, 2023.

As of March 1, 2023 February 26, 2024, there were 3,971,210 4,706,994 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III is incorporated by reference to the Registrant's Definitive Proxy Statement for the 2023 2024 Annual Meeting of Shareholders.

Citizens Financial Services, Inc.

Form 10-K

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PART I

PART II

PART III

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ITEM 1 – BUSINESS.

CITIZENS FINANCIAL SERVICES, INC.

Citizens Financial Services, Inc. (the “Company”), a Pennsylvania corporation, was incorporated on April 30, 1984 to be the holding company for First Citizens Community Bank interest in the Bank was transferred to CZFS to facilitate the merger with MidCoast Community Bancorp, Inc. (MidCoast) and its wholly owned subsidiary, MidCoast Community Bank engaged in the ownership and management of CZFS, its subsidiary, the Bank and the Bank’s wholly owned subsidiaries, First Citizens Insurance Agency, Inc. (“First Citizens Insura properties the Bank obtains in foreclosure.

PENDING ACQUISITION OF HV BANCORP, INC.

On October 18, 2022, the Company and HV Bancorp, Inc. (“HVBC”), the holding company for Huntingdon Valley Bank (“HVB”),) entered into an Agreement and Plan of Merger (th

Under the terms of the Merger Agreement, each outstanding share of HVBC common stock will be converted into either the right to receive $30.50 in cash or 0.40 shares of the common stock. In the event of a greater than 20% decline in market value of the Company’s common stock, HVBC may, in certain circumstances, be able to terminate the Merger Ag

The senior management of the Company and the Bank will be augmented by management team members from HVBC and HVB.

The transaction is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the shareholders of HVBC. The merger is currently expec

Each of the directors of HVBC have agreed to vote their shares in favor of the approval of the Merger Agreement at the shareholders’ meeting to be held to vote on the proposed t

AVAILABLE INFORMATION

A copy of the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current events reports on Form 8-K, and amendments to these reports, filed or furnish practicable after such reports are filed with or furnished to the Securities and Exchange Commission. Copies of the reports the Company files electronically with the Securities and E K.

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FIRST CITIZENS COMMUNITY BANK

The Bank is a full-service bank engaged in a broad range of banking activities and services for individual, business, governmental and institutional customers. These activities variety of other specialized financial services. The Trust and Investment division of the Bank offers a full range of client investment, estate, mineral management and retirement servic

The Bank’s main office is located at 15 South Main Street, Mansfield (Tioga County), Pennsylvania. In addition to the main office in Mansfield, the Bank operates 31 39 full service north central Pennsylvania. It also includes Allegany, Steuben, Chemung and Tioga Counties in Southern New York. The south central south-central Pennsylvania market consis communities. communities, as well as Lycoming County with the opening of the Williamsport branch in the fourth quarter of 2023. Our Delaware market consists of Wilmington and D November of 2020, the Bank opened a full-service branch in Chester County, Pennsylvania. During 2022, we opened two offices, one The south east Pennsylvania market consists diversified and include manufacturing industries, wholesale and retail trade, service industries, agricultural and the production of natural resources of gas and timber. We are depe Delaware. We also received regulatory approval to open a full service branch in Williamsport, Pennsylvania, which is expected to open in the second half of 2023.

The economy of the Bank’s market areas are diversified and include manufacturing industries, wholesale and retail trade, service industries, agricultural and the production of nat surrounding areas of Wilmington and Dover, Delaware.

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COMPETITION

The banking industry in the Bank's service areas are intensely competitive, with competitors including local community banks, larger regional banks, and financial service provider internet entities, and government sponsored agencies, such as Freddie Mac, Fannie Mae and Farm Credit. Competitive pressures continue to increase in our service areas as ent savings deposits, service charges on deposit accounts and interest rates charged on loans.

Additional information related to our business and competition is included in Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operatio*

HUMAN CAPITAL RESOURCES

At December 31, 2022 December 31, 2023, we had a total of 328 422 employees, including 22 27 part-time and 11 commissioned employees and of which approximately 76% 71 and loan production offices, and another 1.5% are employed at our customer care call center. offices. The success of our business is highly dependent on our employees, who provide

We encourage and support the growth and development of our associates and, wherever possible, seek to fill positions by promotion and transfer from within the organization. believe our ability to attract and retain employees is a key to our success. Accordingly, we strive to offer competitive salaries and employee benefits to all employees and monitor salar

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The safety, health and wellness of our employees is a top priority. All employees are asked not to come to work when they experience signs or symptoms of a possible COVID-19 for incorporating healthy habits into their daily routines. routines

SUPERVISION AND REGULATION

GENERAL

The Bank is subject to extensive regulation, examination and supervision by the Pennsylvania Department of Banking ("PDB") and, as a member of the Federal Reserve System, the reserves against deposits a bank must maintain, terms of deposit accounts, loans a bank makes, the interest rates a bank charges and collateral a bank takes, the activities of a Holding Company Act of 1956, as amended (the "BHCA").

PENNSYLVANIA BANKING LAWS

The Pennsylvania Banking Code ("Banking Code") contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, and PDB so that the supervision and regulation of state chartered state-chartered banks may be flexible and readily responsive to changes in economic conditions and in savings and lend

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Pennsylvania law also provides Pennsylvania state chartered state-chartered institutions elective parity with the power of national banks, federal thrifts, and state-chartered institu new investments, loans, or becoming involved in activities as principal and equity investments which are not permitted for national banks unless (1) the FDIC determines the activity c Banking Code is restricted by the FDIA.

In April 2008, banking regulators in the States of New Jersey, New York, and Pennsylvania entered into a Memorandum of Understanding (the "Interstate MOU") to clarify their responsibilities of the respective state banking regulators regarding bank regulatory examinations and is intended to reduce the regulatory burden on state chartered state-chartered b to the same extent that federal law governs the activities of the branch of an out-of-state national bank in such host states. Issues regarding whether a particular host state law is pr applicable host state regulator would use their reasonable best efforts to consider all points of view and to resolve the disagreement.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act, ("CRA"), as implemented by FRB regulations, provides that the Bank has a continuing and affirmative obligation consistent with its safe and so nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA applications by such institution, such as mergers and branching. The Bank's most recent rating was "Satisfactory." Various consumer laws and regulations also affect the operatio economy.

CURRENT CAPITAL REQUIREMENTS CURRENT CAPITAL REQUIREMENTS

Federal regulations require FDIC-insured depository institutions, including state-chartered, FRB-member banks, to meet several minimum capital standards. These capital standa Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6.0% and 8.0%, respectiv Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity a surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferr election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily deter deductions and adjustments specified in the regulations.

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In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligatio
categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to pruder
between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to m
requirements.

The FRB has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequa

As permitted by applicable federal regulation, the Bank has opted to use the community bank leverage ratio (the "CBLR") framework for determining its capital adequacy, as discu
Basel III capital framework and the normal Prompt Corrective Action capital categories will apply. At December 31, 2022 December 31, 2023, the Bank is in the grace period under the

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PROMPT CORRECTIVE ACTION RULES

Prompt Corrective Action Rules

Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The law requires that certain supervisory actions be taken a
banks. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to
greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% o
ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less th
ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Subject to a narrow exception, a receiver or conservator must be appointed for an institution that is "critically undercapitalized" within specified time frames. The regulations al
undercapitalized." Compliance with the capital restoration plan must be guaranteed by any parent holding company up to the lesser of 5% of the depository institution's total assets w
an undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FRB could also
institutions are subject to additional mandatory and discretionary measures.

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STANDARDS FOR SAFETY AND SOUNDNESS

The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information s
standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the FRB determines that a sta

ENFORCEMENT

The PDB maintains enforcement authority over the Bank, including the power to issue cease and desist orders and civil money penalties and remove directors, officers or emplo
enforcement responsibility over FRB-member state banks and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, who kno
officers and/or directors. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC, as c
circumstances. In general, regulatory enforcement actions occur with respect to situations involving unsafe or unsound practices or conditions, violations of law or regulation or breac

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REGULATORY RESTRICTIONS ON BANK DIVIDENDS

Regulatory Restrictions on bank Dividends

The Bank may not declare a dividend without approval of the FRB, unless the dividend to be declared by the Bank's Board of Directors does not exceed the total of: (i) the Bank's

Under Pennsylvania law, the Bank may only declare and pay dividends from its accumulated net earnings. In addition, the Bank may not declare and pay dividends from the surp
aggregate dividends of approximately $30.4 million $42.9 million, plus net profits earned to the date of such dividend declaration.

BANK SECRECY ACT

Under the Bank Secrecy Act (BSA), banks and other financial institutions are required to retain records to assure that the details of financial transactions can be traced if invest
statutory penalties, and a negative compliance record may affect the willingness of regulating authorities to approve certain actions by the Bank requiring regulatory approval, includin

INSURANCE OF DEPOSIT ACCOUNTS

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. Under the FDIC's risk-based assessment system, insured institutions
depends upon the category to which it is assigned, and certain adjustments specified by FDIC regulations.

As required by the Dodd-Frank Act, the FDIC has issued final rules implementing changes to the assessment rules. The rules change the assessment base used for calculatin significantly alter the total amount of revenue collected from the industry. The range of adjusted assessment rates is now 2.5 to 45 basis points of the new assessment base. The r greater access to nondeposit funding. No institution may pay a dividend if it is in default of its assessments. As a result of the Dodd-Frank Act, deposit insurance per account owner is

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The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% to 1.35% of estimated insured deposits. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, in

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and resu

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to conti termination of deposit insurance.

FEDERAL RESERVE SYSTEM

Under FRB regulations, the Bank is required to maintain reserves against its transaction accounts (primarily NOW and regular checking accounts). These reserve requirements million $691.7 million, plus 10% on the remainder, and the first $32.4 million $36.1 million of otherwise reservable balances will be would have been exempt. In March 2020, the FRB re

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PROHIBITIONS AGAINST TYING ARRANGEMENTS

State-chartered banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of

OTHER REGULATIONS

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subje

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- Rules and regulations of the various federal and state agencies charged with the responsibility of implementing such laws.

The Bank's operations also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoen

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- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liab
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same leg
- The USA PATRIOT Act, which requires banks operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and contr Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

HOLDING COMPANY REGULATION

The Company, as a bank holding company, is subject to examination, supervision, regulation, and periodic reporting under the BHCA, as administered by the FRB. The Comp indirect ownership or control of any voting securities of any bank or bank holding company if it would, directly or indirectly, own or control more than 5% of any class of voting shares o

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A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in nonb principal activities that the FRB has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) p primarily to promote community welfare; and (vii) acquiring a savings association.

A bank holding company that meets specified conditions, including that its depository institutions subsidiaries are "well capitalized" and "well managed," can opt to become a "f investment banking. The Company does not anticipate opting for "financial holding company" status at this time.

The Company is exempt from the FRB's consolidated capital adequacy guidelines for bank holding companies because the Company's consolidated assets are less than $3.0 bill

A bank holding company is generally required to give the FRB prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration fo The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, FI other conditions.

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The FRB has issued a policy statement regarding the payment of dividends and other capital distributions by bank holding companies. In general, the FRB's policies provide th overall financial condition. The FRB's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by using available resourc necessary. The Dodd-Frank Act codified the source of strength policy and requires the promulgation of implementing regulations. Under the prompt corrective action laws, the ability capital distributions.

The Federal Deposit Insurance Act makes depository institutions liable to the Federal Deposit Insurance Corporation for losses suffered or anticipated by the insurance fund in potential applicability if the Company ever held as a separate subsidiary a depository institution in addition to the Bank.

The status of the Company as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations app

ACQUISITION OF THE HOLDING COMPANY

Under the Change in Bank Control Act (the "CIBCA"), a federal statute, a notice must be submitted to the FRB if any person (including a company), or group acting in concert, generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer, the convenience obtain "control" of the Company within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of voting securities of acquiring more than 5% of the Company's voting stock.

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EFFECT OF GOVERNMENT MONETARY POLICIES

The earnings and growth of the banking industry are affected by the credit policies of monetary authorities, including the Federal Reserve System. An important function of the Fe these objectives are open market activities in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against mer on loans or paid on deposits. The monetary policies of the Federal Reserve authorities have had a significant effect on the operating results of commercial banks in the past and are e

In view of the changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities including the Federal R included under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" appearing in this Annual Report on Form 10-K.

ITEM 1A – RISK FACTORS.

The following discussion sets forth the material risk factors that could affect the Company's consolidated financial condition and results of operations. Readers should not conside the Company's business, results of operations, financial condition, capital position, liquidity, competitive position or reputation, including by materially increasing expenses or decreasi

RISKS RELATED TO THE COVID-19 PANDEMIC

The economic impact of the COVID-19 pandemic could adversely affect our financial condition and results of operations.

The COVID-19 pandemic caused significant economic dislocation in the United States and worldwide. Although the domestic and global economies have begun to recover fr environment and may persist for some time, including labor shortages and disruptions of global supply chains. The growth in economic activity and in the demand for goods and serv could be subject to the following risks, among others, any of which individually or in combination with others could have a material, adverse effect on our business, financial condition,

- demand for our products and services may decline, making it difficult to grow assets and income;
- if we have high levels of unemployment for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and redu
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- limitations may be placed on our ability to foreclose on properties we hold as collateral;

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- our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- our cybersecurity risks are increased if employees work remotely;
- we rely on third-party vendors for certain services and the unavailability of a critical service due to the COVID-19 pandemic could have an adverse effect on us; and
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs.

RISKS RELATED TO CHANGES IN MARKET INTEREST RATES

Changing interest rates may decrease our earnings and asset values.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference betwe net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the asset yields catch up. Changes lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our ne

Changes in interest rates also affect the value of the Bank's interest-earning assets, and in particular the Bank's securities portfolio. Generally, the value of fixed-rate securities fl on equity securities directly impact earnings. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on share

Impact of Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believe in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding effect on impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to incre noninterest expenses. Our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative i

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RISKS RELATED TO OUR LENDING ACTIVITIES

Activities related to the drilling for natural gas in the in the Marcellus and Utica Shale formations impacts certain customers of the Bank.

Our north central Pennsylvania market area is predominately centered in the Marcellus and Utica Shale natural gas exploration and drilling area, and as a result, the economy in entities directly engaged in exploration, drilling or production activities, many of our customers provide transportation and other services and products that support natural gas explo loans in accordance with their terms. Additionally, exploration and drilling activities may be affected by federal, state and local laws and regulations such as restrictions on productio could have a material adverse effect on our business, prospects, financial condition and results of operations.

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Higher loan losses could require us to increase our allowance for loan credit losses through a charge to earnings.

When we loan money, we incur the risk that our borrowers do not repay their loans. We reserve for loan credit losses by establishing an allowance through a charge to earnings. requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrow secured loan can increase significantly, especially in the case of loans with high combined loan-to-value ratios. A decline in the national economy and the local economies of the areas periods. In addition, bank regulators may require us to make a provision for loan credit losses or otherwise recognize further loan charge-offs following their periodic review of our lo effect on our financial condition and results of operations.

Our allowance for loan credit losses amounted to $18.6 million $21.2 million, or 1.08% 0.94% of total loans outstanding and 267.1% 173.6% of nonperforming loans, at Decembe increased provisions to replenish the allowance, which would decrease our earnings. In addition, at December 31, 2022 December 31, 2023 the top 40 relationships of the Bank had one or more of these loans could result in a significant increase in our nonperforming loans and our provision for loan credit losses, which would negatively impact our results of opera

In June 2016, During 2023, the FASB issued Bank implemented ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, wh 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 o expected increases or decreases of expected credit losses that have taken place during the period. The standard was implemented effective January 1, 2023 with a On October 16, 2 fiscal years. The implementation of this standard did result in a decrease of $2.2 million to the Company's allowance for loan credit losses effective January 1, 2023 compared to Dece

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Our emphasis on commercial real estate, agricultural real estate, construction and state and political subdivision other commercial loan lending may expose us to increas

At December 31, 2022 December 31, 2023, we had $876.6 million $1.09 billion in loans secured by commercial real estate, $313.6 million $314.8 million in agricultural real estat
commercial loans represented 50.8% 48.6%, 18.2% 14.0%, 4.7% 8.7% and 3.4% 6.1%, respectively, of our loan portfolio. At December 31, 2022 December 31, 2023, we had $15.
sensitive and carry higher yields than do residential mortgage loans, these types of loans generally expose a lender to greater risk of non-payment and loss than single-family resid
property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrow

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Agricultural loans are dependent for repayment on the successful operation and management of the farm property, the health of the agricultural industry broadly, and on

At December 31, 2022 December 31, 2023, our agricultural loans, consisting primarily of agricultural real estate loans and other agricultural loans, totaled $348.4 million $345.5 r
markets are highly sensitive to real and perceived changes in the supply and demand of agricultural products. Weaker prices could reduce the value of agricultural land in our lo
2022 December 31, 2023, the Company had a loan concentration to the dairy industry totaling $120,100,000, $118,599,000, or 5.3% of total loans and 34.3% of total agricultural loans

Our agricultural loans are dependent on the profitable operation and management of the farm property securing the loan and its cash flows. The success of a farm property may b

- • the COVID-19 pandemic and its impact to supply and demand constraints
- adverse weather conditions (such as hail, drought and floods), restrictions on water supply or other conditions that prevent the planting or harvesting of a crop or limit crop yields;
- loss of crops or livestock due to disease or other factors;
- declines in the market prices or demand for agricultural products (both domestically and internationally), for any reason;
- increases in production costs (such as the costs of labor, rent, feed, fuel and fertilizer);
- the impact of domestic and international government policies and regulations (including changes in price supports, subsidies, government-sponsored crop insurance, minimum etha
- access to technology and the successful implementation of production technologies; and
- • and changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers.
- Disruptions in the supply chain and the processing of product and delivery to the final retail channel

Lower prices for agricultural products may cause farm revenues to decline and farm operators may be unable to reduce expenses as quickly as their revenues decline. In addit
borrower's ability to repay the loan may be impaired. Consequently, agricultural loans may involve a greater degree of risk than residential mortgage lending, particularly in the case c
In such cases, any repossessed collateral for a defaulted agricultural operating loan may not provide an adequate source of repayment of the outstanding loan balance as a result of t

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Loan participations comprise a portion of our loan portfolio and a decline in loan participation volume could hurt profits and slow loan growth.

We have actively engaged in loan participations whereby we are invited to participate in loans, primarily commercial real estate and municipal loans, originated by another financ
loan. The primary difference is that financial information is received from the participating financial institution and not the borrower. The loans we participate in as a purchaser totaled $
of December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Our profits and loan growth could be significantly and adversely affected if the volume of loan participations v

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Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we coulc
knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of clear
acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretation

RISKS RELATED TO OUR INVESTMENT SECURITIES

If we conclude that the decline in value of any of our investment securities is other than temporary, we are required to write down the value of that security through a cha

We review our investment securities portfolio monthly and at each quarter-end reporting period to determine whether the fair value is below the current carrying value. Generally
has declined below its carrying value, we are required to assess whether the decline is other than temporary. If we conclude that the decline is other than temporary, we are required
$487.0 million $453.3 million and a fair value of $439.5 million $417.6 million, which included unrealized losses on 361 328 securities totaling $47,537,000. $36.0 million. Changes in tl
earnings to write down these securities to their fair value. Any charges for other-than-temporary impairment would not impact cash flow, tangible capital or liquidity.

RISKS RELATED TO OUR SECONDARY MORTGAGE OPERATIONS

Income from secondary mortgage market operations is volatile, and we may incur losses or charges with respect to our secondary mortgage market operations which wo

We generally sell in the secondary market the longer term fixed-rate residential mortgage loans that we originate, earning non-interest income in the form of gains on sale. When loan demand. Although we sell loans in the secondary market without recourse, we are required to give customary representations and warranties to the buyers. If we breach those market, we are required to record a mortgage servicing right asset, which we test annually for impairment. The value of mortgage servicing rights tends to increase with rising interes our earnings would be adversely affected.

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As a result an acquisition in 2015, of acquisitions, the Bank acquired a portfolio of loans sold to the FHLB, which were sold under the Mortgage Partnership Finance Program ("I balance was $10,179,000 $10,161,000 at December 31, 2022 December 31, 2023. The FHLB maintains a first-loss position for the MPF portfolio that totals $161,000. $165,000. Shou

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RISKS RELATED TO OUR MARKET AREA

The Company's financial condition and results of operations are dependent on the economy in the Bank's market area.

The Bank's primary market area consists of the Pennsylvania Counties of Bradford, Clinton, Potter, and Tioga in north central Pennsylvania, Lebanon, Schuylkill, Berks and Lan and surrounding areas of Wilmington and Dover, Delaware, as well as Kennett Square, Pennsylvania in Chester County, as primary market areas. With the acquisition of HVBC, we h centers and one business banking facility. The majority of the Bank's loan and deposits come from households and businesses whose primary address is located in the Bank's pri Adverse economic conditions in our market areas could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Any sustained period of increased payment delir of operations and financial condition. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas i

RISKS RELATED TO LAWS AND REGULATIONS

Regulation of the financial services industry is significant, and future legislation could increaseour cost of doing business or harm our competitive position.

We are subject to extensive regulation, supervision and examination by the FRB and the PDB, our primary regulators, andby the FDIC, as insurer of our deposits. Such regulati Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restr regulations, legislation or supervisory action, may have a material impact on our profitability and operations.Future legislative changes could require changes to business practices or

Our ability to pay dividends is limited by law.

Our ability to pay dividends to our shareholders largely depends on our receipt of dividends from the Bank**.** The amount of dividends that the Bank may pay to us is limited by fede

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Federal and state banking laws, our articles of incorporation and our by-laws may have an anti-takeover effect.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over us. Pennsylvania law also has provisions that may ha premium over the current market price.

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RISKS RELATED TO COMPETITION

Strong competition within the Bank's market areas could hurt profits and slow growth.

The Bank faces intense competition both in making loans and attracting deposits. This competition has made it more difficult for the Bank to make new loans and at times has fo also makes it more difficult to increase the volume of our loan and deposit portfolios. As of June 30, 2022 June 30, 2023, which is the most recent date for which information is avail and 7.2% 6.8% of the FDIC insured deposits in Allegany County, New York, which was the third largest share of deposits out of three financial institutions with offices in this area. As o of June 30, 2022 June 30, 2023, we held 4.3% 3.7% of the FDIC insured deposits in Clinton County, Pennsylvania, which was the sixth eighth largest share out of the eight financia Delaware and Burlington, New Jersey all have less than 3% of the FDIC insured deposits of the corresponding County as of June 30, 2022 June 30, 2023. This data does not inc substantially greater resources and lending limits than the Bank has and may offer services that the Bank does not provide. Management expects competition to increase in the fu compete successfully in its market area.

RISKS RELATED TO OUR OPERATIONS

We rely on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our executive management team. In addition, we will continue to depend on our ability to retain and recruit key condition because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We are periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, we m

Federal and state banking agencies periodically conduct examinations of our business, including compliance with applicable laws and regulations. If, as a result of an examinatio operations has become unsatisfactory, or that we or our management is in violation of any law or regulation, it could take a number of different remedial actions as it deems appropri judicially enforced, to direct an increase in our capital, to restrict our growth, to change the composition of our assets or liabilities, to assess civil monetary penalties against us and/or subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

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We are subject to certain risks in connection with our use of technology.

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger, our networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulne

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In addition, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our confidential or other information or computer systems and networks could potentially be jeopardized, or could otherwise cause interruptions or malfunctions in our operations or the operations of our customers, clients,

Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures a

We routinely transmit and receive personal, confidential, and proprietary information by e-mail and other electronic means. We have discussed and worked with our customers, these third parties have appropriate controls in place to protect the confidentiality of such information. Any interception, misuse, or mishandling of personal, confidential, or propriet position, financial condition, and results of operations.

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

We have implemented a risk management framework to manage our risk exposure. This framework is comprised of various processes, systems and strategies, and is designed t management assumptions and judgment. There is no assurance that our risk management framework will be effective under all circumstances or that it will adequately mitigate any r subject to potentially adverse regulatoryconsequences.

RISKS RELATED TO LIBOR

Changes in the method pursuant to which benchmark rates, including LIBOR, are calculated and their potential discontinuance could adversely impact our business ope

Many of our lending products, securities and derivatives utilize a benchmark rate to determine the applicable interest rate or payment amount. As the Company has grown and announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of

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The discontinuation of a benchmark rate, changes in a benchmark rate, or changes in market perceptions of the acceptability of a benchmark rate, including LIBOR, could, amon discontinuation or changes, whether actual or anticipated, could result in market volatility, adverse tax or accounting effects, increased compliance, legal and operational costs, and ri with interpreting and implementing fallback provisions.

Various regulators, industry bodies and other market participants in the U.S. are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace relate to, for example, whether replacement benchmark rates may become accepted alternatives to LIBOR for different types of transactions and financial instruments, how the terms any changes in industry views or movement to alternative benchmarks would have on the markets for LIBOR-linked financial instruments.

RISKS RELATED TO OUR MERGER AND ACQUISITION ACTIVITY

Impairment of goodwill could require charges to earnings, which could result in a negative impact on our results of operations.

Our goodwill could become impaired in the future. If goodwill were to become impaired, it could limit the ability of the Bank to pay dividends to the Company, adversely impacting t and the control premium above our current stock price that an acquirer would pay to obtain control of us. We are required to test goodwill for impairment at least annually or when ir recorded, it will have little or no impact on the tangible book value of our Common Stock, or our regulatory capital levels, but such an impairment loss could significantly reduce the Ba current earnings. At December 31, 2022 December 31, 2023, the book value of our goodwill was $31.4 million $85.8 million, all of which was recorded at the Bank.

We may fail to realize all of the anticipated benefits of entering new markets.

As a result of completed and proposed acquisitions and the hiring of additional agricultural and commercial lending teams, the Company enters new banking market areas. The organically growing loans and deposits. To realize these anticipated benefits and cost savings, the businesses and individuals must be successfully combined and operated. If the C the Company fails to realize the anticipated benefits of the acquisitions and the new employee hiring's, the Company's results of operations could be adversely affected.

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ITEM 1B – UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 1C – CYBERSECURITY

Risk Management and Strategy

Cybersecurity is a critical component of our risk management program, given the increasing reliance on technology and potential of cyber threats. Our Information Security Offi
Committee of our board of directors.

Our objective for managing cybersecurity risk is to avoid or minimize the impacts of external threat events or other efforts to penetrate, disrupt or misuse our systems or informat
audits to facilitate and promote program effectiveness. The information security program is periodically reviewed by the Information Security Officer in collaboration with information te

We employ a layered defensive strategy when designing our cybersecurity controls. We leverage people, processes, and technology as part of our efforts to manage and ma
established processes and systems designed to mitigate cyber risk, including regular and on-going education and training for employees, preparedness simulations, and tabletop ex
employee base. We maintain a vendor management program designed to identify, assess, and manage risks, including cybersecurity risks, associated with external service providers
and make recommendations to strengthen our risk management program.

We maintain an Incident Response Plan that provides a documented framework for responding to actual or potential cybersecurity incidents, including engagement of appropriat
Security Officer and key members of management are embedded into the Plan by its design. The Incident Response Plan facilitates coordination across multiple areas of our organiza

Notwithstanding our defensive measures and processes, the threat posed by cyber-attacks is always present. Our internal systems, processes, and controls are designed to m
cybersecurity threats, see the section captioned “We are subject to certain risks in connection with our use of technology” in Item 1A. Risk Factors.

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Governance

Our Information Security Officer is responsible for managing our information security program, inclusive of cybersecurity risk assessment, incident response, vulnerability assess
information technology department. In any case, the Information Security Officer provides guidance, oversight, and monitoring of the information security program, and acts in an ir
experience, has attained Certified Banking Security Manager certification with the banking industry, and attends relevant cybersecurity training sessions on a regular basis. Our ir
experience, including experience in mitigating and responding to cybersecurity threats.

The Audit and Examination Committee of our board of directors is responsible for overseeing our information and cybersecurity risk management program, including management
of directors regarding the information security program, cybersecurity and/or privacy incidents, key cybersecurity initiatives, and other matters relating to cybersecurity processes. The

ITEM 2 – PROPERTIES.

The headquarters of the Company and Bank are located at 15 South Main Street, Mansfield, Pennsylvania. The building contains the central offices of the Company and Bank. Th

The net book value of owned banking facilities and leasehold improvements totaled $16,734,000 $18,072,000 as of December 31, 2022 December 31, 2023. The properties are a

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ITEM 3 - LEGAL PROCEEDINGS.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

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

Since June 3, 2022, the Company’s common stock has been listed on the Nasdaq Stock Market under the symbol “CZFS”. Before that date, the Company’s common
the OTC Pink Market and reflect bid prices between broker-dealers published by the OTC Pink Market and the Pink Sheets Electronic Quotation Service. The prices do
were declared on a quarterly basis and are summarized in the table below:

		2022			
		High		Low	
First quarter	$	62.97	$	59.46	$
Second quarter		N/A		N/A	
Third quarter		N/A		N/A	
Fourth quarter		N/A		N/A	

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The Company has paid dividends since April 30, 1984, the effective date of our formation as a bank holding company. The Company's Board of Directors expects th
other factors in existence at the time the Board of Directors considers a dividend distribution. Cash available for dividend distributions to stockholders of the Compa
Pennsylvania Business Corporation Law of 1988, the Company may pay dividends only if, after payment, the Company would be able to pay debts as they become due i
in capital distributions. Also see "Supervision and Regulation – Regulatory Restrictions on Bank Dividends," "Supervision and Regulation – Holding Company Regulatio

As of March 1, 2023 February 26, 2024, the Company had 1,838 1,898 stockholders of record. The computation of stockholders of record excludes investors who
2022 December 31, 2023:

Period
10/1/23 to 10/31/23
11/1/23 to 11/30/23
12/1/23 to 12/31/23
Total

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Period
10/1/22 to 10/31/22
11/1/22 to 11/30/22
12/1/22 to 12/31/22
Total

(1) On April 21, 2020 April 22, 2023, the Company announced that the Board of Directors authorized the Company to repurchase up to an additional 150,000 sha
transactions and will be made from time to time depending on market conditions and other factors. No time limit was placed on the duration of the share repurc

ITEM 6 – [RESERVED]

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ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CAUTIONARY STATEMENT

We have made forward-looking statements in this document, and in documents that we incorporate by reference, that are subject to risks and uncertainties. Forward-
When we use words such as "believes," "expects," "anticipates," or similar expressions, we are making forward-looking statements. Forward-looking statements may p

- • The continuing impact of the COVID-19 pandemic may have an adverse effect on our business and operations, our customers, including their ability to make timely

- Interest rates could change more rapidly or more significantly than we expect.

expect or remain inverted for a longer period than anticipated.

- The economy could change significantly in an unexpected way, which would cause the demand for new loans and the ability of borrowers to repay outstanding loans t

- The financial markets could suffer a significant disruption, which may have a negative effect on our financial condition and that of our borrowers, and on our ability to

- It could take us longer than we anticipate implementing strategic initiatives, including expansions, designed to increase revenues or manage expenses, or we may be

- Acquisitions and dispositions of assets and companies could affect us in ways that management has not anticipated.

- We may become subject to new legal obligations or the resolution of litigation may have a negative effect on our financial condition or operating results.

- We may become subject to new and unanticipated accounting, tax, regulatory or compliance practices or requirements. Failure to comply with any one or more of thes

- We could experience greater loan delinquencies than anticipated, adversely affecting our earnings and financial condition.
- We could experience greater losses than expected due to the ever increasing ever-increasing volume of information theft and fraudulent scams impacting our custome
- We could lose the services of some or all of our key personnel, which would negatively impact our business because of their business development skills, financial ex
- The agricultural economy is subject to extreme swings in both the costs of resources and the prices received from the sale of products as a result of weather, governm
    - The agricultural economy is subject to extreme swings in both the costs of resources and the prices received from the sale of products as a result of weather, g
- Loan concentrations in certain industries could negatively impact our results, if financial results or economic conditions deteriorate.
- Companies providing support services related to the exploration and drilling of the natural gas reserves in our market area may be affected by federal, state and local loan and deposit volume and loan quality. Additionally, the activities the companies providing support services related to the exploration and drilling of the natural gas
    - Companies providing support services related to the exploration and drilling of the natural gas reserves in our market area may be affected by federal, state a impact our loan and deposit volume and loan quality. Additionally, the activities the companies providing support services related to the exploration and dri customers.

Additional factors are discussed in this Annual Report on Form 10-K under *"Item 1A. Risk Factors."* These risks and uncertainties should be considered in evaluatir to update forward-looking statements to reflect circumstances or events that occur after the date of the forward-looking statements or to reflect the occurrence of unantic

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INTRODUCTION

The following is management's discussion and analysis of the significant changes in financial condition, the results of operations, capital resources and liquidity pre condition and results of operations. Management's discussion and analysis should be read in conjunction with the audited consolidated financial statements and related

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The Company currently engages in the general business of banking throughout its our service area of Bradford, Potter, Tioga, Clinton, Potter Bradford and Centre co MidCoast acquisition, the Cities of Wilmington and Dover, Delaware. We also have a limited branch office in Union county, Pennsylvania, which primarily serves agricultu and Philadelphia Counties as well as Burlington County, New Jersey through the acquisition of five full service branches, four mortgage centers and one business b additional facility in Williamsport, Pennsylvania that will be opened as a full service branch in 2023. In Pennsylvania, the Company has full service offices located in Ma Aetna, Fredericksburg, Mount Joy, Ephrata, Fivepointville, State College, Kennett Square, State College and Warrington, Plumsteadville, Philadelphia, two branches ne located in Winfield, Pennsylvania. In New York, our office is in Wellsville. As In Delaware, we have three branches in Wilmington and one in Dover. The mortgage center facility is located in Wilmington Delaware, one branch in Dover Delaware, and a corporate administration building in Wilmington, Delaware. Philadelphia, PA. In Novembe

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subje

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the direction and frequency of changes in interest rates. Ir policies to control and manage interest rate risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from loans with customers and the p the adequacy of the allowance for loan credit losses. Also, the investment policy limits the amount of credit risk that may be taken in the investment portfolio.

Liquidity risk represents the inability to generate or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers and obligations to depositors. T

Reputational risk, or the risk to our business, earnings, liquidity, and capital from negative public opinion, could result from our actual or alleged conduct in a variet theft, or theft of customer information through third parties. We expend significant resources to comply with regulatory requirements. Failure to comply could result in re

Regulatory risk represents the possibility that a change in law, regulations or regulatory policy may have a material effect on the business of the Company and its sul

Readers should carefully review the risk factors described in other documents the Company files with the SEC, including the annual reports on Form 10-K, the quarte

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SELECTED FINANCIAL DATA

The following table sets forth certain financial data as of and for each of the years in the five year five-year period ended December 31, 2022 December 31, 2023:

(in thousands, except per share data)	2022	
Interest and dividend income	$ 83,357	$

Interest expense	11,223
Net interest income	72,134
Provision for loan losses	1,683
Net interest income after provision for loan losses	70,451
Provision for credit losses	
Provision for credit losses - acquisition day 1 non-PCD	
Net interest income after provision for credit losses	
Non-interest income	9,999
Investment securities gains (losses), net	(261)
Non-interest expenses	44,694
Income before provision for income taxes	35,495
Provision for income taxes	6,435
Net income	$ 29,060 $
Per share data:	
Net income - Basic (1)	$ 7.32 $
Net income - Diluted (1)	7.32
Cash dividends declared (1)	1.90
Stock dividend	1 %
Book value (1) (2)	58.74
End of Period Balances:	
Total assets	$ 2,333,393 $
Available for sale securities	439,506
Investments in equity and available for sale debt securities	
Loans	1,724,999
Allowance for loan losses	18,552
Allowance for credit losses	
Total deposits	1,844,208
Total borrowings	257,278
Stockholders' equity	200,147
Key Ratios	
Return on assets (net income to average total assets)	1.29 %
Return on equity (net income to average total equity)	12.98 %
Equity to asset ratio (average equity to average total assets, excluding other comprehensive income)	9.93 %
Net interest margin (tax equivalent) (3)	3.41 %
Efficiency (4)	52.55 %
Dividend payout ratio (dividends declared divided by net income)	26.11 %
Tier 1 leverage (5)	9.03 %
Common equity risk based capital (5)	10.92 %
Tier 1 risk-based capital (5)	11.32 %
Total risk-based capital (5)	12.87 %
Nonperforming assets/total loans	0.43 %
Nonperforming loans/total loans	0.40 %
Allowance for loan losses/total loans	1.08 %
Allowance for credit losses/total loans	
Net (recoveries)charge-offs/average loans	0.03 %

(1) Amounts were adjusted to reflect stock dividends.

(2) Calculation excludes accumulated other comprehensive income (loss). loss.

(3) Tax adjusted net interest income to average interest-earning assets. Tax adjusted net Interest income is a non-gaap measure and is reconciled to the GAAP equivale

(4) Bank non-interest expenses to tax adjusted net interest income and non-interest income, excluding security gains. Tax adjusted net Interest income is a non-gaap m 55.36% and 56.26%, for the years ended 2023, 2022, 2021, 2020 and 2019, and 2018, respectively.

(5) Ratio calculated on consolidated level

TRUST AND INVESTMENT SERVICES; OIL AND GAS SERVICES

Our Investment and Trust Division is committed to helping our customers meet their financial goals. The Trust Division offers professional trust administration, inve customers through various oil and gas specific leasing matters from lease negotiations to establishing a successful approach to personal wealth management. Ass 2022 December 31, 2023, and 2021, 2022, assets owned and invested by customers of the Bank through the Bank's investment representatives totaled $283.5 million $329 and 2021 2022 of $150.0 million $167.9 million and $154.8 million $150.0 million, respectively. During the year ended December 31, 2022 December 31, 2023, $12.9 million $ of accounts were closed. As a result of market fluctuations, the fair value of the trust accounts decreased increased approximately $14.4 million $26.0 million during the y

(market values - in thousands)
INVESTMENTS:
Bonds
Stock
Savings and Money Market Funds
Mutual Funds
Mineral interests
Mortgages
Real Estate
Miscellaneous
Cash
TOTAL
ACCOUNTS:
Trusts
Guardianships
Employee Benefits
Investment Management
Custodial
TOTAL

Our financial consultants offer full service brokerage and financial planning services throughout the Bank's market areas. Appointments can be made at any Bank br

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2023 was $17,811,000, which represents a decrease of $11,249,000, or 38.7%, when compared to 2022 due primarily to t Net income for the year ended December 31, 2021 was $29,118,000, which represents an increase of $4,015,000, or 16.0%, when compared to 2020. Basic and diluted earn

Net income is influenced by five key components: net interest income, provision for loan credit losses, non-interest income, non-interest expenses, and the provision

Net Interest Income

The most significant source of revenue is net interest income; the amount by which interest earned on interest-earning assets exceeds interest paid on interest-beari

The following table sets forth the Company's average balances of, and the interest earned or incurred on, each principal category of assets, liabilities and stockholde

	Analysis of Average Balances and Interest Rates						
	2022			2021			
(dollars in thousands)	Average Balance (1)$	Interest $	Average Rate %	Average Balance (1) $	Interest $	Average Rate %	A Ba
ASSETS							
Short-term investments:							
Interest-bearing deposits at banks	52,655	171	0.32	108,872	124	0.11	
Total short-term investments	52,655	171	0.32	108,872	124	0.11	
Interest bearing time deposits at banks	8,352	229	2.75	12,527	323	2.57	
Investment securities:							
Taxable	372,430	6,238	1.68	252,470	4,198	1.66	
Tax-exempt (3)	120,592	3,106	2.58	104,379	2,786	2.67	
Total investment securities (3)	493,022	9,344	1.90	356,849	6,984	1.96	

Loans:						
Residential mortgage loans	204,063	9,712	4.76	203,062	9,867	4.86
Construction loans	73,214	3,298	4.50	56,315	2,292	4.07
Commercial Loans	854,460	41,155	4.82	739,000	36,215	4.90
Agricultural Loans	347,420	15,387	4.43	349,951	15,079	4.31
Loans to state & political subdivisions (3)	56,004	1,863	3.33	52,804	1,871	3.54
ConsumerOther loans	58,715	3,201	5.45	24,125	1,385	5.74
Loans, net of discount (2)(3)(4)	1,593,876	74,616	4.68	1,425,257	66,709	4.68
Total interest-earning assets	2,147,905	84,360	3.93	1,903,505	74,140	3.89
Cash and due from banks	6,708			6,525		
Bank premises and equipment	17,287			17,194		
Other assets	84,066			75,410		
Total non-interest earning assets	108,061			99,129		
Total assets	2,255,966			2,002,634		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
NOW accounts	520,895	2,425	0.47	457,189	1,387	0.30
Savings accounts	323,939	421	0.13	290,376	322	0.11
Money market accounts	343,288	2,004	0.58	257,937	684	0.27
Certificates of deposit	299,110	2,466	0.82	351,265	3,444	0.98
Total interest-bearing deposits	1,487,232	7,316	0.49	1,356,767	5,837	0.43
Other borrowed funds	149,661	3,907	2.61	84,621	1,268	1.50
Total interest-bearing liabilities	1,636,893	11,223	0.69	1,441,388	7,105	0.49
Demand deposits	374,675			341,604		
Other liabilities	20,443			15,420		
Total non-interest-bearing liabilities	95,118			357,024		
Stockholders' equity	223,955			204,222		
Total liabilities & stockholders' equity	2,255,966			2,002,634		
Net interest income		73,137			67,035	
Net interest spread (5)			3.24 %			3.40 %
Net interest income as a percentage of average interest-earning assets			3.41 %			3.52 %
Ratio of interest-earning assets to interest-bearing liabilities			131.00			132.00

Analysis o

(dollars in thousands)	2023 Average Balance (1) $	Interest $	Average Rate %	Avera Balan (1
ASSETS				
Short-term investments:				
Interest-bearing deposits at banks	24,470	572	2.34	
Total short-term investments	24,470	572	2.34	
Interest bearing time deposits at banks	5,255	164	3.10	
Investment securities:				
Taxable	383,241	8,043	2.10	
Tax-exempt (3)	112,806	2,866	2.54	
Total investment securities	496,047	10,909	2.20	
Loans:				
Residential mortgage loans	290,971	15,918	5.47	
Construction loans	135,315	9,485	7.01	
Commercial Loans	1,081,488	64,561	5.97	
Agricultural Loans	342,980	17,061	4.97	
Loans to state & political subdivisions	59,308	2,299	3.88	

Other loans	94,519	7,204	7.62
Loans, net of discount (2)(3)(4)	2,004,581	116,528	5.81
Total interest-earning assets	2,530,353	128,173	5.07
Cash and due from banks	9,341		
Bank premises and equipment	19,871		
Other assets	139,474		
Total non-interest earning assets	168,686		
Total assets	2,699,039		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
NOW accounts	666,505	13,396	2.01
Savings accounts	318,299	1,314	0.41
Money market accounts	364,385	8,713	2.39
Certificates of deposit	328,553	8,276	2.52
Total interest-bearing deposits	1,677,742	31,699	1.89
Other borrowed funds	326,577	15,159	4.64
Total interest-bearing liabilities	2,004,319	46,858	2.34
Demand deposits	382,979		
Other liabilities	38,419		
Total non-interest-bearing liabilities	421,398		
Stockholders' equity	273,322		
Total liabilities & stockholders' equity	2,699,039		
Net interest income		81,315	
Net interest spread (5)			2.73 %
Net interest income as a percentage of average interest-earning assets			3.21 %
Ratio of interest-earning assets to interest-bearing liabilities			126.00

(1) Averages are based on daily averages.

(2) Includes loan origination and commitment fees.

(3) Tax exempt interest revenue is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 21% for 2023, 2022 2021 and 2020

(4) Income on non-accrual loans is accounted for on a cash basis, and the loan balances are included in interest-earning assets.

(5) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

For purposes of the comparison, as well as the discussion that follows, this presentation facilitates performance comparisons between taxable and tax-free assets Accordingly, tax equivalent adjustments for investments and loans have been made accordingly to the previous table for the years ended December 31, 2022 December 3

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	2022	2021	2020
Interest and dividend income from investment securities, interest bearing time deposits and short-term investments (non-tax adjusted) (GAAP)	$ 9,092	$ 6,846	$ 6,758
Tax equivalent adjustment	652	585	497
Interest and dividend income from investment securities, interest bearing time deposits and short-term investments (tax equivalent basis) (Non-GAAP)	$ 9,744	$ 7,431	$ 7,255

	2022	2021	2020
Interest and fees on loans (non-tax adjusted) (GAAP)	$ 74,265	$ 66,371	$ 63,538
Tax equivalent adjustment	351	338	663
Interest and fees on loans (tax equivalent basis) (Non-GAAP)	$ 74,616	$ 66,709	$ 64,201

	2022	2021	2020
Total interest income	$ 83,357	$ 73,217	$ 70,296

Total interest expense	11,223	7,105	8,105
Net interest income (GAAP)	72,134	66,112	62,191
Total tax equivalent adjustment	1,003	923	1,160
Net interest income (tax equivalent basis) (Non-GAAP)	$ 73,137	$ 67,035	$ 63,351

	2023
Interest and dividend income from investment securities, interest bearing time deposits and short-term investments (non-tax adjusted) (GAAP)	$
Tax equivalent adjustment	
Interest and dividend income from investment securities, interest bearing time deposits and short-term investments (tax equivalent basis) (Non-GAAP)	$

	2023
Interest and fees on loans (non-tax adjusted) (GAAP)	$ 1
Tax equivalent adjustment	
Interest and fees on loans (tax equivalent basis) (Non-GAAP)	$ 1

	2023
Total interest income	$ 1
Total interest expense	
Net interest income (GAAP)	
Total tax equivalent adjustment	
Net interest income (tax equivalent basis) (Non-GAAP)	$

The following table shows the tax-equivalent effect of changes in volume and rates on interest income and expense (in thousands):

Analysis of Chang

Analysis of Changes in Net Interest Income on a Tax-Equivalent Basis

	2022 vs. 2021 (1)		
	Change in Volume	Change in Rate	
Interest Income:			
Short-term investments:			
Interest-bearing deposits at banks	$ (18)	$ 65	$
Interest bearing time deposits at banks	(118)	24	
Investment securities:			
Taxable	2,010	30	
Tax-exempt	414	(94)	
Total investment securities	2,424	(64)	
Total investment income	2,288	25	
Loans:			
Residential mortgage loans	49	(204)	
Construction loans	742	264	
Commercial Loans	5,549	(609)	
Agricultural Loans	(108)	416	
Loans to state & political subdivisions	110	(118)	
Other loans	1,882	(66)	
Total loans, net of discount	8,224	(317)	
Total Interest Income	10,512	(292)	
Interest Expense:			
Interest-bearing deposits:			
NOW accounts	215	823	
Savings accounts	40	59	
Money Market accounts	285	1,035	
Certificates of deposit	(473)	(505)	
Total interest-bearing deposits	67	1,412	
Other borrowed funds	1,343	1,296	
Total interest expense	1,410	2,708	

Net interest income	$	9,102	$	(3,000)	$

(1) The portion of the total change attributable to both volume and rate changes during the year has been allocated to volume and rate components based upon the abs

2023 vs. 2022

Tax equivalent net interest income for 2023 was $81,315,000 compared to $73,137,000 for 2022, an increase of $8,178,000 or 11.2%. Total interest income increased $4

Total tax equivalent interest income from investment securities increased $1,565,000 in 2023 from 2022. The average balance of investment securities increased $ investment activity, excluding the sales of investments obtained as part of the HVBC acquisition. The average tax-effected yield on our investment portfolio increased fro investment securities increasing 30 basis points (bps) to 2.20%, interest income on investment securities increased $1,577,000, with the increase related to taxable secu increasing in the first nine months of 2023 compared to December 31, 2022 and investment repayments and maturities. We continually monitor interest rate trading ran exposure for various rate environments, including a rising rate environment, while providing sufficient cashflows to meet liquidity needs.

In total, loan interest income increased $41,912,000 in 2023 from 2022. The average balance of our loan portfolio increased by $410.7 million in 2023 compared to 202 5.81% for 2023 compared to 4.68% for 2022 resulting in an increase in loan interest income of $18,927,000. The tax-effected yield increased during 2023 due to a rise in ma

- Interest income on residential mortgage loans increased $6,206,000. The average balance of residential mortgage loans increased $86.9 million as a result of the HVB 5.47% in 2023 as a result of the higher rate environment in 2023 and the acquired loans having market interest rates at the time of acquisition in June 2023.
- The average balance of construction loans increased $62.1 million from 2022 to 2023 as a result of projects in our south eastern Pennsylvania market acquired as par to a $2,450,000 increase in interest income.
- Interest income on commercial loans increased $23,406,000 from 2022 to 2023. The increase in the average balance of commercial loans of $227.0 million is primaril and retain loan relationships in their markets by providing excellent customer service and having attractive products. We believe our lenders are adept at customizin programs to offset credit risk and to further promote economic growth in our market area. The average yield on commercial loans increased 115 bps to 5.97% in 2023, interest rates at the time of acquisition in June 2023.
- Interest income on agricultural loans increased $1,674,000 from 2022 to 2023. The decrease in the average balance of agricultural loans of $4.4 million is primarily agricultural loans increased from 4.43% in 2022 to 4.97% in 2023 due to the increase in market rates, resulting in an increase in interest income due to rate of $1,868,0 cases, the Bank works with the United States Department of Agriculture's (USDA) guaranteed loan programs to offset credit risk and to further promote economic grow

- The average balance of loans to state and political subdivisions increased $3.3 million from 2022 to 2023 which had a positive impact of $115,000 on total interest inc increased from 3.33% in 2022 to 3.38% in 2023, increasing interest income by $321,000.
- The average balance of other loans increased $35.8 million as a result of an increase in outstanding student loans. This resulted in an increase of $2,422,000 on total in

Total interest expense increased $35,635,000 in 2023 compared to 2022. The majority of the increase was due to an increase in the average rate paid on interest bear 2022 and 2023 by increasing interest rates. The average rate on money markets increased from 0.58% to 2.39% resulting in an increase in interest expense of $6,579,0 resulting in an increase in interest expense of $10,118,000. The average rate paid on certificates of deposits increased from 0.82% to 2.52% resulting in an increase intere

Average interest-bearing liabilities increased $367.4 million in 2023, with average interest-bearing deposits increasing $190.5 million and average other borrowings driven by the HVBC acquisition, included NOW accounts of $145.6 million, money market accounts of $21.1 million and certificates of deposits $29.4 million. The average

Our tax equivalent net interest margin for 2023 was 3.21% compared to 3.41% for 2022, with the change attributable to the yield of interest-earning assets increa aggressively tighten monetary policy. The year began with inflation remaining significantly above the Federal Reserve's targets and ended with inflation decreasing but r reserve to start decreasing rates in the first half of 2024. As a result, U.S. Treasury yields ended the year well below the peak.

2022 vs. 2021

Tax equivalent net interest income for 2022 was $73,137,000 compared to $67,035,000 for 2021, an increase of $6,102,000 or 9.1%. Total interest income increased $10

Total tax equivalent interest income from investment securities increased $2,360,000 in 2022 from 2021. The average balance of investment securities increased $136 balance of $120.0 million. The average tax-effected yield on our investment portfolio decreased from 1.96% in 2021 to 1.90% in 2022. The decrease in the tax-effected yiel on investment securities decreased $64,000, with the decrease related to tax-exempt securities. The investment strategy for 2022 was to utilize excess cash, cashflows sponsored entities and obligations of state and political securities. The increase in the investment portfolio was in response to the deposit inflows that occurred in 2021 has appropriately mitigated its interest rate risk exposure for various rate environments, while providing sufficient cashflows to meet liquidity needs.

In total, loan interest income increased $7,907,000 in 2022 from 2021. The average balance of our loan portfolio increased by $168.6 million in 2022 compared to 202 While the Bank's other markets experienced loan growth, it was not to the extent experienced in Delaware. The average tax-effected yield on our loan portfolio was 4.68% $2,061,000 compared to 2022, otherwise the yield on loans 2022 would have exceeded 2021.

- Interest income on residential mortgage loans decreased $155,000. The average balance of residential mortgage loans increased $1.0 million, resulting in an increase environment prior to 2022. The increase in market interest rates during 2022 resulted in a significant slowdown in residential lending activity.

- The average balance of construction loans increased $16.9 million from 2021 to 2022 as a result of projects in our south central south-central Pennsylvania market a interest income.

- Interest income on commercial loans increased $4,940,000 from 2021 to 2022. The increase in the average balance of commercial loans of $115.5 million is attributabl relationships in their markets by providing excellent customer service and having attractive products. We believe our lenders are adept at customizing and structur offset credit risk and to further promote economic growth in our market area. The average yield on commercial loans decreased 8 basis points to 4.82% in 2022, resulti

- Interest income on agricultural loans increased $308,000 from 2021 to 2022. The decrease in the average balance of agricultural loans of $2.5 million is primarily attrib on agricultural loans increased from 4.31% in 2021 to 4.43% in 2022 due to a general increase in market rates, resulting in an increase in interest income due to rate o many cases, the Bank works with the United States Department of Agriculture's (USDA) guaranteed loan programs to offset credit risk and to further promote economi

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- The average balance of loans to state and political subdivisions increased $3.2 million from 2021 to 2022 which had a positive impact of $110,000 on total interest inc decreased from 3.54% in 2021 to 3.33% in 2022, decreasing interest income by $118,000.

- The average balance of other loans increased $34.6 million as a result of an increase in outstanding student loans. This resulted in an increase of $1,882,000 on total ir loans.

Total interest expense increased $4,118,000 in 2022 compared to 2021. The majority of the increase was due to an increase in the average rate paid on interest bear 2022 by increasing interest rates. The average rate on money markets increased from 0.27% to 0.58% resulting in an increase in interest expense of $1,035,000. The av increase in interest expense of $823,000. The average rate paid on other borrowed funds increased from 1.50% to 2.61% resulting in an increase in interest expense of $1

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Average interest-bearing liabilities increased $195.5 million in 2022, with average interest-bearing deposits increasing $130.5 million and average other borrowings primarily driven by organic growth across all markets of the Bank, included NOW accounts of $63.7 million, savings accounts of $33.6 million and money market account a $67,000 increase. The average balance of other borrowed funds increased $60.5 million due to funding loan growth, which corresponds to an increase in interest expen

Our tax equivalent net interest margin for 2022 was 3.41% compared to 3.52% for 2021, with the change attributable to the yield of interest-earning assets increasing monetary policy at a pace and levels not seen in decades. The year began with accelerating inflation that was exacerbated by the Russian invasion of Ukraine driving ene completely abandoned their belief that inflation would prove transitory and began to tighten monetary policy by both reducing the size of its balance sheet and increasin pushing the Fed Reserve into a series of 75-basis point increases then ending the year with a 50-basis point hike in December for a total increase of 4.25%. The result Treasury spread started the year at a positive 88-basis points and ended the year at a negative 55-basis points. The 2-year Treasury started the year at 0.78% and ended kept wage inflation high pressuring the Federal Reserve to remain resolute in maintaining an aggressive tightening monetary policy. Treasury yields ended the year well

2021 vs. 2020

Tax equivalent net interest income for 2021 was $67,035,000 compared to $63,351,000 for 2020, an increase of $3,684,000 or 5.8%. Total interest income increased $2,6

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Total tax equivalent interest income from investment securities increased $130,000 in 2021 from 2020. The average balance of investment securities increased $88.5 r balance of $64.2 million. The average tax-effected yield on our investment portfolio decreased from 2.55% in 2020 to 1.96% in 2021. The decrease in the tax-effected yi decreased $1,772,000, with the decrease primarily related to taxable securities. The investment strategy for 2021 was to utilize cashflows from the investment portfoli investment portfolio was in response to the deposit inflows that occurred in 2021.

In total, loan interest income increased $2,508,000 in 2021 from 2020. The average balance of our loan portfolio increased by $133.4 million in 2021 compared to 202 for the entire year and loan growth that occurred primarily in the Delaware market. The average tax-effected yield on our loan portfolio decreased 29 basis points to 4.68 COVID-19 pandemic.

- Interest income on residential mortgage loans decreased $1,294,000. The average balance of residential mortgage loans decreased $7.6 million, resulting in a decrea residential mortgages decreased from 5.30% in 2020 to 4.86% in 2021 as a result of the lower rate environment during the year as a result of COVID-19 pandemic.

- The average balance of construction loans increased $30.0 million from 2020 to 2021 as a result of projects in our south central Pennsylvania market and Delaware ma

- Interest income on commercial loans increased $5,128,000 from 2020 to 2021. The increase in the average balance of commercial loans of $148.5 million is attributabl yield on commercial loans decreased 36 basis points to 4.90% in 2021, resulting in a decrease in interest income due to rate of $1,946,000.

- Interest income on agricultural loans decreased $943,000 from 2020 to 2021. The decrease in the average balance of agricultural loans of $7.3 million was primarily agricultural loans decreased from 4.49% in 2020 to 4.31% in 2021 due to a general decrease in rates, resulting in a decrease in interest income due to rate of $622,000.

- The average balance of loans to state and political subdivisions decreased $33.3 million from 2020 to 2021 which had a negative impact of $1,218,000 on total interest to 3.54% in 2021, decreasing interest income by $369,000.

- The average balance of other loans increased $3.1 million as a result of an increase in outstanding student loans. This resulted in an increase of $180,000 on total inte

Total interest expense decreased $1,000,000 in 2021 compared to 2020. The majority of the decrease was due to a decrease in the average rate paid on interest bea
pandemic. The average rate on certificates of deposit decreased from 1.23% to 0.98% resulting in a decrease in interest expense of $890,000. The average rate on mor
expense of $287,000. The average rate paid on other borrowed funds increased from 1.34% to 1.50% resulting in an increase in interest expense of $74,000 and was due t

Average interest-bearing liabilities increased $172.3 million in 2021, with average interest-bearing deposits increasing $180.9 million and average other borrowings d
by organic growth across all markets of the Bank, included NOW accounts of $73.3 million, savings accounts of $48.9 million, money market accounts of $52.8 millio
corresponds to a decrease in interest expense of $60,000.

Our tax equivalent net interest margin for 2021 was 3.52% compared to 3.92% for 2020, with the change attributable to the yield of interest-earning assets decreasi
economic activity, strengthening and prolonging unusually strong inflationary pressures and altering the expected path of monetary policy.

PROVISION FOR LOAN CREDIT LOSSES

For the year ended December 31, 2023, we recorded a provision for credit losses of $5,528,000. The provision for 2023 was $3,845,000, or 228.5%, higher than the pr
$782,000 less than the comparable period in 2022 and is due to limited organic loan activity in 2023. (see also "Financial Condition – Allowance for Credit Losses - Loans

For the year ended December 31, 2022, we recorded a provision for loan credit losses of $1,683,000. The provision for 2022 was $133,000, or 8.6%, higher than the pr
was impacted more by the Covid-19 pandemic. (see also "Financial Condition – Allowance for Loan Credit Losses - Loans and Credit Quality Risk").

For the year ended December 31, 2021, we recorded a provision for loan losses of $1,550,000. The provision for 2021 was $850,000, or 35.4%, lower than the provisio
(see also "Financial Condition – Allowance for Loan Losses and Credit Quality Risk").

NON-INTEREST INCOME

The following table reflects non-interest income by major category for the years ended December 31 (dollars in thousands):

Service charges
Trust
Brokerage and insurance
Equity security gains (losses), net
Available for sale security gains (losses), net
Equity security (losses) gains, net
Available for sale security (losses) gains, net
Gains on loans sold
Earnings on bank owned life insurance
Other
Total

	2023/2022 Change			2022/2021 Change		
		Amount	%		Amount	%
Service charges	$	293	5.5	$	591	12.4
Trust		(39)	(4.9)		(62)	(7.2)
Brokerage and insurance		29	1.5		270	16.6
Equity security (losses) gains, net		103	(41.7)		(586)	(172.9)
Available for sale security (losses) gains, net		(37)	264.3		(226)	(106.6)
Gains on loans sold		1,194	462.8		(1,025)	(79.9)
Earnings on bank owned life insurance		402	47.2		(976)	(53.4)
Other		(78)	(9.2)		(553)	(39.6)
Total	$	1,867	19.2	$	(2,567)	(20.9)

2023 vs. 2022

Non-interest income increased $1,867,000 in 2023 from 2022, or 19.2%. We experienced a $51,000 net loss on available for sale securities in 2023 compared to net lo
sold for no gain or loss during the second quarter of 2023. During 2022, we sold $7.5 million of US Agency securities for a pre-tax loss of $14,000. During 2023, net equity

	2022/2021 Change		2021/2020 Change	
	Amount	%	Amount	%
Service charges	$ 591	12.4	$ 534	12.7
Trust	(62)	(7.2)	62	7.7
Brokerage and insurance	270	16.6	328	25.3
Equity security gains (losses), net	(586)	(172.9)	380	(926.8)
Available for sale security gains (losses), net	(226)	(106.6)	(93)	(30.5)
Gains on loans sold	(1,025)	(79.9)	(885)	(40.8)
Earnings on bank owned life insurance	(976)	(53.4)	1,133	163.0
Other	(553)	(39.6)	(576)	(29.2)
Total	$ (2,567)	(20.9)	$ 883	7.7

Gains on loans sold increased $1,194,000 compared to last year. The increase in gains on loans sold is attributable to the HVBC acquisition and activity acquired as
insurance is due to the HVBC acquisition and the passing of a former employee of the Company during 2023.

2022 vs. 2021

Non-interest income decreased $2,567,000 in 2022 from 2021, or 20.9%. We experienced a $14,000 net loss on available for sale securities in 2022 compared to net ga
for a pre-tax gain of $177,000 and $12.0 million of US Agency securities for a pre-tax gain of $35,000 to take advantage of market conditions at the time of the sales. Durin

Gains on loans sold decreased $1,025,000 compared to last year. The decrease in gains on loans sold is attributable to a $41.6 million, or 74.8% decrease in the pro
spending in 2022 compared to 2021. The decrease in other income is due to fees on offering derivative contracts for certain customers, that provided the customer with
passing during the first quarter of 2021, which generated a death benefit payable to the Company of $1,155,000. The increase in brokerage and insurance commissions w

2021 vs. 2020

Non-interest income increased $883,000 in 2021 from 2020, or 7.7%. We experienced a $212,000 net gain on available for sale securities in 2021 compared to net g
advantage of market conditions at the time of the sales. During 2020, we sold 19 mortgage backed securities for a net gain of $305,000 to lock in gains that benefitted fro
compared to losses of $41,000 in 2020 associated with the Covid-19 pandemic.

Gains on loans sold decreased $885,000 compared to 2020. The decrease in gains on loans sold was attributable to a $20.2 million, or 26.6% decrease in the proc
customer spending in 2021 compared to 2020 which was impacted by mandatory stay at home orders as customers ate out less and spent less on discretionary items.
compared to $1,373,000 in 2020. The increase in earnings on bank owned life insurance was due to two former employees of the Company passing during the first qu
central, Pennsylvania markets.

Non-interest Expenses

The following tables reflect the breakdown of non-interest expense by major category for the years ended December 31 (dollars in thousands):

	2023	2022	2021
Salaries and employee benefits	$ 34,990	$ 27,837	$ 25,902
Occupancy	4,123	3,138	2,966
Furniture and equipment	822	565	519
Professional fees	1,962	1,641	1,526
FDIC insurance	1,475	676	522
Pennsylvania shares tax	583	907	880
Amortization of intangibles	373	156	192
Merger and acquisition	9,269	292	-
ORE expenses	166	17	439
Software expenses	1,784	1,446	1,321
Other	9,275	8,019	7,283
Total	$ 64,822	$ 44,694	$ 41,550

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	2022	2021	2020
Salaries and employee benefits	27,837	25,902	$ 24,190
Occupancy	3,138	2,966	2,557
Furniture and equipment	565	519	757
Professional fees	1,891	1,526	1,517

FDIC insurance	676	522	476
Pennsylvania shares tax	907	880	868
Amortization of intangibles	156	192	216
Merger and acquisition	-	-	2,179
ORE expenses	17	439	451
Software expenses	1,446	1,321	1,155
Other	8,061	7,283	6,481
Total	$ 44,694	$ 41,550	$ 40,847

	2023/2022 Change		2022/2021 Change	
	Amount	%	Amount	%
Salaries and employee benefits	$ 7,153	25.7	$ 1,935	7.5
Occupancy	985	31.4	172	5.8
Furniture and equipment	257	45.5	46	8.9
Professional fees	321	19.6	115	7.5
FDIC insurance	799	118.2	154	29.5
Pennsylvania shares tax	(324)	(35.7)	27	3.1
Amortization of intangibles	217	139.1	(36)	(18.8)
Merger and acquisition	8,977	3,074.3	292	#DIV/0!
ORE expenses	149	876.5	(422)	(96.1)
Software expenses	338	23.4	125	9.5
Other	1,256	15.7	736	10.1
Total	$ 20,128	45.0	$ 3,144	7.6

	2022/2021 Change		2021/2020 Change	
	Amount	%	Amount	%
Salaries and employee benefits	$ 1,935	7.5	$ 1,712	7.1
Occupancy	172	5.8	409	16.0
Furniture and equipment	46	8.9	(238)	(31.4)
Professional fees	365	23.9	9	0.6
FDIC insurance	154	29.5	46	9.7
Pennsylvania shares tax	27	3.1	12	1.4
Amortization of intangibles	(36)	(18.8)	(24)	(11.1)
Merger and acquisition	-	NA	(2,179)	(100.0)
ORE expenses	(422)	(96.1)	(12)	(2.7)
Software expenses	125	9.5	166	14.4
Other	778	10.7	802	12.4
Total	$ 3,144	7.6	$ 703	1.7

2023 vs. 2022

Non-interest expenses for 2023 totaled $64,822,000, which represents an increase of $20,128,000, compared to 2022 expenses of $44,694,000. Salaries and employee and an increase in health care expenses due to higher claims on the Company's partially self-funded plan and the additional headcount. The additional headcount is due

The increase in merger and acquisition expenses was due to fees associated with the acquisition of HVBC that closed in June 2023 and includes severance costs, $481,000. The increase in occupancy, furniture and fixtures, amortization of intangibles and other expenses was due to the HVBC acquisition. The increase in FDIC insura

2022 vs. 2021

Non-interest expenses for 2022 totaled $44,694,000, which represents an increase of $3,144,000, compared to 2021 expenses of $41,550,000. Salaries and employee expenses due to actual claims of employees. Employee commissions related to brokerage and insurance commissions increased due to the increased sales in 2022 com

The increase in occupancy expenses is due to the additional branches opened during 2022 and higher utility and maintenance expenses. The increase in professiona primarily in the Delaware market, charge-offs associated with fraudulent customer account activity, appraisal fees, travel related expenses as the economy reopens from

2021 vs. 2020

Non-interest expenses Provision for 2021 totaled $41,550,000, which represents an increase of $703,000, compared to 2020 expenses of $40,847,000. Salaries and e Delaware market and increased profit sharing expenses due to increased profitability of the Company. Employee commissions related to brokerage and insurance comm

The increase in occupancy expenses was due to the additional branches acquired as part of the MidCoast acquisition and the Kennett Square branch as they are incl due to a decrease in non-capitalized items that were purchased in 2020 to support the acquisition. The increase in other expenses was due to charitable contributions r

markets.

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PROVISION FOR INCOME TAXES Income Taxes

The provision for income taxes was $3,704,000, $6,435,000 and $6,199,000 for 2023, 2022 and $5,263,000 for 2022, 2021, and 2020, respectively. The effective tax rates

The decrease in income tax expense of $2,731,000 in 2023 was due to the decrease of $13,980,000 in income before the provision for income taxes, which accounts fo
The increase in income tax expense of $236,000 in 2022 was due earnings on bank owned life insurance being excluded from taxable income, which was higher in 20:

The increase in income tax expense of $936,000 in 2021 was due to the increase of $4,951,000 in income before the provision for income taxes, which accounts for an

We are involved in seven limited partnership agreements that operate low-income housing projects in our market areas, two of which we entered into during 2022. Du partnerships were fully utilized by December 2022. We started recognizing credits on two of the partnerships during 2023 and expect to start recognizing recognized cred

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FINANCIAL CONDITION

The following table presents ending balances (dollars in millions), the dollar amount of change and the percentage change during the past year:

Total assets
Total investments
Total loans, net
Total deposits
Total borrowings
Total stockholders' equity

Cash and Cash Equivalents

Cash and cash equivalents totaled $52.8 million at December 31, 2023 compared to $26.2 million at December 31, 2022 compared to $172.8 million at December 31, 2(equivalents, readily available access to traditional funding sources, Federal Home Loan Bank financing, federal funds lines with correspondent banks, brokered certifica sheet commitments as they come due.

Investments

The following table shows the year-end composition of the investment portfolio, at fair value, for the two years ended December 31 (dollars in thousands):

Available-for-sale:
U. S. Agency securities
U.S. Treasuries
Obligations of state & political subdivisions
Obligations of state & political Subdivisions
Corporate obligations
Mortgage-backed securities
Equity securities
Total

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The Company's investment portfolio increased decreased during 2022 2023 by $27.0 million $22.2 million. This growth decreased was fueled by purchases made in ma $79.2 million of U.S. Treasuries, $12.3 million of U.S. agencies, $33.4 million available for sale securities were acquired. Excluding the acquisition, $10.3 million of mortga million of principal repayments and $14.1 million $22.6 million of calls and maturities maturities. We sold $86.6 million of securities to deleverage the balance sheet durin fair value of our investment portfolio decreased increased approximately $47.9 million $11.7 million in 2022 2023 due to increases decreases in market interest rates. rates our investment portfolio for 2022 2023 was 1.90% 2.20% compared to 1.96% 1.90% for 2021 2022 on a tax equivalent basis.

Interest rates increased dramatically in 2022 in response to historically high inflation forcing the

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The Federal Reserve to aggressively continued with a tighten monetary policy at a pace and in 2023 pushing the federal funds rate to 5.50% by July 2023 matching lev oil peaking at $130 a barrel in early March. Other peak as supply chains improved and commodities prices followed oils lead reaching extremely high levels and adding economy maintained a higher for longer policy stance emphasizing its willingness to bring inflation back to the 2% target. The Treasury market was volatile with the failu the face of restrictive monetary policy by both reducing policy. The Bank closed on HVBC acquisition in June 2023 utilizing the size of its balance sheet and increasing pushing the Fed Reserve into a series of 75-basis point increases then strong capital position. The Treasury yield curve remained inverted ending the year with a 50-basi more than the 10 year Treasury. The closely followed 2-year to 10-year Treasury negative spread started the year at a positive 88-basis points and ended the year at a ne the second half of the year and inflation measures fell as a result, but a strong labor market kept wage inflation high pressuring In December the Federal Reserve pivot policy. yields last reached in 2007, Treasury yields ended the year well within 10 basis points of where it started and 120 basis points below the peak as peak. The labor foreseeable future. As inflation moves closer to target level it is expected monetary policy will become less restrictive. For 2023 the bank's strategy was to increase c cash, cashflows from the investment portfolio and deposit inflows to purchase U.S. treasury securities, due to a limited spread between US treasuries and agencies, mo occurred in 2021 and the first half of 2022. We continually monitor interest rate trading ranges and try to focus purchases to times when rates are in the top of the tra liquidity needs.

At December 31, 2022 December 31, 2023, the Company did not own any securities, other than government-sponsored and government-guaranteed mortgage-backed

The expected principal repayments at amortized cost and average weighted yields for the investment portfolio (excluding equity securities) as of December 31, 202 than the contractual maturities detailed in Note 4 5 of the consolidated financial statements. Yields on tax-exempt securities are presented on a fully taxable equivalent ba

	One Year or Less		After One Year to Five years		Aft t
	Amortized Cost	Yield %	Amortized Cost	Yield %	Amortized Cost
Available-for-sale securities:					
U.S. agency securities	$ 16,660	3.4	$ 32,447	1.9	$ 23,354
U.S. treasuries	9,972	1.0	139,459	1.1	12,805
Obligations of state & political Subdivisions	4,635	3.7	14,549	2.5	26,558
Obligations of state & political subdivisions					
Corporate obligations	-	-	10,335	3.6	-
Mortgage-backed securities	19,121	1.0	36,394	1.5	42,271
Total available-for-sale	$ 50,388	2.0	$ 233,184	1.5	$ 104,988

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At December 31, 2022 December 31, 2023, approximately 58.2% 63.3% of the amortized cost of debt securities is expected to mature, call or pre-pay within five years growth of deposits and the availability of borrowings from the Federal Home Loan Bank and other third party third-party banks will be sufficient to meet future liquidity ne

Loans Held for Sale

Loans held for sale decreased $3.8 million increased $8.7 million to $725,000 $9,379,000 as of December 31, 2022 December 31, 2023 from December 31, 2021 Decembe 2022 compared to 2021 due to the acquisition. The higher rate environment.

environment in 2023 continue to place pressure on refinancing activity as well as new home purchases.

Loans

The Bank's lending efforts have historically focused on north central Pennsylvania and southern New York. With the acquisition of FNB and the opening of offices staffed by a lending team to primarily support agricultural opportunities and offices in State College and Mill Hall to support commercial opportunities in central Pennsy Wilmington and Dover, Delaware. In November of 2020, we opened a branch in Kennett Square, Pennsylvania, to further serve customers obtained as part of the MidCo Pennsylvania and in Delaware with the opening of an office in Greenville, Delaware, which is near Wilmington, Delaware. In June 2023, we completed the HVBC acquisiti Bank has also received approval to open opened a full service full-service branch in Williamsport, Pennsylvania that is expected to open during in the summer fourth quar

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We originate loans primarily through direct loans to our existing customer base, with new customers generated through the strong relationships that our lending tea website. The Bank offers a variety of loans, although historically most of our lending has focused on real estate loans including residential, commercial, agricultural, a developed and administered by management and approved by the Board of Directors.

The Bank primarily offers fixed rate residential mortgage loans with terms of up to 25 years and adjustable rate mortgage loans (with amortization schedules up to 3(and low debt to income and/or high net worth. Adjustable rate mortgages are tied to a margin above the comparable Federal Home Loan Bank of Pittsburgh borrowing ra ten year repayment period. Home equity loans are typically written with a maximum 80% loan to value.

Commercial real estate loan terms are generally 20 years or less, with one to five year adjustable interest rates. The adjustable rates are typically tied to a margin abo contracts that allowed the customer to obtain a fixed interest rate for a period up to 10 years. Where feasible, the Bank participates in the United States Department of Ag

Agriculture is an important industry throughout our market areas. Therefore, the Bank has not only developed an agriculture lending team with significant experien underwriting agricultural loans. Agricultural loans are made to a diversified customer base that include dairy, swine and poultry farmers and their support businesses interest rates. The adjustable rates are typically tied to a margin above the comparable Federal Home Loan Bank of Pittsburgh borrowing rate with a typical loan to valu Service Agency (FSA) and participates in the FSA guaranteed loan program.

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The Bank, as part of its commitment to the communities it serves, is an active lender for projects by our local municipalities and school districts. These loans range have developed participation lending relationships with other community banks that allow us to meet regulatory compliance issues, while meeting the needs of the cu million $206.0 million was sold.

Activity associated with exploration for natural gas continued in 2022 was higher than 2021. 2023 in the Company's north central Pennsylvania market. Certain ent volatility in 2022. While the Bank has loaned to companies that service the exploration activities, the Bank has not originated any loans to companies performing the originated loans to businesses and individuals for restaurants, hotels and apartment rentals that were developed and expanded to meet the housing and living needs of specific policies and procedures for lending to these entities, which included lower loan to value thresholds, shortened amortization periods, and expansion of our monit

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The following table shows the year-end composition of the loan portfolio as of December 31, 2022 December 31, 2023 and 2021 2022 (dollars in thousands):

Real estate:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans
State & political subdivision loans
Total loans
Less allowance for loan losses
Less allowance for credit losses
Net loans

Real estate:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans
State & political subdivision loans
Total loans

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Total loans grew $283.5 million $523.8 million in 2022 2023 and total $1.72 billion $2.25 billion at the end of 2022. 2023. The primary driver of growth during 2022 2023 w
loans. estate. This growth was offset by a decrease in other commercial and other agricultural consumer loans of $11.4 million and $5.0 million, respectively, due to a dec

Residential real estate loans increased $9.1 million even as refinancing activity decreased during 2022 $149.8 million primarily due to higher rates the acquisition of
due to the acquisition and the residential division acquired. For loans sold on the secondary market, the Company recognizes fee income for servicing these sold loans,

The following table presents the maturity distribution of our loan portfolio as of December 31, 2022 December 31, 2023 (in thousands). The The table does not includ
schedule of repayments and no stated maturity are reported as due in one year or less.

		Due in One
Real estate:		
Residential	$	
Commercial		
Agricultural		
Construction		
Consumer		
Other commercial loans		
Other agricultural loans		
State & political subdivision loans		
	$	

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		Due in year o
Real estate:		
Residential	$	
Commercial		
Agricultural		
Construction		
Consumer		
Other commercial loans		
Other agricultural loans		
State & political subdivision loans		
	$	

The following table presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of loans in accordance with change

Sensitivity of loans to changes in interest rates - loans due after December 31, 2023:
Sensitivity of loans to changes in interest rates - loans due after December 31, 2024:
Real estate:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans
State & political subdivision loans

Allowance for Loan Credit Losses – Loans and Credit Quality Risk

The allowance for loan credit losses – loans is maintained at a level which, in management's judgment, is adequate to absorb probable future loan losses inherent in t
allowance. The allowance for loan credit losses - loans was $18,552,000 $21,153,000 or 1.08% 0.94% of total loans as of December 31, 2022 December 31, 2023 as compare

in a decrease in the allowance for credit losses – loans of $3.3 million. As a result of the acquisition, the Bank recorded a $1,683,000 provision for loan credit losses les
$1,280,000, which was primarily associated with PCD loans acquired as part of $435,000. During 2022, net charge-offs the HVBC acquisition that were low fully reserved fo

The adequacy of the allowance for credit losses – loans is subject to a formal, quarterly analysis by management of the Company. In order to better analyze the risks
specific reserve, if appropriate. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to one charge-off. historica
growth rates and changes in duration within new markets, or other relevant factors. For further information on the allowance for credit losses on loans, Note 1, "Summa
326 effective January 1, 2023, there is a lack of comparability in both the allowance and provision for credit losses for the periods presented. Results for reporting period
for prior fiscal years. Note 1, "Summary of Significant Accounting Policies," in the consolidated financial statements provides additional disclosure on the adoption of AS

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The following table shows the distribution of the allowance for loan credit losses - loans and the percentage of loans compared to total loans by loan category (dollar

	2023		2022	
	Amount	%	Amount	%
Real estate loans:				
Residential	$ 2,354	16.0	$ 1,056	12.2
Commercial	9,178	48.6	10,120	50.8
Agricultural	3,264	14.0	4,589	18.2
Construction	1,950	8.7	801	4.7
Consumer	1,496	2.7	135	5.0
Other commercial loans	2,229	6.1	1,040	3.7
Other agricultural loans	270	1.4	489	2.0
State & political subdivision loans	45	2.5	322	3.4
Unallocated	367	N/A	-	N/A
Total allowance for loan losses	$ 21,153	100.0	$ 18,552	100.0

The following tables presents the activity in the allowance for credit losses – loans, by portfolio segment, for 2023 (in thousands).

	Balance at December 31, 2022	Impact of adopting CECL	Allowance for credit loss on PCD acquired loans	Char off
Real estate loans:				
Residential	$ 1,056	$ 79	$ 108	$
Commercial	10,120	(3,070)	39	
Agricultural	4,589	(1,145)	37	
Construction	801	(103)		
Consumer	135	1,040	677	
Other commercial loans	1,040	(328)	828	
Other agricultural loans	489	(219)	-	
State and political subdivision loans	322	(280)	-	
Unallocated	-	726	-	
Total	$ 18,552	$ (3,300)	$ 1,689	$

Prior to January 1, 2023, the Company calculated the allowance for loan losses using the probable incurred methodology. The activity in our allowance for loan losse

	Balance at December 31, 2021	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,147	$ -	$ -	$ (91
Commercial	8,099	-	3	2,018
Agricultural	4,729	-	-	(140
Construction	434	-	-	367
Consumer	262	(37)	21	(111
Other commercial loans	1,023	(435)	13	439
Other agricultural loans	558	-	-	(69
State and political subdivision loans	281	-	-	41
Unallocated	771	-	-	(771
Total	$ 17,304	$ (472)	$ 37	$ 1,683

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	2022		2021	
	Amount	%	Amount	%
Real estate loans:				
Residential	$ 1,056	12.2	$ 1,147	14.0
Commercial	10,120	50.8	8,099	47.7
Agricultural	4,589	18.2	4,729	21.6
Construction	801	4.7	434	3.8
Consumer	135	5.0	262	1.8
Other commercial loans	1,040	3.7	1,023	5.2
Other agricultural loans	489	2.0	558	2.8
State & political subdivision loans	322	3.4	281	3.1
Unallocated	-	N/A	771	N/A
Total allowance for loan losses	$ 18,552	100.0	$ 17,304	100.0

	Balance at December 31, 2020	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,174	$ -	$ -	$ (27
Commercial	6,216	(54)	89	1,848
Agricultural	4,953	-	-	(224
Construction	122	-	-	312
Consumer	321	(27)	21	(53
Other commercial loans	1,226	(133)	43	(113
Other agricultural loans	864	-	-	(306
State and political subdivision loans	479	-	-	(198
Unallocated	460	-	-	311
Total	$ 15,815	$ (214)	$ 153	$ 1,550

The following table provides information related to credit loss experience and net (charge-offs) recoveries for 2023, 2022 2021 and 2020. 2021.

2023
Real estate:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans
State & political subdivision loans
Unallocated
Total

2022	Credit Loss Expense (Benefit)	Net (charge-offs) Recoveries	Average Loans	Ratio of net (charge-off recoveries to Average loans
Real estate:				
Residential	$ (91)	-	$ 204,063	0.
Commercial	2,018	3	782,016	0.
Agricultural	(140)	-	312,999	0.
Construction	367	-	73,214	0.

Consumer		(111)		(16)		58,715	-0.
Other commercial loans		439		(422)		72,444	-0.
Other agricultural loans		(69)		-		34,421	0.
State & political subdivision loans		41		-		56,004	0.
Unallocated		(771)		-		-	I
Total	$	1,683	$	(435)	$	1,593,876	-0.
2021							
Real estate:							
Residential	$	(27)		-	$	203,062	0.
Commercial		1,848		35		639,161	0.
Agricultural		(224)		-		312,770	0.
Construction		312		-		56,315	0.
Consumer		(53)		(6)		24,125	-0.
Other commercial loans		(113)		(90)		99,839	-0.
Other agricultural loans		(306)		-		37,181	0.
State & political subdivision loans		(198)		-		52,804	0.
Unallocated		311		-		-	I
Total	$	1,550	$	(61)	$	1,425,257	0.
2020							
Real estate:							
Residential	$	46		14	$	210,696	0.
Commercial		2,065		(398)		478,415	-0.
Agricultural		(84)		15		311,100	0.
Construction		79		0		26,343	0.
Consumer		238		(29)		20,986	-0.
Other commercial loans		3		(32)		112,054	-0.
Other agricultural loans		(97)		-		46,101	0.
State & political subdivision loans		(57)		-		86,143	0.
Unallocated		207		-		-	I
Total	$	2,400	$	(430)	$	1,291,838	-0.

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The Company believes it utilizes a disciplined and thorough loan review process based upon its internal loan policy approved by the Company's Board of Directors. markets served. An external independent loan review is performed on our commercial portfolio at least semi-annually for the Company. The external consultant is enga the last year, $1,000,000, 3) a majority of borrowers with commitments greater than or equal to $1.0 million, 4) selected loan relationships over $750,000 which are o underwriting process and loan grading system is evaluated.

Management believes it uses the best information available to make such determinations and that the allowance for loan credit losses – loans is adequate as of De prolonged downturn in the economy, changes in the economies of various segments of our agricultural and commercial portfolios, high unemployment rates, significa reduction in income. Additionally, bank regulatory agencies periodically examine the Bank's allowance for loan losses. credit losses - loans. The banking agencies coul

On a monthly basis, problem loans are identified and updated primarily using internally prepared past due reports. Based on data surrounding the collection process that management may choose to include. Watch list loans are continually monitored going forward until satisfactory conditions exist that allow management to upg commercial loans, which include commercial real estate, agricultural real estate, state and political subdivision loans, other commercial loans and other agricultural loan

The adequacy of the allowance for loan losses is subject to a formal, quarterly analysis by management of the Company. In order to better analyze the risks associ appropriate. Loans evaluated and not found to be impaired are included with other performing loans, by category, by their respective homogenous pools. Three yea homogeneous pools are adjusted based upon the following qualitative factors:

- Level of and trends in delinquencies, impaired/classified loans
  - Change in volume and severity of past due loans
  - Volume of non-accrual loans
  - Volume and severity of classified, adversely or graded loans
- Level of and trends in charge-offs and recoveries

- Trends in volume, terms and nature of the loan portfolio
- Effects of any changes in risk selection and underwriting standards and any other changes in lending and recovery policies, procedures and practices
- Changes in the quality of the Bank's loan review system
- Experience, ability and depth of lending management and other relevant staff
- National, state, regional and local economic trends and business conditions
  - General economic conditions
  - Unemployment rates
  - Inflation / CPI
  - Changes in values of underlying collateral for collateral-dependent loans
- Industry conditions including the effects of external factors such as competition, legal, and regulatory requirements on the level of estimated credit losses.
- Existence and effect of any credit concentrations, and changes in the level of such concentrations
- Any change in the level of board oversight

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See also "Note 5 6 – Loans and Related Allowance for Loan Losses" Credit Losses - Loans" to the consolidated financial statements.

As a result of previous loss experiences and other risk factors utilized in determining the allowance, the Bank's allocation of the allowance does not directly corres assigned to these portions of the loan portfolio as these loans have more inherent risks than residential real estate or loans to state and political subdivisions. portfolio. less inherent risks then commercial and agricultural loans. segment.

The following table is a summary of our non-performing assets for the years ended December 31, 2022 December 31, 2023 and 2021. All non-accruing troubled debt re

		2022		2021
Non-performing assets:				
Non-accruing loans	$	6,938	$	7,616
Accrual loans - 90 days or more past due		7		46
Total non-performing loans	$	6,945	$	7,662
Foreclosed assets held for sale		543		1,180
Total non-performing assets	$	7,488	$	8,842
Troubled debt restructurings (TDR)				
Non-accruing TDRs	$	3,333	$	4,295
Accrual TDRs		4,358		6,810
Total troubled debt restructurings	$	7,691	$	11,105

		2023		2022
Non-performing loans:				
Non-accruing loans	$	12,187	$	6,938
Accrual loans - 90 days or more past due		516		7
Total non-performing loans		12,703		6,945
Foreclosed assets held for sale		474		543
Total non-performing assets	$	13,177	$	7,488

The following table identifies amounts of loans contractually past due 30 to 90 days and non-performing loans by loan category, as well as the change from Deceml days or more and non-accrual loans. Interest does not accrue on non-accrual loans. Subsequent cash payments received are applied to the outstanding principal balan

	December 31, 2022				December 31, 2021			
		Non-Performing Loans				Non-Performing Loans		
	30 - 89 Days Past Due	90 Days Past Due Accruing	Non-accrual	Total Non-Performing	30 - 89 Days Past Due	90 Days Past Due Accruing	Non-accrual	T P
Real estate:								
Residential	$ 469	$ -	$ 591	$ 591	$ 492	$ 46	$ 595	$
Commercial	1,018	-	2,778	2,778	243	-	2,945	
Agricultural	-	-	3,222	3,222	31	-	3,133	
Construction	-	-	-	-	-	-	-	
Consumer	147	7	-	7	163	-	-	
Other commercial loans	1,695	-	62	62	28	-	140	
Other agricultural loans	-	-	285	285	10	-	803	
Total nonperforming loans	$ 3,329	$ 7	$ 6,938	$ 6,945	$ 967	$ 46	$ 7,616	$

	Change in Non-Perform
	2022 / 2021
	Amount
Real estate:	
Residential	$ (17)
Commercial	(200)
Agricultural	89
Construction	-
Consumer	7
Other commercial loans	(78)
Other agricultural loans	(518)
Total nonperforming loans	$ (717)

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	December 31, 2023				December 31, 2022			
		Non-Performing Loans				Non-Performing Loans		
	30 - 89 Days Past Due	90 Days Past Due Accruing	Non-accrual	Total Non-Performing	30 - 89 Days Past Due	90 Days Past Due Accruing	Non-accrual	T P
Real estate:								
Residential	$ 3,061	$ 18	$ 3,082	$ 3,100	$ 469	$ -	$ 591	$
Commercial	1,396	404	1,135	1,539	1,134	-	2,778	
Agricultural	73	75	2,670	2,745	-	-	3,222	
Construction	4,795	-	2,357	2,357	-	-	-	
Consumer	298	13	701	714	147	7	-	
Other commercial loans	826	6	1,750	1,756	1,695	-	62	
Other agricultural loans	7	-	492	492	-	-	285	
Total nonperforming loans	$ 10,456	$ 516	$ 12,187	$ 12,703	$ 3,445	$ 7	$ 6,938	$

The Company worked with customers directly affected by the COVID-19 pandemic. The Company offered assistance in accordance with regulator guidelines.

	Change in Non-Performing Loans	
	2023 / 2022	
	Amount	%
Real estate:		
Residential	$ 2,509	424.5
Commercial	(1,239)	(44.6)
Agricultural	(477)	(14.8)
Construction	2,357	NA
Consumer	707	10,100.0
Other commercial loans	1,694	2,732.3

Other agricultural loans		207	72.6
Total nonperforming loans	$	5,758	82.9

Nonperforming loans increased $5.8 million during 2023. As a result part of the COVID-19 pandemic, HVBC acquisition, we acquired $1.8 million of non-performing r with borrowers to better understand their situation first quarter of 2023, the Bank place two large relationships totaling $3.8 million on non-accrual status, one of which could experience increases in non-performing loans and further increases in its required allowance for loan losses and record additional provision expense. It is possible

For the year ended December 31, 2022, we recorded a provision for loan losses of $1,683,000 which compares to $1,550,000 for the same period in 2021, an increa compared to 2021. Non-performing loans decreased $717,000 from December 31, 2021 to December 31, 2022 with the decrease being primarily due to two customer rel loans are associated with the following three five customer relationships:

- A commercial loan relationship with $804,000 $585,000 outstanding, and additional letters of credit of $1.2 million available, secured by undeveloped land, stone qu exploration for natural gas in north central Pennsylvania has significantly impacted the cash flows of the customer, who provides excavation services and stone for appraisals indicated a decrease in collateral values compared to the appraisal ordered for the loan origination, however, the loan was still considered well secured on of the loans. Management determined that no specific reserve was required as of December 31, 2022 December 31, 2023.

- An agricultural loan customer with a total loan relationship of $1.9 million $1.6 million, secured by real estate, equipment and cattle, was on non-accrual status as of D of 2019 and resulted in monthly payments resuming in late 2019 that have continued through 2022. 2023. The customer did miss a portion of required payments in 20 Farm Service Agency guarantees. guarantees in excess of $700,000. Depressed milk prices created cash flow difficulties for this customer. Absent a sizable and s appraised. Management determined that no specific reserve was required as of December 31, 2022 December 31, 2023.

- An agricultural loan customer with a total loan relationship of $1.2 million, secured by real estate was on non-accrual status as of December 31, 2022 December 31, 20 include the sale of oil and gas rights and the installation of a solar field. We expect that we will need to rely upon the collateral for repayment of interest and principa 2023.

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- A commercial loan customer with a total loan relationship of $1.1 million, secured by airplanes and camera equipment was on non-accrual status as of December 31, monthly payments of $90,000 through the first quarter of 2024 and a pay-off of the entire relationship during the first quarter of 2024 as well. Management reviewed the
- A construction loan customer with a total loan relationship of $2.4 million, secured by partially developed real estate, was on non-accrual status as of December 3 $286,000 was required as of December 31, 2023.

Management believes that the allowance for loan credit losses - loans at December 31, 2022 December 31, 2023 was adequate at that date, which was based on the fol

- • Three Five loan relationships comprise 55.2% 53.7% of the non-performing loan balance, which did not require any required a specific reserves reserve of $286,000 a
  - The Company has a history of low charge-offs, which were 0.06% and 0.03% of average loans for 2023 and 2022, respectively.

- The Company has a history of low charge-offs, which were 0.03% and 0.00% of average loans for 2022 and 2021, respectively.

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Bank Owned Life Insurance

The Company holds bank owned life insurance policies to offset current and future employee benefit costs. These policies provide the Bank with an asset that gen 2022 December 31, 2023, and 2021, 2022, the cash surrender value of the life insurance was $39.4 million $49.9 million and $38.5 million $39.4 million, respectively.The pr acquisitions, is recognized in the results of operations. The amounts recorded as non-interest income totaled $1,254,000, $852,000 and $1,828,000 in 2023, 2022 and $6 2022 due to the death benefits received in 2021 upon the passing of two former employees. The Company evaluates annually the risks associated with the life insurance p

Effective January 1, 2015, the Company restructured its agreements so that any death benefits received from a policy while the insured person is an active employee policies acquired as part of the acquisition of MidCoast are only for the benefit of the Bank. The net amount at risk is the total death benefit payable less the cash surre including whether the covered individual was a Director of FNB or an employee of FNB and their salary level. As of December 31, 2022 December 31, 2023, and 2021, 2022

Fair Value of Derivative Instruments - asset

The Company holds derivative instruments to hedge interest rate risk, and to offer customers longer term fixed rate loans through a program similar to a back to b additional information). As of December 31, 2022 December 31, 2023, and 2021, 2022, the fair value for the derivatives instruments was $16.6 million $13.7 million and $4 instruments. The effective portion of changes in the fair value of the cash flow interest hate hedge derivative is initially reported in other comprehensive income (outsid directly in earnings.

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Deferred Tax Asset

Deferred tax assets are computed based on the difference between the financial statement basis and income tax basis of assets and liabilities using the enacted ma December 31, 2022 December 31, 2023 and 2021, 2022, the balance for deferred tax assets was $12.9 million $17.3 million and $4.1 million $12.9 million, respectively. The hedges for interest rate risk. acquisition.

Other Assets

Other assets increased $11.1 million $33.3 million in 2023 to $59.1 million from $25.8 million in 2022 with the majority of the increase due to $25.8 million from $14.7 HVBC, facilities were acquired that are subject to leases, and additionally, we entered into and extended several leases during the year, which resulted in the right of use housing projects increased $1.0 million $7.2 million due to investments made in three partnerships during 2022. Foreclosed properties were sold during 2022, which resu million increase in other assets of $637,000. assets. Income tax receivable increased $2.6 million during 2023.

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Deposits

The following table shows the breakdown of deposits by deposit type (dollars in thousands) at December 31:

	2022			
	Amount		%	
Non-interest-bearing deposits	$	396,261	21.5	$
NOW accounts		512,501	27.8	
Savings deposits		321,917	17.5	
Money market deposit accounts		335,838	18.2	
Certificates of deposit		277,691	15.0	
Total	$	1,844,208	100.0	$

Non-interest-bearing deposits
NOW accounts
Savings deposits
Money market deposit accounts
Certificates of deposit
Total

2022 2023

Total deposits increased $477.3 million in 2023, or 25.9%. As part of the HVBC acquisition, we acquired $533.4 million of deposits. Excluding the acquisition, deposit projects within municipalities. Brokered deposits totaled $109.3 million and $16.0 million as of December 31, 2023 and 2022, respectively. As part of the acquisition, we percentage of total deposits, non-interest-bearing deposits totaled 22.6% as of the end of 2023, which compares to 21.5% at the end of 2022. The rates paid on certificates

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2022

Total deposits increased $8.1 million in 2022, or 0.4%. Deposit levels remained consistent during 2022 after significant growth in 2021 that was due to government enhance our cash management services to improve our customer services. Brokered certificates of deposit increased $16.0 million as new brokered CDs were issued du the Company remain competitive with rates paid by our competition.

2021

Total deposits increased $247.3 million in 2021, or 15.6%. The driver of the increase was government stimulus funds in response to the COVID 19 pandemic, which in our current customers. Brokered certificates of deposit decreased $23.8 million as maturing certificates were not replaced in 2021. As a percentage of total deposits, non

Remaining maturities of certificates of deposit in excess of FDIC insurance limits are as follows for December 31, 2022 December 31, 2023 (dollars in thousands):

3 months or less
Over 3 months through 6 months
Over 6 months through 12 months
Over 12 months

Total	
As a percent of total certificates of deposit	

Uninsured deposits as of December 31, 2022 December 31, 2023 and 2021, 2022, are estimated based on regulatory reporting requirements to be $1,087,308,000 and
customer funds with insured banks within the Intrafi network, as well as deposits collateralized by securities (almost exclusively municipal deposits), which together tota

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Deposits by type of depositor are as follows (dollars in thousands) at December 31:

	2022			
	Amount		%	
Individuals	$	921,404	50.0	$
Businesses and other organizations		586,531	31.8	
State & political subdivisions		336,273	18.2	
Total	$	1,844,208	100.0	$

Borrowed Funds

Borrowed funds increased $183.3 million $64.7 million during 2022 to fund loan growth during 2023 as a result of the year. HVBC acquisition and for liquidity. As part o
compared to $212.1 million as of December 31, 2022 compared to $25.0 million as of December 31, 2021. Long term borrowings from the FHLB decreased $4.7 million i
2021, 2022, respectively. The change in term loans was due to $4.7 million $25.3 million acquired as part of term loans maturing the HVBC acquisition and borrowing
subordinated notes that HVBC had issued in 2021. The Company did not issue any long term debt during 2022. In the fourth quarter of 2022, the Company entered into
2022 December 31, 2023. Management continually monitors interest rates in order to minimize interest rate risk in future years and as part of this may extend some of th
$10.0 million and three agreements of $6.0 million. The $15.0 million and $10.0 million were originated on April 1, 2020 and expire on April 1, 2025 and April 1, 2027. The th
was entered into on April 13, 2020, to convert floating-rate debt to fixed rate debt on a notional amount of $7.5 million. The interest rate swap agreement expires on June
paid or received on interest rate swap agreements are recognized as adjustments to interest expense in the period. The fair value of the interest rate swaps at December

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Fair Value of Derivative Instruments - liability

The Company holds derivative instruments to hedge interest rate risk and to offer customers longer term fixed rate loans through a program similar to a back to b
additional information). As of December 31, 2022 December 31, 2023, and 2021, 2022, the fair value for the derivatives instruments was $9.7 million $7.9 million and $2.1 m
The effective portion of changes in the fair value of the cash flow interest hate hedge derivative is initially reported in other comprehensive income (outside of earning
earnings.

Other Liabilities

Other liabilities increased $2.4 million $19.1 million to $20.8 million $39.9 million during 2022. We 2023. As part of the HVBC acquisition, facilities were acquired tha
Employee benefit accruals, including profit sharing increased $477,000. $946,000. As a result of recording the commitment to invest in low income housing projects, ot
result of the acquisition, escrow payable increased $1.2 million.

Stockholders' Equity

We evaluate stockholders' equity in relation to total assets and the risk associated with those assets. The greater our capital resources, the greater the likelihood of
capital plan and stress test capital levels using various techniques and assumptions annually to ensure that in the event of unforeseen circumstances, we would remain

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Our Board of Directors determines our cash dividend rate after considering our capital requirements, current and projected net income, and other factors. In 2022 202
of the acquisition had on net income during 2023.

As of December 31, 2022 December 31, 2023, the total number of common shares outstanding was 3,971,209. 4,706,994. For comparative purposes, outstanding sh
2022, 2023, we purchased 18,700 2,775 shares of treasury stock at a weighted average cost of $68.40 $96.60 per share. share due to processing issue by HVBC. The Comp
at a cost of $67.53 $61.88 per share under an incentive plan.

Stockholders' equity decreased 5.8% increased 39.7% in 2022 2023 to $200.1 million $279.7 million. As part of the HVBC acquisition, the Company issued 693,858 shar
income for 2022 2023 was $29.1 million $17.8 million, offset by net cash dividends of $7,588,000 $8,503,000 and net treasury stock activity of $826,000. $181,000. As a resu
sheet more sensitive to the changing market value of investments. Accumulated other comprehensive loss decreased $32,986,000 increased $8,230,000 from Decembe
December 31, 2023, compared to 8.6% of total assets as of December 31, 2022, compared to 9.9% of total assets as of December 31, 2021.

LIQUIDITY

Liquidity is a measure of the Company's ability to efficiently meet normal cash flow requirements of both borrowers and depositors. Liquidity is needed to meet depo

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To maintain proper liquidity, we use funds management policies along with our investment and asset liability policies to assure we can meet our financial obligations Additionally, the bank has established various limits and ratios to monitor liquidity. On a quarterly basis, we stress test our liquidity position to ensure that the Bank ha from investing and financing activities.

Cash generated by operating activities, investing activities and financing activities influences liquidity management. The most important source of funds is the depo line of credit arrangement with a corresponding bank. Other sources of short-term funds include brokered CDs and the sale of loans, if needed.

The Company's use of funds is shown in the investing activity section of the Consolidated Statement of Cash Flows, where the net loan activity is detailed. Other sigr

Capital expenditures, including software purchases in 2023 totaled $2,617,000, which included:

- Corporate Headquarters expansion, Mansfield, Pennsylvania totaling $1,663,000
- Branch facility, Williamsport, Pennsylvania totaling $391,000
- Signage upgrades and rebranding purchases totaling $187,000
- ATM upgrades totaling $34,000
- Building security improvements totaling $110,000
- Computers, servers and copier purchases $146,000

Capital expenditures, including software purchases in 2022 totaled $1,635,000, $1,634,000, which included:

- Branch facility, Ephrata, Pennsylvania totaling $1,011,000
- Branch facility, Greenville, Delaware $73,000
- Signage upgrades and rebranding purchases totaling $71,000
- ATM upgrades totaling $40,000
- Building security improvements totaling $78,000
- Computers, servers and copier purchases $96,000

Capital expenditures, including software purchases in 2021 totaled $1,105,000, which included:

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- Operations building in Wellsboro, Pennsylvania totaling $753,000
- Vehicle purchases totaling $82,000
- ATM upgrades totaling $124,000
- Building and ground improvements totaling $96,000

We expect these expenditures will support our initiatives and will create operating efficiencies, while providing quality customer service.

In addition to the Bank's cash balances, the Bank achieves additional liquidity primarily from its investment in the FHLB of Pittsburgh and the resulting borrowing capacity at the Federal Home Loan Bank of approximately $871.2 million $1.07 billion, inclusive of any outstanding amounts, as a source of liquidity. The Bank also has t with the FRB in the amount of $1.0 million, which is collateralized by $1.4 million $1.2 million of municipal loans. The Bank also has available through the Bank Term Fun by available for sale securities with a par value of $54.5 million The Company has a $20.0 million $15.0 million line of credit with a Pennsylvania New York community banl

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for p Bank may not declare a dividend without approval of the FRB, unless the dividend to be declared by the Bank's Board of Directors does not exceed the total of: (i) the Ba extent that its retained net profits (including the portion transferred to surplus) exceed its bad debts. The FRB, the OCC, the PDB and the FDIC have formal and inform Rules, described above, further limit the ability of banks to pay dividends, because banks which are not classified as well capitalized or adequately capitalized may not assets of $15.6 million $3.5 million.

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CONTRACTUAL OBLIGATIONS

The Company has various financial obligations, including contractual obligations which may require cash payments. The following table (in thousands) presents as c
and 18 20 to the Consolidated Financial Statements.

Contractual Obligations	One year or Less
Deposits without a stated maturity	$ 1,566,517
Time deposits	153,926
FHLB Advances	169,110
Term borrowings - FHLB	43,000
Stifel	
BFTP	
Line of Credit	
Note Payable	-
Subordinated Debt	-
Repurchase agreements	17,776
Low income housing partnerships	
Operating leases	847
Total	$ 1,951,176

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not record
funding and take the form of loan commitments, unused lines of credit and letters of credit. For information about our loan commitments, unused lines of credit and lette

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For the year ended December 31, 2022 December 31, 2023, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our f

INTEREST RATE AND MARKET RISK MANAGEMENT

The objective of interest rate sensitivity management is to maintain an appropriate balance between the stable growth of income and the risks associated with maxim

Because of the nature of our operations, we are not subject to foreign currency exchange or commodity price risk and, since the Company has no trading portfolio, it

At December 31, 2022 December 31, 2023, the Company had equity securities that represent only 0.09% 0.07% of our total assets, and therefore market risk related to

The primary factors that make assets interest-sensitive include adjustable-rate features on loans and investments, loan repayments, investment maturities and mor
Savings deposits, NOW accounts and money market investor accounts, with the exception of top interest tier money market and NOW accounts, are considered core d
below in the within three month column. Borrowings subject to swap arrangements are included in the table below based on the swap arrangement maturity.

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The following table shows the cumulative static gap (at amortized cost) for various time intervals (dollars in thousands):

Maturity or Re-pricing of Company Assets and Liabilities as of Decembe

Maturity or Re-pricing of Company Assets and Liabilities as of December 31, 2023

	Within Three Months	Four to Twelve Months	One to Two Years
Interest-earning assets:			
Interest-bearing deposits at banks	$ 1,397	$ 2,085	$ 250
Investment securities	24,724	31,141	62,981
Residential mortgage loans	35,195	34,287	34,429
Construction loans	31,326	24,196	25,169
Commercial and farm loans	220,874	205,114	177,534
Loans to state & political subdivisions	7,628	3,900	5,059
Other loans	66,460	4,299	4,468
Total interest-earning assets	$ 387,604	$ 305,022	$ 309,890
Interest-bearing liabilities:			

NOW accounts	$ 338,542	$ -	$ -	$
Savings accounts	-	-	-	
Money Market accounts	309,211	-	-	
Certificates of deposit	43,299	110,627	50,951	
Long-term borrowing	186,886	-	10,000	
Total interest-bearing liabilities	$ 877,938	$ 110,627	$ 60,951	$
Excess interest-earning assets (liabilities)	$ (490,334)	$ 194,395	$ 248,939	$
Cumulative interest-earning assets	$ 387,604	$ 692,626	$ 1,002,516	$
Cumulative interest-bearing liabilities	877,938	988,565	1,049,516	
Cumulative gap	$ (490,334)	$ (295,939)	$ (47,000)	$
Cumulative interest rate sensitivity ratio (1)	0.44	0.70	0.96	

The previous table and the simulation models discussed below are presented assuming money market investment accounts and NOW accounts in the top interest rat

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Gap analysis, one of the methods used by us to analyze interest rate risk, does not necessarily show the precise impact of specific interest rate movements on the period may, in fact, be repaid at different times and at different rate levels. We have not experienced the kind of earnings volatility that might be indicated from gap analys

The Bank currently uses a computer simulation model to better measure the impact of interest rate changes on net interest income. We use the model as part of ou movements in interest rates with additional assumptions made concerning the timing of interest rate changes, prepayment speeds on mortgage loans and mortgage sec a rate shock analysis and the impact on net interest income as of December 31, 2022 December 31, 2023 (dollars in thousands):

Changes in Rates	Prospective One-Year Net Interest Income	Change In Prospective Net Interest Inco
-400 Shock	$ 75,244	$ (2
-300 Shock	76,146	(1
-200 Shock	77,035	
-100 Shock	77,559	
Base	77,246	
+100 Shock	75,649	(1
+200 Shock	73,838	(3
+300 Shock	72,281	(4
+400 Shock	70,704	(6

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Changes in Rates	Prospective One-Year Net Interest Income
-400 Shock	$ 94,164
-300 Shock	91,582
-200 Shock	90,379
-100 Shock	88,704
Base	86,761
+100 Shock	84,530
+200 Shock	81,691
+300 Shock	79,371
+400 Shock	77,050

The model makes estimates, at each level of interest rate change, regarding cash flows from principal repayments on loans and mortgage backed securities, call ac result in significant differences in the calculated projected change on net interest income. Additionally, the changes above do not necessarily represent the level of char include any changes that may result from the growth of the Bank. Management has developed policy limits for acceptable changes in net interest income for multiple s Bank policy limits for interest rate risk.

CRITICAL ACCOUNTING POLICIES; CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are integral to understanding the results reported. The accounting policies are described in detail in Note 1 of the consolidate detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, t involving significant management valuation judgments and critical accounting estimates.

Other than Temporary Impairment

All securities are evaluated periodically to determine whether a decline in their value is other than temporary and is a matter of judgment. For debt securities, manag of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be require Company does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cos other comprehensive income (loss), net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

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Allowance for Loan Credit Losses

Arriving at an adequate level of allowance for loan losses involves a high degree of judgment. The Company's allowance for loan credit losses provides is a critic allowance for credit losses, based upon evaluations management considers a number of known and inherent risks factors relative to both individually evaluated credits i

Management uses historical information to assess performs a quarterly evaluation of the adequacy of the allowance for loan losses as well as the prevailing busi unforeseen. establishing this estimate. This evaluation is inherently subjective as it requires significant material estimates by management that may be susceptible to sig

The evaluation is comprised of specific and pooled components. The specific component is the Bank to volatility Company's evaluation of earnings. credit loss on inc initial effective interest rate if not collateral dependent. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off an collectively for credit loss by pooling loans based on similar risk characteristics.

As a significant percentage of assessing the Company's loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting su

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The pooled component of the evaluation is determined by applying reasonable and supportable economic forecasts and historical averages to the remaining loans s curtailment assumptions. The assumptions are used to calculate and aggregate estimated cash flows for the time period that remains in each loan's contractual life. Th pool to determine the amount of allowance for credit loss required by the calculation.

One of the most significant judgments used in projecting loss rates when estimating the allowance for credit loss is the macro-economic forecasts provided by a t values. The economic index used in the calculation to which the calculation is most sensitive is the national unemployment rate and gross domestic product. Changes in

Other key assumptions in the calculation of the allowance for credit loss include the forecast and reversion to mean time periods and prepayment and curtailment a to mean time period used for each economic index at December 31, 2023 were four quarters and eight quarters, respectively. Prepayment and curtailment assumption segment.

The quantitative estimated losses are supplemented by more qualitative factors that impact potential losses. Qualitative factors include changes in underwriting s materially affected by these qualitative factors, especially during periods of economic uncertainty, for items not reflected in the lifetime credit loss calculation, but which and levels of the qualitative factors applied, may change in future periods depending on the level of changes to items such as the uncertainty of economic conditions an of qualitative factors is inherently imprecise and requires significant management judgment.

While management utilizes its best judgment and information available, the adequacy of the allowance for loan losses, refer to Note 1 credit loss is determined by uncertainty, changes in interest rates, and the view of the regulatory authorities toward classification of assets and the level of allowance for credit loss. Additionally, t credit loss may not be sufficient to cover inherent losses in the Company's loan portfolio, resulting in additions to the Company's allowance for credit loss and an increa

Goodwill and Other Intangible Assets

As discussed in Note 1 of the consolidated financial statements, the Company performs an evaluation of goodwill for impairment on an annual basis, or more freque the reporting unit is less than its carrying value. Based on the fair value of the reporting unit, no impairment of goodwill was recognized in 2023, 2022 2021 or 2020. 2021.

Pension Benefits

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest cos therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, Consolidated Financial Statements."

Deferred Tax Assets

We use an estimate of future earnings to support our position that the benefit of our deferred tax assets will be realized. If future income should prove non-existe deferred tax assets to determine if it is more likely than not that the deferred tax benefit will be utilized in future periods. If not, a valuation allowance is recorded. Our de

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Business Combinations

Business combinations are accounted for by applying the acquisition method. As of acquisition date, the identifiable assets acquired and liabilities assumed are calculation of intangible assets including core deposits and the fair value of loans are based on significant judgements. Core deposits intangibles are calculated using a

Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value with no carryover of related allowance for credit losses. Any allow
Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those
estimated prepayments, payment options and other loan features, internal risk grade, estimated value of the underlying collateral and interest rate environment.

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ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This information is included under Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate and Market Risk*

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

(in thousands, except share data)
ASSETS:
Cash and cash equivalents:
Noninterest-bearing
Interest-bearing
Total cash and cash equivalents
Interest bearing time deposits with other banks
Equity securities
Available-for-sale securities
Available-for-sale securities (net of allowance for credit losses of $0 for 2023)
Loans held for sale
Loans (net of allowance for loan losses: 2022, $18,552; 2021, $17,304)
Loans (net of allowance for credit losses: 2023, $21,153; 2022, $18,552)
Premises and equipment
Accrued interest receivable
Goodwill
Bank owned life insurance
Other intangibles
Fair value of derivative instruments - asset
Deferred tax asset
Other assets
TOTAL ASSETS
LIABILITIES:
Deposits:
Noninterest-bearing
Interest-bearing
Total deposits
Borrowed funds
Accrued interest payable
Fair value of derivative instruments - liability
Other liabilities
TOTAL LIABILITIES
STOCKHOLDERS' EQUITY:
Preferred Stock $1.00 par value; authorized 3,000,000 shares 2022 and 2021; none issued in 2022 or 2021
Common Stock $1.00 par value; authorized 25,000,000 shares 2022 and 2021; issued 4,427,687 and 4,388,901 shares in 2022 and 2021, respectively
Preferred Stock $1.00 par value; authorized 3,000,000 shares 2023 and 2022; none issued in 2023 or 2022
Common Stock $1.00 par value; authorized 25,000,000 shares 2023 and 2022; issued 5,160,754 and 4,427,687 shares in 2023 and 2022, respectively
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income (loss)
Treasury stock, at cost: 456,478 and 444,481 shares for 2022 and 2021, respectively

Accumulated other comprehensive loss
Treasury stock, at cost: 453,760 and 456,478 shares for 2023 and 2022, respectively
TOTAL STOCKHOLDERS’ EQUITY
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY

See accompanying notes to consolidated financial statements.

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(in thousands, except share and per share data)
(in thousands, except per share data)
INTEREST AND DIVIDEND INCOME:
Interest and fees on loans
Interest-bearing deposits with banks
Investment securities:
Taxable
Nontaxable
Dividends
TOTAL INTEREST AND DIVIDEND INCOME
INTEREST EXPENSE:
Deposits
Borrowed funds
TOTAL INTEREST EXPENSE
NET INTEREST INCOME
Provision for loan losses
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES
Provision for credit losses
Provision for credit losses - acquisition day 1 non-PCD
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES
NON-INTEREST INCOME:
Service charges
Trust
Brokerage and insurance
Equity security gains (losses), net
Available for sale security gains (losses), net
Equity security (losses) gains, net
Available for sale security (losses) gains, net
Gains on loans sold
Earnings on bank owned life insurance
Other
TOTAL NON-INTEREST INCOME
NON-INTEREST EXPENSES:
Salaries and employee benefits
Occupancy
Furniture and equipment
Professional fees
Federal depository insurance
Pennsylvania shares tax
Amortization of intangibles
Merger and acquisition
ORE expenses
Software expenses
Other
TOTAL NON-INTEREST EXPENSES
Income before provision for income taxes
Provision for income taxes

NET INCOME	
PER COMMON SHARE DATA:	
EARNINGS PER SHARE - BASIC	
EARNINGS PER SHARE - DILUTED	
EARNINGS PER SHARE – DILUTED	
CASH DIVIDENDS PER SHARE	
Number of shares used in computation - basic	
Number of shares used in computation - diluted	

See accompanying notes to consolidated financial statements.

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Consolidated State

(in thousands)	
Net Income	
Other Comprehensive income (loss)	
Securities available for sale	
Unrealized holding gain (loss) during the period	
Income tax (benefit)	
Subtotal	
Reclassification adjustment for (gains) losses included in income	
Reclassification adjustment for losses (gains) included in income	
Income tax (benefit)	
Subtotal	
Unrealized loss (gain) on interest rate swap	
Unrealized (loss) gain on interest rate swap	
Income tax (benefit)	
Other comprehensive (loss) gain on interest rate swap	
Change in unrecognized pension costs	
Income tax (benefit)	
Other comprehensive gain (loss) gain on unrecognized pension costs	
Other comprehensive gain on unrecognized pension costs	
Net other comprehensive (loss) income	
Comprehensive (loss) income	
Net other comprehensive income (loss)	
Comprehensive income (loss)	

See accompanying notes to consolidated financial statements.

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Consolidated

	Common Stock				Additional Paid-in		Retained		Ot
(in thousands, except share data)	Shares		Amount		Capital		Earnings		
Balance, December 31, 2019	3,938,668	$	3,939	$	55,089	$	110,800	$	

Balance, December 31, 2020								
Comprehensive income:								
Net income							25,103	
Net other comprehensive income								
Stock dividend (1%)	38,318		38		1,878		(1,916)	
Stock issued for acquisition	373,356		373		18,854			
Purchase of treasury stock (40,438 shares)								
Restricted stock, executive and Board of Director awards					(260)			
Restricted stock vesting					326			
Sale of treasury stock					1			
Forfeited restricted stock					19			
Cash dividend reinvestment paid from treasury stock					1		(821)	
Cash dividends, $1.881 per share							(6,539)	
Balance, December 31, 2020	4,350,342	$	4,350	$	75,908	$	126,627	$
Comprehensive income:								
income							29,118	
Net other comprehensive income (loss)								
Net other comprehensive loss								
Stock dividend (1%)	38,559		39		2,313		(2,352)	
Purchase of treasury stock (23,390 shares)								
Restricted stock, executive and Board of Director awards					(273)			
Restricted stock vesting					443			
Forfeited restricted stock					4			
Cash dividends, $1.843 per share							(7,383)	
Cash dividends, $1.83 per share								
Balance, December 31, 2021	4,388,901	$	4,389	$	78,395	$	146,010	$
Comprehensive loss:								
Comprehensive income:								
Net income							29,060	
Net other comprehensive loss								
Stock dividend (1%)	38,786		39		2,521		(2,560)	
Purchase of treasury stock (18,700 shares)								
Restricted stock, executive and Board of Director awards					(226)			
Restricted stock vesting					192			
le of treasury stock					6			
Forfeited restricted stock					23			
Cash dividends, $1.901 per share							(7,588)	
Cash dividends, $1.88 per share								
Balance, December 31, 2022	4,427,687	$	4,428	$	80,911	$	164,922	$
Comprehensive income:								
Net income								
Net other comprehensive income								
Stock dividend (1%)								
Issuance of Common stock								
Purchase of treasury stock (2,775 shares)								
Restricted stock, executive and Board of Director awards								
Restricted stock vesting								
Sale of treasury stock (410 shares)								
Forfeited restricted stock								
Change in Accounting policy for allowance for credit losses								
Cash dividends, $1.94 per share								

Balance, December 31, 2023	

See accompanying notes to consolidated financial statements.

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(in thousands)
Cash Flows from Operating Activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan losses
Provision for credit losses
Depreciation and amortization
Amortization and accretion of loans and other assets
Amortization and accretion on investment securities
Deferred income taxes
Equity security (gains) losses, net
Available for sale security (gains) losses, net
Equity security losses (gains), net
Available for sale security losses (gains), net
Earnings on bank owned life insurance
Stock awards
Originations of loans held for sale
Proceeds from sales of loans held for sale
Realized gains on loans sold
(Increase) decrease in accrued interest receivable
Increase (decrease) in accrued interest payable
Other, net
Net cash provided by operating activities
Cash Flows from Investing Activities:
Available-for-sale securities:
Proceeds from sales of available-for-sale securities
Proceeds from maturity and principal repayments of securities
Purchase of securities
Purchase of equity securities
Proceeds from sale of equity securities
Proceeds from redemption of Regulatory Stock
Purchase of Regulatory Stock
Net increase in loans
Purchase of interest bearing time deposits
Proceeds from matured interest bearing time deposits with other banks
Proceeds from sale of interest bearing time deposits with other banks
Purchase of interest-bearing time deposits
Proceeds from matured interest-bearing time deposits with other banks
Proceeds from sale of interest-bearing time deposits with other banks
Purchase of bank owned life insurance
Purchase of premises, equipment and software
Proceeds from life insurance
Investments in low income housing partnerships
Proceeds from sale of foreclosed assets held for sale
Acquisition, net of cash paid
Net cash used in investing activities
Net cash provided by (used in) investing activities
Cash Flows from Financing Activities:
Net increase in deposits
Net (decrease) increase in deposits
Proceeds from long-term borrowings

Repayments of long-term borrowings
Net increase (decrease) in short-term borrowed funds
Purchase of treasury stock
Sale of treasury stock to employee stock purchase plan
Sale of treasury stock
Dividends paid
Net cash provided by financing activities
Net (decrease) increase in cash and cash equivalents
Net cash provided by (used in) financing activities
Net increase (decrease) in cash and cash equivalents
Cash and Cash Equivalents at Beginning of Year
Cash and Cash Equivalents at End of Year
Supplemental Disclosures of Cash Flow Information:
Interest paid
Income taxes paid
Non-cash activities:
Stock dividend
Real estate acquired in settlement of loans
Investments matured and not settled included in other assets
Investments in low income housing included in other assets and liabilities
Right of use asset and liability
CECL adjustment
Acquisition of
Non-cash assets acquired
Available-for-sale securities
Interest bearing time deposits with other banks
Loans held for sale
Loans
Premises and equipment
Accrued interest receivable
Bank owned life insurance
Intangibles
Deferred tax asset
Other assets
Goodwill
Liabilities assumed
Noninterest-bearing deposits
Interest-bearing deposits
Accrued interest payable
Borrowed funds
Other liabilities
Net non-cash liabilities acquired
Net non-cash assets acquired
Cash and cash equivalents acquired

See accompanying notes to consolidated financial statements.

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CI
NOTES TO

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

Citizens Financial Services, Inc. (individually and collectively, the "Company") is headquartered in Mansfield, Pennsylvania, and provides a full range of banking ar subsidiaries, First Citizens Insurance Agency, Inc. ("First Citizens Insurance") and 1st 1st Realty of PA, LLC ("Realty"). CZFS was formed in March 2020 as part of the commercial customer. On December 11, 2015, the Company completed its acquisition of The First National Bank of Fredericksburg (FNB). On December 8, 2017, the Ba the HVBC acquisition. In December 2023, the Bank opened a full-service branch in Williamsport, Pennsylvania. As of December 31, 2022 December 31, 2023, the Bank counties, Pennsylvania, Allegany County, New York, and the cities of Wilmington and Dover, Delaware, and Burlington County, New Jersey, a limited branch office in Ur estates, retirement plans, and other employee benefit plans, along with a brokerage division that provides a comprehensive menu of investment services. The Bank ser Board of Governors of the Federal Reserve System, while the Bank is subject to additional regulation and supervision by the Pennsylvania Department of Banking. Banki

On October 18, 2022, the Company and HV Bancorp, Inc. ("HVBC"), the holding company for Huntingdon Valley Bank ("HVB"),) entered into an Agreement and Plan of Merger (th

Under the terms of the Merger Agreement, each outstanding share of HVBC common stock will be converted into either the right to receive $30.50 in cash or 0.40 shares of the common stock. In the event of a greater than 20% decline in market value of the Company's common stock, HVBC may, in certain circumstances, be able to terminate the Merger Ag

The senior management of the Company and the Bank will be augmented by management team members from HVBC and HVB.

The transaction is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the shareholders of HVBC. The merger is currently expec

Each of the directors of HVBC have agreed to vote their shares in favor of the approval of the Merger Agreement at the shareholders' meeting to be held to vote on the proposed t

A summary of significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Basis of Presentation

The financial statements are consolidated to include the accounts of the Company, and its subsidiary CZFS, and its subsidiary, First Citizens Community Bank, and inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of co estimates. Material estimates that are particularly susceptible to significant change relate to determination of the allowance for creditloan losses, goodwill, derivatives, p

Operating Segments

An operating segment is defined as a component of an enterprise that engages in business activities that generates revenue and incurs expense, and the operatir streams of the various Company's products, services and regions, operations are managed and financial performance is evaluated on a Company-wide basis. Consisten

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Cash and Cash Equivalents

Cash equivalents include cash on hand, deposits in banks and interest-earning deposits. Interest-earning deposits with original maturities of 90 days or less are con

Interest bearing time deposits with other banks are not included with cash and cash equivalents as the original maturities were greater than 90 days.

Investment Securities

Investment securities at the time of purchase are classified as one of the three following types:

Held-to-Maturity Securities - Includes securities that the Company has the positive intent and ability to hold to maturity. These securities are reported at amortized co

Trading Securities - Includes debt and equity securities bought and held principally for the purpose of selling them in the near term. Such securities are reported at fa

Available-for-Sale Securities – This category included debt securities not classified as held-to-maturity or trading securities that will be held for indefinite periods securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net

The amortized cost of investment in debt securities is adjusted for amortization of premiums and accretion of discounts, computed by a method that results in a level

Debt securities are periodically reviewed for other-than-temporary impairment. Management considers whether the present value of future cash flows expected to be intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit los entire difference between fair value and amortized cost is charged to earnings.

The fair value of investments, except certain state and municipal securities, is based on bid prices published in financial newspapers or bid quotations received from similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

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

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be re through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulte agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash fl a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any in

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when manag unrealized loss positions in available-for-sale debt securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded. See Note

Accrued interest receivable on available-for-sale debt securities totaled $2,202,000 at December 31, 2023 and is included within accrued interest receivableon the consolidated become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual s

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Equity Securities – This category includes common stocks of public companies. Such securities are reported at fair value with unrealized holding gains and losses in

Restricted Stock - Common stock of the Federal Reserve Bank, Federal Home Loan Bank of Pittsburgh (FHLB) and correspondent banks represent ownership in insti

Loans Held for Sale

Certain newly originated fixed-rate residential mortgage loans are classified as held for sale, because it is management's intent to sell these residential mortgage loan

Loans

Interest on all loans is recognized on the accrual basis based upon the principal amount outstanding. The accrual of interest income on loans is discontinued when income, depending upon our assessment of our ultimate ability to collect principal and interest. Loans are returned to the accrual status when factors indicating doubtfu

The Company recognizes nonrefundable loan origination fees, SBA fees and certain direct loan origination costs over the life of the related loan as an adjustment of l

Purchased Credit Deteriorated ("PCD") Loans

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the credit losses are recorded through provision expense.

Allowance for Loan Credit Losses - Loans

The allowance for loan credit losses on loans represents management's estimate of expected credit losses over the amount which management estimates is adequa recoveries are credited to it. estimated life of our existing portfolio of loans. The allowance for loan credit losses is established a valuation account that is deducted fr allowance for credit losses on loans at the amount of expected credit losses inherent within the loan portfolio. Loans are recorded as charge-offs against the allowance w estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable an losses. Adjustments to operations. The provision is based upon management's periodic evaluation of individual loans, the overall historical loss information are made fo in environmental conditions, on borrowers, delinquency level, segment growth rates and changes in duration within new markets, or other relevant factors. The estimates additional detail.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has segregated its portfolio segments b

Residential Real Estate: The Bank originates residential mortgage and home equity loans primarily in its various market areas in Pennsylvania, New York and Delawa the borrower, including unemployment or other commercial, other agricultural, municipal, agricultural loss of income; unexpected significant expenses, such as major values could decrease and cause the value of the underlying property to fall below the loan amount, creating additional potential loss exposure for the Bank.

Commercial Real Estate: The Bank originates mortgage loans to operating companies primarily in its various market areas in Pennsylvania, New York and Delawa Owner-occupied loans are typically repaid first by the cash flows generated by the borrower's business operations. The primary risk characteristics are specific to the un or services, the quality and depth of management, the degree of competition, regulatory changes, and general economic conditions. Increases in vacancy rates, intere degree of credit risk as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who ma

Agricultural Real Estate: The Bank originates loans secured by farmland and improvements thereon, secured by mortgages primarily in its various market areas in P land, whether tillable or not and whether wooded or not. The primary risk characteristics are specific to the uncertainty on production, market, financial, environmental an

Construction: The Bank originates construction loans to finance land development preparatory to erecting new structures or the on-site construction of residential, also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Construction loans are generally secured by completion of construction may be customer specific, such as the quality and depth of property management, or related to changes in general economic conditions.

Consumer: The Bank originates loans to individuals for household, family, and other personal expenditures, which may include automobile loans and loans for colle absence of collateral. The primary risk characteristics associated with other consumer loans typically involve major changes to the borrower, including unemployment or

Other Commercial Loans: The Bank originates lines of credit and term loans to operating companies for business purposes. The loans are generally secured by busi flows generated by the borrower's business operations. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable degree of competition, regulatory changes, and general economic conditions. The ability of the Bank to foreclose and realize sufficient value from business assets secur require more frequent reporting requirements from the borrower in order to better monitor its business performance.

Other Agricultural Loans: The Bank originates loans secured or unsecured to farm owners and certain residential mortgages cross collateralized operators (including the breeding, raising, fattening, or marketing of livestock, and for purchases of farm machinery, equipment, and implements. The primary risk characteristics are specific

State and Political Subdivision Loans: The Bank originates various types of loans made directly to municipalities. These loans are repaid through general cash flow cash flow, balance the fiscal budget, fixed asset and infrastructure requirements. Additional risks include changes in demographics, as well as social and political condit

Methods utilized by management to estimate expected credit losses include a discounted cash flow ("DCF") model that discounts instrument-level contractual c information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. After the end of the reasonable an

Historical credit loss experience, including examination of loss experience at representative peer institutions when the Company's loss history does not result in esti made for differences in current loan-specific risk characteristics such as differences in underwriting standards, changes in environmental conditions, delinquency level,

The DCF model uses inputs of current and forecasted macroeconomic indicators to predict future loss rates. The current macroeconomic indicators utilized by the Company will a levels was developed, enabling a prediction of future loss rates related to future Federal unemployment rates and national gross domestic production and national housing price index

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation and ty and/or when repayment is expected to be able to collect all amounts due according to provided substantially through the contractual terms operation or sale of the loan a loans, for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" credit loss is not the same measured as the defin classifying the loan as impaired if the loan is not a commercial, agricultural, municipal or commercial real estate loan. Factors considered by management in determini flows related to amortized cost basis in the loan using the original interest rate, and its recorded value; or, as a practical expedient in the case of a collateral dependent lo

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Mortgage loans collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on one to four family properties and all consum generally are not classified as impaired. Management determines the significance of payment delays sale (rather than only on a case-by-case basis, taking into consider principal and interest owed. collateral.

Accrued interest receivable on loans held for investment totaled $8,512,000 at December 31, 2023 and is included within Accrued interest receivable. This amount is excluded fr risk categories within the loan portfolio. The allowance for loan losses consists estimate of amounts applicable to: (i) residential real estate loans; (ii) commercial real estate (iii) agric loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating added to the historical allocation percentage to get the adjusted factor to be applied to non classified loans. The following qualitative factors are analyzed: expected credit losses.

Level of and trends in delinquencies, impaired/classified loans

Change in volume and severity of past due loans

- **Volume of non-accrual loans**
- **Volume and severity of classified, adversely or graded loans**
- **Level of and trends in charge-offs and recoveries**
- **Trends in volume, terms and nature of the loan portfolio**
- **Effects of any changes in risk selection and underwriting standards and any other changes in lending and recovery policies, procedures and practices**
- **Changes in the quality of the Bank's loan review system**
- **Experience, ability and depth of lending management and other relevant staff**
- **National, state, regional and local economic trends and business conditions**
- **General economic conditions**
- **Unemployment rates**
- **Inflation / CPI**
- **Changes in values of underlying collateral Allowance for collateral-dependent loans**
- **Industry conditions including the effects of external factors such as competition, legal, and regulatory requirements Credit Losses on the level of estimated credit loss**
- **Existence and effect of any credit concentrations, and changes in the level of such concentrations**
- **Any change in the level of board oversight Off-Balance Sheet Credit Exposures**

Management estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend cre credit losses on commitments expected to be funded over its loan portfolio each quarter to determine estimated life. Management estimates the appropriateness amount allowance for credit losses on loans methodology to the results of the usage calculation to estimate the liability for credit losses related to unfunded commitments for e and other liabilities on the consolidated balance sheets.

Loan Charge-off Policies

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans
past due.

Troubled Debt Restructurings

Collateral-Dependent Loans

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or to sell. In most cases, the Company records a partial charge-off to reduce the loan's carrying value to the collateral's fair value less cost to sell. Substantially all of the collateral consis

Loans to Borrowers Experiencing Financial Difficulty

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant p borrower experiencing financial difficulty **early and work with them when a contractual loan modification in the form of principal forgiveness, an interest rate reduction, borrower experiencing financial difficulties. The goal when modifying a credit is to establish a reasonable period of time to provide cash flow relief to customers experi include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure loans are current as noted above for impaired loans. In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as**

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Purchased Credit Impaired Loans

The Company purchased loans in connection with its acquisitions of FNB in 2015, the State College branch in 2017 and MidCoast in 2020, some of which showed allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Over the life of the loan, expected cash flows cont provision. If the estimate indicates that the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income 90 days past due.

Such PCI loans are accounted for individually, and the Company estimates the amount and timing of expected cash flows for each loan. The expected cash flows in amortized over the remaining life of the loan (nonaccretable difference).

For loans purchased that did not show evidence of credit deterioration, the difference between the fair value of the loan at the acquisition date and the loan's face val

Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell. Prior to foreclosure, as the value of the underlying loan is operating expenses. Operating expenses of such properties, net of related income and losses on disposition, are included in other expenses and gains and losses are in

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed on straight line and accel expenditures which extend the useful life of an asset are capitalized and other repair expenditures are expensed as incurred.

When premises or equipment are retired or sold, the remaining cost and accumulated depreciation are removed from the accounts and any gain or loss is credited to

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The Company has operating leases for several branch locations. Generally, the underlying lease agreements do not contain any material residual value guarantees components (e.g., common-area or other maintenance costs). The Company accounts for each component separately based on the standalone price of each compone (ROU) assets and lease liabilities.

Most leases include one or more options to renew. The exercise of lease renewal options is typically at the sole discretion of management and is based on whethe reasonably certain to exercise the extension option(s), the additional term is included in the calculation of the lease liability.

As most of our leases do not provide an implicit rate, we use the fully collateralized FHLB borrowing rate, commensurate with the lease terms based on the informati

Intangible Assets

Intangible assets, other than goodwill, include core deposit intangibles and mortgage servicing rights (MSRs). Core deposit intangibles are a measure of the value digits method of amortization, while the covenant not to compete was amortized over four years on a straight line basis. amortization.

MSRs arise from The Company recognizes mortgage servicing rights as assets when mortgage loans are sold and the rights to service those loans are retained. Mortgage servici
The Company originating certain loans accounts for the express purpose of selling such loans in the secondary market. The Company maintains all mortgage servicing rights fo rights based on their relative are initially recorded at fair values. MSRs are value and amortized in proportion to the estimated expected future net servicing income over generated fro

comparing that value to the carrying amount. The recoverability Company obtains a third-party valuation to assist with estimating of the carrying fair value of intang amount of these mortgage servicing rights exceeds fair value.

Goodwill

The Company utilizes a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Compa
likely than not that the fair value of the reporting unit is less than its carrying value. Based on the fair value of the reporting unit, no impairment of goodwill was recognize

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain employees. Any death benefits received from a policy while the insured person is an active employee
and the remaining amount of the payout will be given to the beneficiary named by the insured person in the policy. The Company is the sole beneficiary of any death bene
and sole beneficiary of these policies. Additionally, as part of the HVBC acquisition, the Company acquired life insurance policies on former HVBC employees. Under th
insured person in the policy if the insured person passes while employed by the Company. The Company is the sole beneficiary of any death benefits received from non
a fixed dollar benefit to the former employee or director beneficiaries, whether or not the insured person is affiliated with the Company at the time of his or her death. Ba
$660,000 $610,000 and $696,000 $660,000 under split-dollar benefit agreements to former employees and directors or their beneficiaries have been recognized as liabiliti
for 2023, 2022 and $3,000 for 2022, 2021, and 2020, respectively.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets and liabilities are computed based on the difference between the finan
or liability from period to period.

Derivatives

Derivative financial instruments are recognized as assets or liabilities at fair value. The Company has interest rate swap agreements which are used as part of its ass

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the purpose of the contract and belief as to its effectiv
or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("st
cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hed
item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, a

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash
items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking
firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instru
longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no long

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discont
flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensi

Employee Benefit Plans

The Company has noncontributory defined benefit pension plan covering employees hired before January 1, 2007. It is the Company's policy to fund pension costs
earned in the future.

The Company has a defined contribution, 401(k) plan covering eligible employees. The employee may also contribute to the plan on a voluntary basis, up to a maximu
hired after January 1, 2007, in lieu of the pension plan, an additional annual discretionary 401(k) plan contribution is made and is equal to a percentage of an employee's

The Company also has a profit-sharing plan for employees which provide tax-deferred salary savings to plan participants. The Company has a deferred compensatio

The Company has a restricted stock plan which covers eligible employees and non-employee corporate directors. Under the plan, awards are granted based upon p
vesting period.

The Company has an employee stock purchase plan that allows employees to withhold money from their paychecks, which is then utilized to purchase shares of the

The Company maintains a non-qualified supplemental executive retirement plan ("SERP") for certain executives to compensate those executive participants in the
purposes and all obligations arising under the SERP are payable from the general assets of the Company. Expenses under the SERP are recognized as earned over the e

The Company maintains a non-tax qualified executive deferred compensation plan (“Deferred Compensation Plan”) for eligible employees designated by the board
purposes and all obligations arising under the Deferred Compensation Plan are payable from the general assets of the Company. Expenses under the Deferred Compens

Advertising Costs

Advertising and promotion costs are generally expensed as incurred and amounted to $952,000, $970,000 $838,000 and $716,000 $838,000 for the years ended Decem

Comprehensive Income (Loss)

The Company is required to present comprehensive income in a full set of general purpose financial statements for all periods presented. Other comprehensive incor

Recent Accounting Pronouncements – Not yet effective Adopted in 2023

In June 2016, the Financial Accounting Standards Board (“FASB”) FASB issued Accounting Standards Update (“ASU”) ASU No. 2016-13, *Financial “Financial Instrum*
updates. This standard, along with several other subsequent codification updates, ASU replaces the incurred loss impairment methodology in for recognizing credit loss
on financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this upd
exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be preser
January 1, 2023 for the net amount expected Company. The results reported for periods beginning after January 1, 2023 are presented under ASC 326 while prior period a

The new current expected credit losses model (“CECL”) will apply to Company adopted this guidance, and subsequent related updates, using the allowance modifie
deterioration available-for-sale debt securities and certain off-balance sheet credit exposures. unfunded commitments. On January 1, 2023, the Bank recorded a cumulativ

Management has completed its implementation plan, segmentation The Company adopted the provisions of ASC 326 related to financial assets purchased with cre
using the prospective transition approach. In accordance with the standard, management did not reassess whether PCI assets met the criteria of additional controls
methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion techniques. Parallel runs were processed during 2022 and the
adoption.

As a result of adopting this standard, The Company expanded the Company expects pooling utilized under the decrease in its allowance effective January 1, 2023, w
further refinements include additional segmentation based on ongoing evaluations of our model, methodologies, and judgments, as well as prevailing economic cond
significant impact on our regulatory capital ratios. detailed below (in thousands):

At

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
Allowance for credit losses - loans			
Real estate loans:			
Residential	$ 1,056	$ 79	$ 1,135
Commercial	10,120	(3,070)	7,050
Agricultural	4,589	(1,145)	3,444
Construction	801	(103)	698
Consumer	135	1,040	1,175
Other commercial loans	1,040	(328)	712
Other agricultural loans	489	(219)	270
State and political subdivision loans	322	(280)	42
Unallocated	-	726	726
Total	$ 18,552	$ (3,300)	$ 15,252
Liabilities			
Allowance for Credit Losses - Off-Balance Sheet credit Exposure	$ 165	$ 1,064	$ 1,229

The Company adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023

In March 2022, the FASB issued ASU No. 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The an
borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current period gross write-offs by year of origination for financing recei
disclosures within our financial statements but otherwise did not have any securities classified as HTM debt securities. No allowance was recorded related to AFS debt s

Recent Accounting Pronouncements – Not Yet Effective

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, Ma*
market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to ap
remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allo
maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance throu
Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided und
currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, : Facilitation of the Effects of Reference Rate Reform on Financial Reporting, wh
financial reporting burdens of the expected market transition from the London Interbank Offered Rate (LIBOR) LIBOR and other interbank offered rates (IBORs) to new re
by what the discounting transition guidance calls "reference rate reform" if certain criteria are explicitly eligible for certain met. An entity that makes this election would n
2021-01 clarifies that the derivatives would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteri
(Topic 848): Deferral of the discounting transition are explicitly eligible for certain optional expedients and exceptions in Sunset Date of Topic 848. ASU 2021-01 is effecti
to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the sunset date of the issua
modifications made, as well as new hedging relationships entered into, after December 31, 2022, and to existing hedging relationships evaluated for effectiveness for per
the end of the hedging relationship.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (ASC 815): Fair Value Hedging - Portfolio Layer Method*. ASC 815 currently permits only pre
allow non-prepayable financial assets to also be included in a closed portfolio hedged using the portfolio layer method. That expanded scope permits an entity to apply
entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022 upon issuance through December 31, 2024. The Company has i
financial impact of this update but does not expect the impact to be material to the adoption financial statements of the standard will have on the Company's consolidate

In June 2022, March 2023, the FASB issued ASU 2022-03, "Fair Value Measurement No. 2023-02, "Investments—Equity Method and Joint Ventures (Topic 820) – Fair
The ASU allows entities to Contractual Sale Restrictions." This amendment clarifies elect the guidance proportional amortization method, on a tax-credit-program-by-t
Accounting Standards Codification (ASC) 323-740-25-1. While the ASU does not significantly alter the existing eligibility criteria, it does provide clarifications to contra
disclose about tax credit investments each period. This ASU is effective for equity securities subject reporting periods beginning after December 15, 2023, for public bus
The amendments are have a material impact on the Company's financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (TOPIC 280): Improvements to Reportable Segment Disclosures*, which requires public entities to discl
years. years beginning after December 15, 2024. Early adoption is permitted. Public entities are required to adopt the changes retrospectively, recasting each prior-period disclosure fo

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures,* requires the amount of net income taxes paid for fed
domestic and foreign, as well as income tax expense disaggregated by federal, state, and foreign. The amendment also eliminates certain disclosures related to unrecognized tax be
The amendments should be applied prospectively with any adjustments from the on a prospective basis but retrospective application is permitted. The Company does not expect ad
financial statements. Consolidated Financial Statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not currently expected to have a material effect on the Compan

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Treasury Stock

The purchase of the Company's common stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stoc

Cash Flows

The Company utilizes the net reporting of cash receipts and cash payments for deposit, short-term borrowing and lending activities.

Trust, Brokerage and Insurance Assets and Income

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such assets are not
fees are contractually agreed with each customer, and fee levels vary based mainly on the size of assets under management. None of the contracts with trust custom
settlement. Fees for such services are billed based on contractual arrangements or established fee schedules and are typically billed upon completion of providing such
which the trade is processed. Additional fees are based on a percentage of the market value of customer accounts and billed on a monthly or quarterly basis. The Comp
and is not dependent on certain return or performance level of the customer's portfolio. Other performance obligations (such as the delivery of account statements to cu

Earnings Per Share

The following table sets forth the computation of earnings per share. Earnings per share calculations give retroactive effect to stock dividends declared by the Comp

Basic earnings per share computation:	
Net income applicable to common stock	
Weighted average common shares outstanding	

Earnings per share - basic	
Diluted earnings per share computation:	
Net income applicable to common stock	
Weighted average common shares outstanding for basic earnings per share	
Add: Dilutive effects of restricted stock	
Weighted average common shares outstanding for dilutive earnings per share	
Earnings per share - dilutive	

Nonvested shares of restricted stock totaling 4,623, 5,458 5,494 and 4,302 5,494 were outstanding during 2023, 2022 2021 and 2020 2021, respectively, but were not in $44.93-$63.19 for 2023, 2022 and $58.37-$62.93 for 2022, 2021, and 2020, respectively.

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Reclassification

Certain of the prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no material effect on net income or s

2. ACQUISITION OF HV BANCORP, INC

In the fourth quarter of 2022, the Company announced the signing of a definitive merger agreement to acquire 100% of the outstanding equity interest of HV Banc ("HVB"), which operated from a main office in Doylestown, Pennsylvania, and had five service branches, four mortgage production office and one business banking offic

The transaction closed on June 16, 2023, with HVB having been merged into First Citizens Community Bank, with First Citizens Community Bank as the surviving ent

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of HVBC for a total purchase price of approximately $76,665,000. As a based on the closing price of the Company's stock on June 16, 2023.

The following table summarizes the purchase of HVBC as of June 16, 2023:

(In Thousands, Except Per Share Data)				
Purchase Price Consideration in Common Stock				
Citizens Financial Services, Inc. shares issued		693,858		
Value assigned to Citizens Financial Services, Inc. common share	$	86.67		
Purchase price assigned to HVBC common shares exchanged for Citizens Financial Services, Inc.			$	60,137
Purchase Price Consideration - Cash for Common Stock				
Purchase price assigned to HVBC's common shares exchanged for cash				13,112
Purchase Price Related to Cash Payout of Stock Options				3,416
Total Purchase Price				76,665
Net Assets Acquired:				
HV Bancorp, Inc shareholders' equity	$	40,630		
Adjustments to reflect assets acquired at fair value:				
Investments		31		
Loans				
Interest rate		(24,097)		
General credit		(1,834)		
Specific credit - PCD accrual		(277)		
Specific credit - PCD non-accrual		(1,765)		
Core deposit intangible		2,770		
Owned premises		67		
Other assets		(193)		
Deferred tax assets		3,051		
Adjustments to reflect liabilities acquired at fair value:				
Time deposits		586		
Borrowings		3,017		
Other liabilities		297		

		22,283
Goodwill resulting from merger	$	54,382

The following condensed statement reflects the amounts recognized as of the acquisition date for each major class of asset acquired and liability assumed:

(In Thousands)
Total purchase price
Cash and due from banks
Investment securities
Loans held for sale
Loans
Premises and equipment
Intangible assets
Bank owned life insurance
Interest receivable
Deferred taxes
Other assets
Total assets acquired
Fair value of liabilities assumed
Deposits
Borrowings
Accrued interest payable
Other liabilities
Total liabilities assumed
Total fair value of identifiable net assets
Goodwill resulting from merger

The Company determined that this acquisition constitutes a business combination and therefore was accounted for using the acquisition method of accounting. Acc fair value of assets acquired was recorded as goodwill and is not amortizable or deductible for tax purposes. The amount of goodwill arising from the acquisition consist

The fair value of the 693,858 common shares issued was determined based on the $86.67 closing market price of the Company's common shares on the acquisition twelve months subsequent to the acquisition date. During this period, the Company may obtain additional information to refine the valuations and adjust the recorded fa deposit intangible and other assets and liabilities.

The following is a description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. The Con

- *Cash and due from banks* - The estimated fair value was determined to approximate the carrying amount of these assets.
- *Investment securities* - The estimated fair value of the investment portfolio was based on quoted market prices, dealer quotes, and pricing obtained from indepe
- *Loans* - The estimated fair value of loans were based on a discounted cash flow methodology applied on a pooled basis for nonpurchased credit-deteriorated ("r characteristics including loan type, term, rate, payment schedule and credit rating. The discounted cash flow methodology involved assumptions and judgemen
- *Premises and equipment* - The estimated fair value of land and buildings were determined by independent market-based appraisals.
- *Core deposit intangible* - The core deposit intangible was valued utilizing a discounting cash flow method approach, which recognizes the cost savings represe retention, discount rates, deposit interest rates, deposit maintenance costs and alternative funding rates.
- *Time deposits* - The estimated fair value of time deposits was determined using a discounted cash flow approach incorporating a discount rate equal to current r
- *Borrowings* - The estimated fair value of short-term borrowings was determined to approximate stated value. The estimated fair value of long-term borrowings fr Subordinated debentures were valued using a discounted cash flow approach incorporating a discount rate that incorporated similar terms, maturity and credit r

Accounting for Acquired Loans

Acquired loans are classified into two categories: PCD loans and non-PCD loans. PCD loans are defined as a loan or group of loans that have experienced more tha PCD loans, an allowance is recognized on day 1 by adding it to the fair value of the loan, which is the "Day 1 amortized cost". There is no provision for credit loss expens

A Day 1 allowance for credit losses on non-PCD loans of $4.6 million was recorded through the provision for credit losses within the Consolidated Statements of Inco

The following table provides details related to the fair value of acquired PCD loans (in thousands):

	Unpaid principal balance	PCD Allowance for Credit Loss at Acquisition	(Discount) Premium on Acquired Loans

Real estate loans:						
Mortgages	$	2,398	$	(108)	$	-
Home Equity		34		-		(4
Commercial		4,774		(39)		(507
Construction		4,278		(37)		(293
Consumer		1,343		(677)		(271
Other commercial loans		5,214		(828)		(48
	$	18,041	$	(1,689)	$	(1,123

The following table provides details related to the fair value and Day 1 provision related to the acquired non-PCD loans (in thousands):

		Unpaid principal balance
Real estate loans:		
Mortgages	$	155,799
Home Equity		2,165
Commercial		203,638
Construction		76,703
Consumer		2,794
Other commercial loans		47,753
	$	488,852

The Company recorded goodwill and other intangibles associated with the HVBC acquisition totaling $57,354,000. Goodwill is not amortized, but is periodically evalu

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if an intangibles and mortgage servicing rights (MSRs), which are being amortized on an accelerated basis over the useful life of such assets. The gross carrying amour respectively, as of that date.

As of December 31, 2023, the current year and estimated future amortization expense for the core deposit intangibles and MSRs acquired as part of the acquisition wa

Amortization for the period 6/16/23-12/31/23	$
Estimate for year ended December 31,	
2024	
2025	
2026	
2027	
2028	
2029 and thereafter	
Total	$

Amounts recognized separately from the acquisition include primarily legal fees, investment banking fees, system conversion costs, severance costs and contract t 2023.

Results of operations for HVBC prior to the acquisition date are not included in the Consolidated Statement of Income for 2023.

The following table presents financial information regarding the former HVBC operations included in our Consolidated Statement of Income from the date of acqu acquisition of HVBC had occurred on January 1, 2022 under the "Pro Forma" columns. The table below has been prepared for comparative purposes only and is not n unaudited proforma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings as a result of the integratio

(In Thousands, Except Per Share Data)	Actual from A Date Thro December 3
Net interest income	$
Non-interest income	
Net income	
Pro forma earnings per share:	
Basic	

Diluted

3. REVENUE RECOGNITION

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along wi
noninterest income within the scope of the standard are as follows:

- Service charges on deposit accounts – The Company has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreem fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdr recognized at a defined point in time upon the completion of the requested service/transaction.
    - Service charges on deposit accounts – The Company has contracts with its deposit customers where fees are charged if certain parameters are not met. These to the fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity th revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

- Trust fees – Typical contracts for trust services are based on a fixed percentage of the assets earned ratably over a defined period and billed on a monthly basis. Fees fiduciary trust account). For these accounts, the performance obligation of the Company is typically satisfied by holding and managing the customer's assets over tim the requested service/transaction.
    - Trust fees – Typical contracts for trust services are based on a fixed percentage of the assets earned ratably over a defined period and billed on a monthly I managed fiduciary trust account). For these accounts, the performance obligation of the Company is typically satisfied by holding and managing the customer' completion of the requested service/transaction.

- Gains (losses) on sale of other real estate owned – Gains and losses are recognized at the completion of the property sale when the buyer obtains control of the real e asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilitate the sale, a that collection of amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is dis
    - Gains (losses) on sale of other real estate owned – Gains and losses are recognized at the completion of the property sale when the buyer obtains control of the the asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilita substance and that collection of amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the t

- Brokerage and insurance – Fees include commissions from the sales of investments and insurance products recognized on a trade date basis as the performance obli The Company's performance obligation under the contracts with certain customers is generally satisfied through the passage of time as the Company monitors and m revenue at the end of the month for which the wealth management service has been performed. Other performance obligations (such as the delivery of account statem
    - Brokerage and insurance – Fees include commissions from the sales of investments and insurance products recognized on a trade date basis as the performa basis. The Company's performance obligation under the contracts with certain customers is generally satisfied through the passage of time as the Company r recorded as revenue at the end of the month for which the wealth management service has been performed. Other performance obligations (such as the delivery

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The following table depicts the disaggregation of revenue derived from contracts with customers to depict the nature, amount, timing, and uncertainty of revenue and

Revenue stream
Service charges on deposit accounts
Overdraft fees
Statement fees
Interchange revenue
ATM income
Other service charges
Total Service Charges
Trust
Brokerage and insurance
Other
Total

3. 4. RESTRICTIONS ON CASH AND DUE FROM BANKS

Effective March 26, 2020, the Federal Reserve reduced reserve requirements to zero for all depository institutions. There were no required federal reserves included the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of

Non-retirement account deposits with one financial institution are insured up to $250,000. At times, the Company maintains cash and cash equivalents with other fina

4. 5. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of investment securities at December 31, 2022 December 31, 2023 and 2021 2022 were as follows

December 31, 2022

December 31, 2023

Available-for-sale securities:	
U.S. Agency securities	$
U.S. Treasuries	
Obligations of state and political subdivisions	
Corporate obligations	
Mortgage-backed securities in government sponsored entities	
Total available-for-sale securities	$

December 31, 2021

December 31, 2022

Available-for-sale securities:	
U.S. Agency securities	$
U.S. Treasuries	
Obligations of state and political subdivisions	
Corporate obligations	
Mortgage-backed securities in government sponsored entities	
Total available-for-sale securities	$

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The following table shows the Company’s gross unrealized losses and fair value for available for sale securities, aggregated by investment category and length of time, that the i 361323 securities each of whose fair value was less than its cost basis. basis for a period twelve months or greater and five securities each of whose fair value was less than its cost b

	Less than Twelve Months		Twelve Months or Greater	
2022	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	$ 39,729	$ (1,892)	$ 30,948	$ (5,987
U.S. Treasuries	32,673	(1,337)	115,897	(12,329
Obligations of states and political subdivisions	66,725	(4,887)	35,782	(5,410
Corporate obligations	2,165	(165)	6,218	(787
Mortgage-backed securities in government sponsored entities	40,270	(3,367)	57,319	(11,376
Total securities	$ 181,562	$ (11,648)	$ 246,164	$ (35,889
2021				
U.S. agency securities	$ 26,754	$ (387)	$ 7,542	$ (447
U.S. Treasuries	106,794	(1,459)	-	-
Obligations of states and political subdivisions	10,744	(26)	2,899	(26
Corporate obligations	6,922	(84)	-	-
Mortgage-backed securities in government sponsored entities	60,182	(1,305)	7,975	(263
Total securities	$ 211,396	$ (3,261)	$ 18,416	$ (736

	Less than Twelve Months	Twelve Months or Greater

2023		Fair Value		Gross Unrealized Losses		Fair Value		Gross Unrealized Losses
U.S. agency securities	$	-	$	-	$	58,753	$	(5,799
U.S. Treasuries		-		-		143,288		(9,197
Obligations of states and political subdivisions		-		-		93,535		(6,190
Corporate obligations		1,487		(265)		8,320		(971
Mortgage-backed securities in government sponsored entities		9,203		(31)		88,553		(13,574
Total securities	$	10,690	$	(296)	$	392,449	$	(35,731
2022								
U.S. agency securities	$	39,729	$	(1,892)	$	30,948	$	(5,987
U.S. Treasuries		32,673		(1,337)		115,897		(12,329
Obligations of states and political subdivisions		66,725		(4,887)		35,782		(5,410
Corporate obligations		2,165		(165)		6,218		(787
Mortgage-backed securities in government sponsored entities		40,270		(3,367)		57,319		(11,376
Total securities	$	181,562	$	(11,648)	$	246,164	$	(35,889

As of December 31, 2022, the Company's investment securities portfolio contained unrealized Allowance for Credit Losses – Available for Sale Securities

The Company measures expected credit losses on U.S. Treasuries, agency available-for-sale debt securities issued when the Company does not intend to sell, or backed by whe viewed as having requirement to sell is met, the implied guarantee security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities t which fair value is less than amortized cost, any changes to the rating of the U.S. government, obligations of states security by a rating agency, and political subdivisions, corporate among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized c recorded for the credit loss), loss, equal to the magnitude amount that the fair value is less than the amortized cost basis. Economic forecast data is utilized to calculate the present v the various scenarios to determine a reasonable and supportable scenario, and utilizes a single scenario in the model. Any impairment that has not been recorded through an allowan

The allowance for credit losses on available-for-sale debt securities is included within Investment securities available-for-sale on the consolidated balance sheet. Changes in tl available-for-sale security is in jeopardy or when either of the decline, criteria regarding intent or requirement to sell is met.

As of December 31, 2023, no allowance for credit losses has been recognized on available for sale securities in an unrealized loss position as management does not believe any of th securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments ur and believes that it is more likely than not that the Company would be required we will not have to sell the security any such securities before its anticipated a recovery of cost. The unr Once a decline in value is determined expected to be other than temporary, if the Company does not intend to sell the security, and it is more-likely-than-not that it will not be required t defined recover as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cos maturity date or repricing date or if market yields for such investments decline.

Accrued interest receivable on available-for-sale debt securities totaled $2,202,000 at December 31, 2023 and is included within accrued interest receivable on the result consolid expected to result in typically classified as nonaccrual when the non-collection contractual payment of principal and or interest during has become 90 days past due or management ha

Proceeds from sales of securities available-for-sale during 2023, 2022 and 2021 were $86,504,000, $7,480,000 and 2020 $29,198,000, respectively. Sales for 2023 were $7,480, consisted of $89,000 from the sales of seven municipal securities. The gross gains realized during 2023 consisted of $38,000 from the sales of two municipal securities. The gross lo agency securities, respectively. The gross losses realized during 2021 consisted of $90,000 from the sale of one agency security. The gross gains realized during 2020 consisted o realized as follows on available for sale securities (in thousands):

Gross gains	
Gross losses	
Net (losses) gains	

The following table presents the net gains (losses) on the Company's equity investments recognized in earnings during 2023, 2022 2021 and 2020 2021 and the portio

Equity Securities	
Net (losses) gains on in equity securities held during the period	
Net gains (losses) recognized in equity securities during the period	
Less: Net gains realized on the sale of equity securities during the period	
Net unrealized gains (losses) recognized in earnings	
Net unrealized gains (losses)	

Investment securities with an approximate carrying value of $353,344,000 and $311,766,000 at December 31, 2023 and $295,028,000 at December 31, 2022 and 2021, 20

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment pena and will therefore pay-off on the call date are reflected in the table below utilizing the call date as the date of repayment as payment is guaranteed on that date:

Available-for-sale securities:
Due in one year or less
Due after one year through five years
Due after five years through ten years
Due after ten years
Total

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

The Company adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to *Investment Securities* recorded as of December 31, 2022 and for the the year ended December 31, 2022.

Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other than ter value equal to or greater than the carrying value of the investment.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are separated into (a) the amount of the total other-than-temporary impairmen other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized

5. 6. LOANS AND RELATED ALLOWANCE FOR LOAN CREDIT LOSSES

The Company grants commercial, industrial, agricultural, residential, and consumer loans primarily to customers throughout north central, central and south central including Montgomery, Bucks and Philadelphia Counties as well as Burlington County, New Jersey. Although the Company had a diversified loan portfolio at Decemb summarizes the primary segments of the loan portfolio, as well as how those segments are analyzed within the allowance for loan credit losses as of December 31, 2022 D

2022
Real estate loans:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans
State and political subdivision loans
Total
Allowance for loan losses
Net loans

2021
Real estate loans:
Residential
Commercial
Agricultural
Construction
Consumer
Other commercial loans
Other agricultural loans

State and political subdivision loans	
Total	
Allowance for loan losses	
Allowance for credit losses - loans	
Net loans	

During 2022 the Company continued its participation in the Paycheck Protection Program (“PPP”), administered directly by the U.S. Small Business Administratio December 31, 2022. As of December 31, 2021, the Company had outstanding principal balances of $6.8 million of PPP loans that were included in other commercial loans are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan was made as long as certain conditions were with a streamlined approach for loans of $150,000 or less.

As of December 31, 2022 December 31, 2023, and 2021, 2022, net unamortized loan fees, including PPP fees and costs of $2,573 2,843,000 and $2,038 2,573,000, respec were recorded at fair value on their acquisition date without a carryover of the related allowance for loan losses.

Upon acquisition, the Company evaluated whether an acquired loan was within the scope of ASC 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality. PCI loans are loans that have evidenc value of the loans' collateral. The carrying value of PCI loans was $3,306,000 and $3,802,000 at D

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquired in the MidCoast acquisition w Company's preliminary estimate of expected cash flows was $5,835,000 at the acquisition date. At the acquisition date, the Company established a credit risk related no the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans. The Company further estimated the timing and amount of expect

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The table below presents the components of the purchase accounting adjustments related to the purchased impaired loans acquired in the MidCoast Acquisition as o

	April 17, 2020
Contractually required principal and interest at acquisition	$ 8,801
Non-accretable discount	(2,966)
Expected cash flows	5,835
Accretable discount	(966)
Estimated fair value	$ 4,869

Changes in the accretable discount for PCI loans were as follows for the years ended December 31, 2022 and 2021 (in thousands):

	December 31, 2022
Balance at beginning of period	$ 370
Accretion	(759)
Reclassification of non-accretable discount	1,212
Balance at end of period	$ 823

The following table presents additional information regarding PCI loans (in thousands):

	December 31, 2022
Outstanding balance	$ 5,758
Carrying amount	3,306

Real estate loans serviced for Freddie Mac, Fannie Mae and the FHLB, which are not included in the Consolidated Balance Sheet, totaled $203,709,000 and $187,7 $177,575,000 at December 31, 2023 and $184,897,000 at December 31, 2022 and 2021, 2022, respectively. Additionally, the Bank acquired a portfolio of loans sold to the 2022 2023 or 2021. 2022. The MPF portfolio balance was $10,161,000 and $10,179,000 at December 31, 2023 and $12,140,000 at December 31, 2022 and 2021, 2022, respecti to the next $348,000 $229,000 of losses. The Bank did not experience any losses for the MPF portfolio during 2023, 2022 2021 or 2020. 2021.

The segments of the Bank's loan portfolio are disaggregated into classes to a level that allows management to monitor risk and performance. Residential real estate which is often a second lien on residential real estate with terms of 15 years or less. Commercial real estate are business purpose loans secured by a mortgage on con estate used during the construction phase of residential and commercial projects. Consumer loans are typically unsecured or primarily secured by collateral other tha agricultural loans are loans for agricultural purposes primarily secured by non real non-real estate collateral. State and political subdivisions are loans for state and local

IndexAllowance for Credit Losses, in accordance with ASC 326

As discussed in Note 1 “Basis of Presentation”, the Company adopted CECL effective January 1, 2023. CECL requires estimated credit losses on loans to be determi are not always comparable to prior dates. In addition, certain new disclosures required under CECL are not applicable to prior periods. As a result, the following tables summary of the impact of adopting CECL on January 1, 2023.

Management considers other commercial

Under CECL, loans other agricultural loans, commercial and agricultural real estate individually evaluated consist of collaterally dependent loans and state and politi relationships determined were experiencing financial difficulty at the time of the modification. Under the incurred loss model in effect prior to be impaired may be classifi

The allowance for credit losses related to loans are analyzed to determine if it is probable that all amounts will not be collected according to consists of loans evalu value loans as of the impaired balance sheet date and is recorded as a reduction to net loans. The allowance for credit losses for off-balance sheet credit exposures incl through the recorded investment provision for credit losses, and decreased by charge-offs, net of recoveries.

The following table presents the components of the allowance for credit losses as of December 31, 2023 (in thousands):

	2023
Allowance for Credit Losses - Loans	$ 21,153
Allowance for Credit Losses - Off-Balance Sheet credit Exposure	1,265
Total allowance for credit losses	$ 22,418

The following table presents the activity in the loan (net allowance for credit losses for 2023 (in thousands):

Balance at December 31, 2022	
Impact of adopting CECL	
Allowance for credit loss on PCD acquired loans	
Loans charge-off	
Recoveries of loans previously charged-off	
Net loans charged-off	
Provision for credit losses - acquisition day 1 non-PCD	
Provision for credit losses	
Balance at December 31, 2023	

The following tables presents the activity in the allowance for credit losses – loans, by portfolio segment, for 2023 (in thousands).

	Balance at December 31, 2022	Impact of adopting CECL	Allowance for credit loss on PCD acquired loans	Char off
Real estate loans:				
Residential	$ 1,056	$ 79	$ 108	$
Commercial	10,120	(3,070)	39	
Agricultural	4,589	(1,145)	-	
Construction	801	(103)	37	
Consumer	135	1,040	677	
Other commercial loans	1,040	(328)	828	
Other agricultural loans	489	(219)	-	
State and political subdivision loans	322	(280)	-	
Unallocated	-	726	-	
Total	$ 18,552	$ (3,300)	$ 1,689	$

The following table presents loans and the allowance for credit losses by portfolio segment, under CECL methodology as of previous charge-offs, deferred loan fees or costs and

	Allowance for Credit Losses - Loans			Loans		
2023	Collectively evaluated	Individually evaluated	Total Allowance for Credit Losses - Loans	Collectively evaluated	Individually evaluated	Total Loans
Real estate loans:						
Residential	$ 2,285	$ 69	$ 2,354	$ 358,358	$ 1,632	$ 359,990
Commercial	9,033	145	9,178	1,090,217	2,670	1,092,887

Agricultural	3,247	17	3,264	311,500	3,302	314,802
Construction	1,664	286	1,950	193,469	2,357	195,826
Consumer	557	939	1,496	60,377	939	61,316
Other commercial loans	1,713	516	2,229	134,472	1,696	136,168
Other agricultural loans	270	-	270	30,388	285	30,673
State and political subdivision loans	45	-	45	57,174	-	57,174
Unallocated	367	-	367	-	-	-
Total	$ 19,181	$ 1,972	$ 21,153	$ 2,236,955	$ 12,881	$ 2,248,836

Allowance for Credit Losses, prior to the allowance. January 1, 2023

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represe management's estimate of incurred losses in unfunded commitments and letters of credit, and is recorded in other liabilities on the consolidated balance sheet. The allo allowance for credit losses as of December 31, 2022 (in thousands):

Allowance for loan Losses
Reserve for unfunded commitments
Total allowance for credit losses

The following table presents the activity in the allowance for credit losses for 2022 (in thousands):

Balance at December 31, 2021
Loans charge-off
Recoveries of loans previously charged-off
Net loans charged-off
Provision for credit losses
Balance at December 31, 2022

The following table presents the activity in the allowance for loan losses, by portfolio segment, for 2022 and 2021 (in thousands).

	Balance at December 31, 2021	Charge-offs	Recoveries	Provision
Real estate loans:				
esidential	$ 1,147	$ -	$ -	$ (91
ommercial	8,099	-	3	2,018
gricultural	4,729	-	-	(140
onstruction	434	-	-	367
Consumer	262	(37)	21	(111
Other commercial loans	1,023	(435)	13	439
Other agricultural loans	558	-	-	(69
State and political subdivision loans	281	-	-	41
Unallocated	771	-	-	(771
Total	$ 17,304	$ (472)	$ 37	$ 1,683

2022	Balance at December 31, 2020	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,174	$ -	$ -	$ (27
ommercial	6,216	(54)	89	1,848
gricultural	4,953	-	-	(224
onstruction	122	-	-	312
Consumer	321	(27)	21	(53
Other commercial loans	1,226	(133)	43	(113
Other agricultural loans	864	-	-	(306
State and political subdivision loans	479	-	-	(198

Unallocated	**460**	**-**	**-**	**311**
Total	**$ 15,815**	**$ (214)**	**$ 153**	**$ 1,550**

The following table presents loans and their related allowance for loan losses, by portfolio segment, as of December 31, 2022 (in thousands):

	Allowance for loan losses			
2022	Collectively evaluated for impairment	Individually evaluated for impairment	Total allowance for loan losses	Colle evalua impa
Real estate loans:				
Residential	$ 1,052	$ 4	$ 1,056	$
Commercial	10,063	57	10,120	
Agricultural	4,565	24	4,589	
Construction	801	-	801	
Consumer	131	4	135	
Other commercial loans	1,027	13	1,040	
Other agricultural loans	489	-	489	
State and political subdivision loans	322	-	322	
Total	$ 18,450	$ 102	$ 18,552	$

Information presented in the following tables is not required for periods after the adoption of CECL. The following table includes the recorded investment and unpaid principal bala

	Unpaid Principal Balance	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**
2022					
Real estate loans:					
Mortgages	**$ 395**	**$ 242**	**$ 39**	**$ 281**	**$ 4**
Home Equity	**71**	**39**	**15**	**54**	**-**
Commercial	**6,655**	**5,314**	**361**	**5,675**	**57**
Agricultural	**6,062**	**5,192**	**188**	**5,380**	**24**
Consumer	**4**	**-**	**4**	**4**	**4**
Other commercial loans	**797**	**32**	**70**	**102**	**13**
Other agricultural loans	**669**	**473**	**-**	**473**	**-**
Total	**$ 14,653**	**$ 11,292**	**$ 677**	**$ 11,969**	**$ 102**
2021					
Real estate loans:					
Mortgages	**$ 697**	**$ 495**	**$ 45**	**$ 540**	**$**
Home Equity	**97**	**37**	**43**	**80**	
Commercial	**9,330**	**8,096**	**285**	**8,381**	[illegible]
Agricultural	**5,694**	**5,167**	**188**	**5,355**	[illegible]
Other commercial loans	**813**	**92**	**94**	**186**	[illegible]
Other agricultural loans	**1,274**	**991**	**-**	**991**	
Total	**$ 17,905**	**$ 14,878**	**$ 655**	**$ 15,533**	**$** [illegible]

2022	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate loans:					
Mortgages	$ 395	$ 242	$ 39	$ 281	$ 4
Home Equity	71	39	15	54	-
Commercial	6,655	5,314	361	5,675	57
Agricultural	6,062	5,192	188	5,380	24
Consumer	4	-	4	4	4

Other commercial loans	797	32	70	102	13
Other agricultural loans	669	473	-	473	-
Total	$ 14,653	$ 11,292	$ 677	$ 11,969	$ 102

The following table includes the average investment in impaired loans and the income recognized on impaired loans for 2022 and 2021 (in thousands):

2022	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
Real estate loans:			
Mortgages	$ 421	$ 12	$ -
Home Equity	64	4	-
Commercial	6,216	207	10
Agricultural	5,540	126	-
Consumer	1	-	-
Other commercial loans	260	3	-
Other agricultural loans	538	4	-
Total	$ 13,040	$ 356	$ 10
2021			
Real estate loans:			
Mortgages	$ 682	$ 16	$ -
Home Equity	99	4	-
Commercial	8,789	288	31
Agricultural	4,562	82	-
Other commercial loans	704	2	-
Other agricultural loans	1,044	3	-
Total	$ 15,880	$ 395	$ 31

Non-performing Loans

Non-performing loans include those loans that are considered nonaccrual, described in more detail below and 2020 all loans past due 90 or more days. Loans are c payment of principal and interest is not expected. Additionally, if management is made aware of other information including bankruptcy, repossession, death, or legal pro

The following table reflects the non-performing loan receivables, as well as those on non-accrual status as of December 31, 2023 and 2022, respectively. The balances

2022	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
Real estate loans:			
Mortgages	$ 421	$ 12	$ -
Home Equity	64	4	-
Commercial	6,216	207	10
Agricultural	5,540	126	-
Construction			
Consumer	1	-	-
Other commercial loans	260	3	-
Other agricultural loans	538	4	-
Total	$ 13,040	$ 356	$ 10

As of December 31, 2023, there were $7.8 million of non-accrual loans that did not have a related allowance for credit losses. The estimated fair values of the collater necessary.

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The following table presents, by class of loans and leases, the amortized cost basis of collateral-dependent nonaccrual loans and leases and type of collateral as of Dec

2021

Real estate loans:			
Mortgages	$ 682	$ 16	$ -
Home Equity	99	4	-
Commercial	8,789	288	31
Agricultural	4,562	82	-
Other commercial loans	704	2	-
Other agricultural loans	1,044	3	-
Total	$ 15,880	$ 395	$ 31

2020	Average Recorded Investment	
Real estate loans:		
Mortgages	$ 956	$
Home Equity	139	
Commercial	10,354	
Agricultural	3,918	
Construction		
Consumer	3	
Other commercial loans	1,671	
Other agricultural loans	1,237	
Total	$ 18,278	$

Credit Quality Information

For commercial real estate, loans, agricultural real estate, loans, construction, loans, other commercial, loans, other agricultural, loans and state and political subdiv rating system to a ten grade rating system. The first five six categories under the revised system are considered not criticized and are aggregated as "Pass" rated. Un definitions. The definitions of each rating are defined below:

- Pass (Grades 1-5) – These loans are to customers with credit quality ranging from an acceptable to very high quality and are protected by the current net worth an
  - Pass (Grades 1-6) – These loans are to customers with credit quality ranging from an acceptable to very high quality and are protected by the current net worth
- Special Mention (Grade 6) – This loan grade is in accordance with regulatory guidance and includes loans where a potential weakness or risk exists, which could c
  - Special Mention (Grade 7) – This loan grade is in accordance with regulatory guidance and includes loans where a potential weakness or risk exists, which coul
- Substandard (Grade 7) – This loan grade is in accordance with regulatory guidance and includes loans that have a well-defined weakness based on objective evide
  - Substandard (Grade 8) – This loan grade is in accordance with regulatory guidance and includes loans that have a well-defined weakness based on objective ev
- Doubtful (Grade 8) – This loan grade is in accordance with regulatory guidance and includes loans that have all the weaknesses inherent in a substandard asset. I
  - Doubtful (Grade 9) – This loan grade is in accordance with regulatory guidance and includes loans that have all the weaknesses inherent in a substandard asset
- Loss (Grade 9) – This loan grade is in accordance with regulatory guidance and includes loans that are considered uncollectible, or of such value that continuance
  - Loss (Grade 10) – This loan grade is in accordance with regulatory guidance and includes loans that are considered uncollectible, or of such value that continua

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To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay the loan as agreed, the Company's loan rating process an ongoing basis under the supervision of management. All commercial, agricultural and state and political relationships over $500,000 are reviewed annually to ensu agricultural and municipal loan portfolios portfolio on an annual basis, 2) review a large sample of new loans originated for relationships in aggregate over $1.0 million in classified Special Mention, Substandard, Doubtful, or Loss, and 5) 4) such other loans which management or the consultant deems appropriate. As part of this review, ou

The following tables represent credit exposures by internally assigned grades, by origination year, as of December 31, 2022 and 2021 December 31, 2023 (in thousands):

2022	Pass	Special Mention	Substandard	Doubtful	Loss	Ending Balance
Real estate loans:						
Commercial	$ 842,912	$ 28,047	$ 5,610	$ -	$ -	$ 876,569

Agricultural	295,443	11,960	6,211	-	-	313,614
Construction	75,703	2,642	2,346	-	-	80,691
Other commercial loans	59,902	2,953	337	30	-	63,222
Other agricultural loans	32,708	1,307	817	-	-	34,832
State and political subdivision loans	59,208	-	-	-	-	59,208
Total	$ 1,365,876	$ 46,909	$ 15,321	$ 30	$ -	$ 1,428,136
2021						
Real estate loans:						
Commercial	$ 646,137	$ 35,332	$ 5,869	$ -	$ -	$ 687,
Agricultural	291,537	15,105	5,369	-	-	312,
Construction	55,036	-	-	-	-	55,
Other commercial loans	70,932	3,289	316	48	-	74,
Other agricultural loans	37,800	1,351	701	-	-	39,
State and political subdivision loans	45,588	168	-	-	-	45,
Total	$ 1,147,030	$ 55,245	$ 12,255	$ 48	$ -	$ 1,214,

December 31, 2023	2023	2022	2021	202
Commercial real estate				
Risk Rating				
Pass	$ 90,068	$ 333,710	$ 224,873	$
Special Mention	672	7,963	227	
Substandard	-	1,302	6	
Doubtful	-	-	-	
Total	$ 90,740	$ 342,975	$ 225,106	$
Current period gross charge-offs	$ -	$ -	$ -	$
Agricultural real estate				
Risk Rating				
Pass	$ 22,632	$ 47,479	$ 28,990	$
Special Mention	574	9,165	1,499	
Substandard	-	-	-	
Doubtful	-	-	-	
Total	$ 23,206	$ 56,644	$ 30,489	$
Current period gross charge-offs	$ -	$ -	$ -	$
Construction				
Risk Rating				
Pass	$ 54,973	$ 102,562	$ 22,508	$
Special Mention	1,574	5,432	4,415	
Substandard	-	-	2,357	
Doubtful	-	-	-	
Total	$ 56,547	$ 107,994	$ 29,280	$
Current period gross charge-offs	$ -	$ -	$ -	$
Other commercial loans				
Risk Rating				
Pass	$ 31,493	$ 11,407	$ 9,016	$
Special Mention	51	52	1,510	
Substandard	52	97	-	
Doubtful	-	-	-	
Total	$ 31,596	$ 11,556	$ 10,526	$
Current period gross charge-offs	$ 200	$ -	$ -	$
Other agricultural loans				

Risk Rating								
Pass	$	3,902	$	1,520	$	6,448	$	
Special Mention		-		473		16		
Substandard		-		-		207		
Doubtful		-		-		-		
Total	$	3,902	$	1,993	$	6,671	$	
Current period gross charge-offs	$	-	$	-	$	-	$	
State and political subdivision loans								
Risk Rating								
Pass	$	1,623	$	14,171	$	10,841	$	
Special Mention		-		-		-		
Substandard		-		-		-		
Doubtful		-		-		-		
Total	$	1,623	$	14,171	$	10,841	$	
Current period gross charge-offs	$	-	$	-	$	-	$	
Total								
Risk Rating								
Pass	$	204,691	$	510,849	$	302,676	$	
Special Mention		2,871		23,085		7,667		
Substandard		52		1,399		2,570		
Doubtful		-		-		-		
Total	$	207,614	$	535,333	$	312,913	$	

Information presented in the table above is not required for periods prior to adoption of CECL. The following table presents the most comparable information for the p

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Loss	Ending Balance
eal estate loans:						
Commercial	$ 842,912	$ 28,047	$ 5,610	$ -	$ -	$ 876,569
Agricultural	295,443	11,960	6,211	-	-	313,614
Construction	75,703	2,642	2,346	-	-	80,691
ther commercial loans	59,902	2,953	337	30	-	63,222
ther agricultural loans	32,708	1,307	817	-	-	34,832
tate and political subdivision loans	59,208	-	-	-	-	59,208
otal	$ 1,365,876	$ 46,909	$ 15,321	$ 30	$ -	$ 1,428,136

For residential real estate mortgages, mortgage loans, home equities equity loans, and consumer loans, credit quality is monitored based on whether the loan is performing or nor a possible credit event. Non-performing loans include those loans that are considered nonaccrual, described in more detail below above, and all loans past due 90 or more days. days

2022	**Performing**	**Non-performing**	**PCI**	**Total**
Real estate loans:				
Mortgages	**$ 161,998**	**$ 562**	**$ 9**	**$ 162,569**
Home Equity	**47,615**	**29**	**-**	**47,644**
Consumer	**86,643**	**7**	**-**	**86,650**
Total	**$ 296,256**	**$ 598**	**$ 9**	**$ 296,863**

2021	**Performing**	**Non-performing**	**PCI**	**Total**
Real estate loans:				
Mortgages	**$ 150,320**	**$ 608**	**$ 14**	**$ 150,942**
Home Equity	**50,122**	**33**	**-**	**50,155**
Consumer	**25,858**	**-**	**-**	**25,858**
Total	**$ 226,300**	**$ 641**	**$ 14**	**$ 226,955**

December 31, 2023	2023	2022	2021	2020	
Residential real estate					
Payment Performance					
Performing	$ 19,082	$ 93,706	$ 47,774	$ 29,940	$
Nonperforming	-	399	766	396	
Total	$ 19,082	$ 94,105	$ 48,540	$ 30,336	$
Current period gross charge-offs	$ -	$ -	$ -	$ -	$
Home equity					
Payment Performance					
Performing	$ 3,877	$ 3,008	$ 1,886	$ 1,954	$
Nonperforming	-	-	-	-	
Total	$ 3,877	$ 3,008	$ 1,886	$ 1,954	$
Current period gross charge-offs	$ -	$ -	$ -	$ -	$
Consumer					
Payment Performance					
Performing	$ 1,803	$ 979	$ 539	$ 477	$
Nonperforming	-	21	-	-	
Total	$ 1,803	$ 1,000	$ 539	$ 477	$
Current period gross charge-offs	$ -	$ -	$ -	$ -	$
Total					
Payment Performance					
Performing	$ 24,762	$ 97,693	$ 50,199	$ 32,371	$
Nonperforming	-	420	766	396	
Total	$ 24,762	$ 98,113	$ 50,965	$ 32,767	$

Information presented in the table above is not required for periods prior to adoption of CECL. The following table presents the most comparable information for the prior period, ir

December 31, 2022	Performing	Non-performing	PCI	Total
Real estate loans:				
Mortgages	$ 161,998	$ 562	$ 9	$ 162,569
Home Equity	47,615	29	-	47,644
Consumer	86,643	7	-	86,650
Total	$ 296,256	$ 598	$ 9	$ 296,863

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Aging Analysis of Past Due Loans by Class Loan Receivables

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 recor

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current
Real estate loans:					
Mortgages	**$ 2,682**	**$ 360**	**$ 2,240**	**$ 5,282**	**304,9**
Home Equity	**145**	**67**	**71**	**283**	**49,5**
Commercial	**1,151**	**245**	**1,380**	**2,776**	**1,090,1**
Agricultural	**72**	**-**	**1,440**	**1,512**	**313,2**

Construction		4,407		388		2,357		7,152	188,6
Consumer		16		282		23		321	60,9
Other commercial loans		670		366		319		1,355	134,8
Other agricultural loans		108		362		-		470	30,2
State and political subdivision loans		-		-		-		-	57,1
Total	$	9,251	$	2,070	$	7,830	$	19,151	$ 2,229,6
Loans considered non-accrual	$	199	$	666	$	7,314	$	8,179	$ 4,0
Loans still accruing		9,052		1,404		516		10,972	2,225,6
Total	$	9,251	$	2,070	$	7,830	$	19,151	$ 2,229,6

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	PCI	Total Loans Receivabl
Real estate loans:							
Mortgages	$ 356	$ 132	$ 229	$ 717	$ 161,843	$ 9	$ 162,
Home Equity	48	9	29	86	47,558	-	47,
Commercial	1,065	115	1,788	2,968	871,745	1,856	876,
Agricultural	-	-	1,368	1,368	310,805	1,441	313,
Construction	-	-	-	-	80,691	-	80,
Consumer	147	-	7	154	86,496	-	86,
Other commercial loans	1,660	35	32	1,727	61,495	-	63,
Other agricultural loans	-	-	-	-	34,832	-	34,
State and political subdivision loans	-	-	-	-	59,208	-	59,
Total	$ 3,276	$ 291	$ 3,453	$ 7,020	$ 1,714,673	$ 3,306	$ 1,724,
Loans considered non-accrual	$ 46	$ 76	$ 3,446	$ 3,568	$ 3,370	$ -	$ 6,
Loans still accruing	3,230	215	7	3,452	1,711,303	3,306	1,718,
Total	$ 3,276	$ 291	$ 3,453	$ 7,020	$ 1,714,673	$ 3,306	$ 1,724,

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If th

The following table shows, the amortized cost basis by class of loans receivable, information regarding accruing and nonaccrual modified loans to borrowers experie

Accruing Modified Loans to Borrowers Experiencing Financial Difficulty
Real estate loans:
Mortgages
Commercial
Agricultural
Other commercial loans
Total
Non-Accruing Modified Loans to Borrowers Experiencing Financial Difficulty
Real estate loans:
Mortgages
Commercial
Other commercial loans
Total

The following table shows, by class of loans receivable, information regarding the financial effect on accruing and nonaccrual modified loans to borrowers experienc

Loan Type
Accruing Modified Loans to Borrowers Experiencing Financial Difficulty
Real estate loans:
Mortgages
Commercial
Agricultural
Other commercial loans
Total
Non-Accruing Modified Loans to Borrowers Experiencing Financial Difficulty
Real estate loans:
Mortgages
Commercial
Other commercial loans
Total

There were no accruing or nonaccrual modified loans to borrowers experiencing financial difficulty for which there were payment defaults after the modification date

The following presents, by class of loans, the amortized cost and payment status of accruing and nonaccrual modified loans to borrowers experiencing financial diffi

Accruing Modified Loans to Borrowers Experiencing Financial Difficulty	Current	30-89 Days Past Due	90 Days Or Greater	Total
Real estate loans:				
Mortgages	$ 126	$ -	$ -	$ 126
Commercial	1,142	-	-	1,142
Agricultural	688	-	-	688
Other commercial loans	610	-	-	610
Total	$ 2,566	$ -	$ -	$ 2,566

Non-Accruing Modified Loans to Borrowers Experiencing Financial Difficulty	Current	30-89 Days Past Due	90 Days Or Greater	Total
Real estate loans:				
Mortgages	$ 315	$ -	$ -	$ 315
Commercial	261	-	-	261
Other commercial loans	1,108	-	-	1,108
Total	$ 1,684	$ -	$ -	$ 1,684

Information presented in the table above is not required for periods prior to adoption of CECL. The following table presents the most comparable information for the prior period fo

2022	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	PCI
Real estate loans:						
Mortgages	$ 356	$ 132	$ 229	$ 717	$ 161,843	$ 9
Home Equity	48	9	29	86	47,558	-
Commercial	1,065	115	1,788	2,968	871,745	1,856
Agricultural	-	-	1,368	1,368	310,805	1,441
Construction	-	-	-	-	80,691	-
Consumer	147	-	7	154	86,496	-
Other commercial loans	1,660	35	32	1,727	61,495	-
Other agricultural loans	-	-	-	-	34,832	-
State and political subdivision loans	-	-	-	-	59,208	-
Total	$ 3,276	$ 291	$ 3,453	$ 7,020	$ 1,714,673	$ 3,306

Loans considered non-accrual	$	46	$	76	$	3,446	$	3,568	$	3,370	$
Loans still accruing		3,230		215		7		3,452		1,711,303		3,306
Total	$	3,276	$	291	$	3,453	$	7,020	$	1,714,673	$	3,306

2021												
Real estate loans:												
Mortgages	$	220	$	170	$	209	$	599	$	150,329	$	14
Home Equity		103		-		33		136		50,019		-
Commercial		127		115		1,969		2,211		682,982		2,145
Agricultural		31		-		1,367		1,398		308,970		1,643
Construction		-		-		-		-		55,036		-
Consumer		163		1		-		164		25,694		-
Other commercial loans		17		10		92		119		74,466		-
Other agricultural loans		10		-		-		10		39,842		-
State and political subdivision loans		-		-		-		-		45,756		-
Total	$	671	$	296	$	3,670	$	4,637	$	1,433,094	$	3,802
Loans considered non-accrual	$	-	$	-	$	3,624	$	3,624	$	3,992	$	-
Loans still accruing		671		296		46		1,013		1,429,102		3,802
Total	$	671	$	296	$	3,670	$	4,637	$	1,433,094	$	3,802

Nonaccrual Loans.

Loans are considered for nonaccrual status upon reaching 90 days delinquency, unless the loan is well secured and in the process of collection, although the Compa

	Number of contracts	
2022	Interest Modification	Term Mo
Real estate loans:		
Home Equity	-	
Commercial	-	
Agricultural	-	
Total	-	
2021		
Real estate loans:		
Commercial	-	
Agricultural	-	
Total	-	

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The following table reflects the loans on nonaccrual status as of December 31, 2022 and 2021, respectively. The balances are presented by class of loan (in thousands

		2022		2021
Real estate loans:				
Mortgages	$	562	$	595
Home Equity		29		-
Commercial		2,778		2,945
Agricultural		3,222		3,133
Other commercial loans		62		140
Other agricultural loans		285		803
	$	6,938	$	7,616

Interest income on loans would have increased by approximately $676,000, $573,000 and $756,000 during 2022, 2021 and 2020, respectively, if these loans had perforn

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant p modify more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearan either interest or principal, management measures any impairment on the restructuring by calculating the present value of the revised loan terms and comparing this ba lease losses and a separate allocation within the allowance for loan and lease losses is provided. Management continually evaluates loans that are considered TDRs, i Based on this evaluation management would no longer consider a loan to be a TDR when the relevant facts support such a conclusion. As of December 31, 2022, 2021 ar

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Loan modifications that are considered TDRs completed during the years ended December 31, 2022, 2021 and 2020 were as follows (dollars in thousands):

	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
2022	Interest Modification	Term Modification	Interest Modification	Term Modification	Interest Modification	Term Modification
Real estate loans:						
Home Equity	-	1	$ -	$ 8	$ -	$ 8
Commercial	-	4	-	2,301	-	2,301
Agricultural	-	2	-	1,137	-	1,137
Total	-	7	$ -	$ 3,446	$ -	$ 3,446
2021						
Real estate loans:						
Commercial	-	4	$ -	$ 1,469	$ -	$ 1,469
Agricultural	-	4	-	2,090	-	2,090
Total	-	8	$ -	$ 3,559	$ -	$ 3,559
2020						
Real estate loans:						
Mortgages	-	1	$ -	$ 2	$ -	$ 2
Commercial	-	10	-	2,456	-	2,456
Agricultural	-	2	-	494	-	494
Consumer	-	1	-	3	-	3
Other commercial loans	-	2	-	1,094	-	1,094
Other agricultural loans	-	1	-	19	-	19
Total	-	17	$ -	$ 4,068	$ -	$ 4,068

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-accrual loan. Recidivism occurs at a notably recorded investment in reporting periods for loans that were modified as TDRs during each 12-month period prior to the current reporting periods, which begin January 1, 2022, and 2(

	December 31, 2022		December 31, 2021	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Real estate loans:				
Commercial	-	$ -	-	$ -
Total recidivism	-	$ -	-	$ -

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Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in other assets on the Consolidated Balan 2022 December 31, 2023, included within the foreclosed assets is $241,000 $176,000 of consumer residential mortgages that were foreclosed on or received via a deed in which have not yet been transferred into foreclosed assets.

Allowance for Loan Losses

The following tables roll forward the balance of the allowance for loan and lease losses for the years ended December 31, 2022, 2021 and 2020 and is segregated into

	Balance at December 31, 2021	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,147	$ -	$ -	$ (91)
Commercial	8,099	-	3	2,018
Agricultural	4,729	-	-	(140)
Construction	434	-	-	367
Consumer	262	(37)	21	(111)
Other commercial loans	1,023	(435)	13	439
Other agricultural loans	558	-	-	(69)
State and political subdivision loans	281	-	-	41
Unallocated	771	-	-	(771)
Total	$ 17,304	$ (472)	$ 37	$ 1,683

	Balance at December 31, 2020	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,174	$ -	$ -	$ (27)
Commercial	6,216	(54)	89	1,848
Agricultural	4,953	-	-	(224)
Construction	122	-	-	312
Consumer	321	(27)	21	(53)
Other commercial loans	1,226	(133)	43	(113)
Other agricultural loans	864	-	-	(306)
State and political subdivision loans	479	-	-	(198)
Unallocated	460	-	-	311
Total	$ 15,815	$ (214)	$ 153	$ 1,550

	Balance at December 31, 2019	Charge-offs	Recoveries	Provision
Real estate loans:				
Residential	$ 1,114	$ -	$ 14	$ 46
Commercial	4,549	(435)	37	2,065
Agricultural	5,022	(4)	19	(84)
Construction	43	-	-	79
Consumer	112	(50)	21	238
Other commercial loans	1,255	(44)	12	3
Other agricultural loans	961	-	-	(97)
State and political subdivision loans	536	-	-	(57)
Unallocated	253	-	-	207
Total	$ 13,845	$ (533)	$ 103	$ 2,400

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As discussed in Footnote 1, management evaluates various qualitative factors on a quarterly basis. The following are explanations for the changes in the allowance b

2022

Residential - There was a decrease in the historical loss factor for residential loans when comparing 2022 and 2021 and a slight decrease in the specific reserve for general improvement in economic activity and decrease in unemployment as a result of the reduced impact of the Covid-19 pandemic during 2022. The increase in the pr

Commercial real estate– There was a decrease in the historical loss factor and the specific reserve for commercial real estate loans from 2021 to 2022. The qualitativ decrease in unemployment as a result of the reduced impact of the Covid-19 pandemic during 2022.

Agricultural real estate – There was a decrease in the historical loss factor for agricultural real estate loans from 2021 to 2022. The specific reserve for agricultural re categories due to a general improvement in economic activity and decrease in unemployment as a result of the reduced impact of the Covid-19 pandemic during 2022.

Construction - There was no change in the historical loss factor or specific reserve for construction loans from 2021 to 2022. The qualitative factor for the volume a state, regional and local economic trends and business conditions was decreased for construction loan categories due to a general improvement in economic activity an

Consumer - There was a decrease in the historical loss factor for consumer loans from 2021 to 2022. There was a change in the composition of the loan portfolio wit consumer loan categories due to a general improvement in economic activity and decrease in unemployment as a result of the reduced impact of the Covid-19 pandemic

Other commercial - There was an increase in the historical loss factor for other commercial loans when comparing 2021 and 2022. The specific reserve for other cor due to a general improvement in economic activity and decrease in unemployment as a result of the reduced impact of the Covid-19 pandemic during 2022.

Other agricultural - There was no change in the historical loss factor or specific reserve for other agricultural loans from 2021 to 2022. The qualitative factor for na unemployment as a result of the reduced impact of the Covid-19 pandemic during 2022.

Municipal loans - There was no change in the historical loss factor or specific reserve for municipal loans from 2021 to 2022. The qualitative factor for national, state, of the reduced impact of the Covid-19 pandemic during 2022.

2021

Residential - There was a decrease in the historical loss factor for residential loans when comparing 2020 and 2021 and a slight decrease in the specific reserve for residential loa

Commercial real estate – There was a decrease in the historical loss factor and the specific reserve for commercial real estate loans from 2020 to 2021. The qualitative factor for the commercial real estate portfolio, which resulted in the provision for 2021.

Agricultural real estate – There was no change in the historical loss factor for agricultural real estate loans from 2020 to 2021 The specific reserve for agricultural real estate loan loans.

Construction - There was no change in the historical loss factor or specific reserve for construction loans from 2020 to 2021. The qualitative factors for trends in volume, terms an increase in the overall size of the portfolio, the increase in the size of individual construction loans and the complexity of the construction projects funded.

Consumer - There was a decrease in the historical loss factor for consumer loans from 2020 to 2021. The negative provision was due to a decrease in consumer loans.

Other commercial - There was an increase in the historical loss factor for other commercial loans when comparing 2020 and 2021. The specific reserve for other commercial loa commercial loans due to a decrease in past due loans, non-accrual loans and substandard loans during 2021.

Other agricultural - There was a decrease in the historical loss factor for other agricultural loans from 2020 to 2021. The specific reserve for other agricultural loans decreased fro provision was primarily due to the overall decrease in other agricultural loans.

Municipal loans - There was no change in the historical loss factor or specific reserve for municipal loans from 2020 to 2021. The qualitative factor for the volume and severity of during 2021.

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6. 7. PREMISES & EQUIPMENT

Premises and equipment at December 31, 2022 December 31, 2023 and 2021 2022 are summarized as follows (in thousands):

Land	
Buildings	
Furniture, fixtures and equipment	
Construction in process	
Less: accumulated depreciation	
Premises and equipment, net	

Depreciation expense amounted to $1,147,000, $877,000 and $922,000 for 2023, 2022 and $921,000 for 2022, 2021, and 2020, respectively.

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7. 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table provides the gross carrying value and accumulated amortization of intangible assets as of December 31, 2022 December 31, 2023 and 2021 2022 (i

	December 31, 2022							December 31		
	Gross carrying value		Accumulated amortization			Net carrying value		Gross carrying value		Accumul amortiza
Amortized intangible assets (1):										
MSRs	$	2,336	$	(1,362	)	$	974	$	2,499	$
Core deposit intangibles		1,943		(1,645	)		298		1,943	
Total amortized intangible assets	$	4,279	$	(3,007	)	$	1,272	$	4,442	$
Unamortized intangible assets:										
Goodwill	$	31,376						$	31,376	
(1) Excludes fully amortized intangible assets										

(1) Excludes fully amortized intangible assets

The following table provides the current year and estimated future amortization expense for the next five years of amortized intangible assets (in thousands). We bas

Year ended December 31, 2022	
Year ended December 31, 2023	
Estimate for year ended December 31,	
2023	
2024	
2025	
2026	
2027	
2028 and thereafter	
2028	
2029 and thereafter	
Total	

8. 9. FEDERAL HOME LOAN BANK (FHLB) STOCK

As a member of the FHLB of Pittsburgh, the Bank is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstand The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's valu criteria such as the following: (a) A significant decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has pers changes on the customer base of the FHLB and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired f $100 par value and the FHLB has repurchased shares of excess capital stock from its members and has paid a quarterly cash dividend.

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9. 10. DEPOSITS

The following table shows the breakdown of deposits as of December 31, 2022 December 31, 2023 and 2021, 2022, by deposit type (in thousands):

Non-interest-bearing deposits	
NOW accounts	
Savings deposits	
Money market deposit accounts	
Certificates of deposit	
Total	

Certificates of deposit of $250,000 or more amounted to $94,812,000 and $56,287,000 at December 31, 2023 and $79,610,000 at December 31, 2022 and 2021, 2022, respectively.

Following are maturities of certificates of deposit as of December 31, 2022 December 31, 2023 (in thousands):

2023	
2024	
2025	
2026	
2027	
2028	
Thereafter	
Total certificates of deposit	

10. 11. BORROWED FUNDS AND REPURCHASE AGREEMENTS

The following table shows the breakdown of borrowed funds as of December 31, 2022 December 31, 2023 and 2021 2022 (dollars in thousands):

	Securities Sold Under Agreements to Repurchase (a)	FHLB Advances (b)	Bank Federal Funds Lines (c)	FRB BIC Line (d)
2022				
Balance at December 31	$ 17,776	$ 169,110	$ -	$ -
Highest balance at any month-end	17,776	186,626	-	-
Average balance	16,246	69,571	3	49
Weighted average interest rate:				
Paid during the year	1.95 %	3.50 %	1.99 %	1.76 %
As of year-end	4.13 %	4.45 %	0.00 %	0.00 %
2021				
Balance at December 31	$ 16,873	$ -	$ -	$ -
Highest balance at any month-end	16,873	-	-	-
Average balance	14,726	-	-	-
Weighted average interest rate:				
Paid during the year	0.06 %	0.00 %	0.51 %	0.22 %
As of year-end	0.08 %	0.00 %	0.00 %	0.00 %

2023	Balan Decem
Securities Sold Under Agreements to Repurchases (a)	$
FHLB Advances(b)	
Bank Federal Funds Lines (c)	
FRB BIC Line (d)	
Line of Credit (e)	
FRB Term Funding Program (f)	
Other Borrowings (g)	
Subordinated Debt (h)	
Notes Payable (i)	
Term Loans (j)	
Total Borrowed Funds	$

2022	Balan Decem
Securities Sold Under Agreements to Repurchases (a)	$
FHLB Advances(b)	
Bank Federal Funds Lines (c)	
FRB BIC Line (d)	
Line of Credit (e)	
FRB Term Funding Program (f)	
Other Secured Borrowings (g)	
Subordinated Debt (h)	
Notes Payable (i)	
Term Loans (j)	
Total Borrowed Funds	$

(a) We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities s additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safe 2022 December 31, 2023 and December 31, 2021 December 31, 2022 is presented in the following tables (in thousands).

2022	Overnight and Continuous		Up to 30 Days		30 - 90 I
	Remaining Contractual M				
2023					
Repurchase Agreements:					
U.S. agency securities	$	20,371	$	-	$
Total carrying value of collateral pledged	$	20,371	$	-	$
Total liability recognized for repurchase agreements					
2021					
Repurchase Agreements:					
U.S. agency securities	$	17,155	$	-	$
Total carrying value of collateral pledged	$	17,155	$	-	$
Total liability recognized for repurchase agreements					

2022	Overnight and Continuous		Up to 30 Days		30 - 90 Days		Greater than 90 days		To
			Remaining Contractual Maturity of the Agreements						
Repurchase Agreements:									
U.S. agency securities	$	20,371	$	-	$	-	$	-	$
Total carrying value of collateral pledged	$	20,371	$	-	$	-	$	-	$
Total liability recognized for repurchase agreements									$

(b) FHLB Advances consist of an "Open RepoPlus" agreement with the FHLB of Pittsburgh. FHLB "Open RepoPlus" advances are short-term borrowings that bear in of credit. FHLB advances are secured by a blanket security agreement that includes the Company's FHLB stock, as well as certain investment and mortgage-backed secu for additional information.

(c) The federal funds lines consist of unsecured lines from two third party banks at market rates. The Bank has a borrowing limit totaling $34,000,000, inclusive of an

(d) The Federal Reserve Bank Borrower in Custody (FRB BIC) Line consists of a borrower in custody in agreement opened in January 2010 with the Federal Res $1,050,000 $993,000 and $1,068,000, $1,050,000, respectively, inclusive of any outstanding advances. The approximate carrying value of the municipal loan collateral was

(e) The Company issued a $20.0 million $15.0 million revolving line of credit in December 2022 2023 with a Pennsylvania New York community Bank bank with a matu
Interest on outstanding borrowings is payable at prime minus 0.50% prime. No specific collateral is required to be pledged for these borrowings.

(f) The Federal Reserve's Bank Term Funding Program (BTFP) consists of a loan agreement opened in the second quarter of 2023 with the Federal Reserve Bank of P
the par value of the pledged securities.as of December 31, 2023. As of December 31, 2023, $20,000,000 was outstanding under the BTFP.

(g) The Company entered into an agreement with a counterparty that provides for the Company the right to obtain collateral from the counterparty depending on t
Company is holding $10,860,000 of collateral, which is included in cash on the Consolidated Balance sheet.

(h) In April 2021, the Company issued $10.0 million of fixed to floating rate subordinated notes that mature on April 16, 2031, unless redeemed earlier. The notes bear interest points. The Company may redeem the notes, in whole or in part, on or after April 16, 2026, and at any time upon the occurrence of certain events, subject in each case to the approv straight-line basis, which approximates the effective yield method. As of December 31, 2022 December 31, 2023, the net unamortized issuance costs totaled $108,000. $95,000. As p of May 28, 2031, and has a coupon rate of 4.50% per annum through May 28, 2026. Thereafter, the note rate is adjustable and resets quarterly based on the then current 90-day av interest payment date, on or after May 28, 2026, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption. The carrying value of the note as of Dece

(g) (i) In December 2003, the Company formed a special purpose entity ("Entity") to issue $7,500,000 of floating rate obligated mandatory redeemable trust preferred securitie December 17, 2008, and on a quarterly basis thereafter. The Company borrowed the proceeds of the issuance from the Entity in December 2003 in the form of a $7,500,000 note investment amount and is included in the other assets section of the balance sheet. The Entity is not consolidated as part of the Company's consolidated financial statements. The $7,

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(h) (j) Term Loans consist of separate loans with the FHLB of Pittsburgh as follows (dollars in thousands):

Interest Rate	Interest Rate		Maturity
Fixed:	**Fixed:**		
	3.86	%	January 3, 2023
	4.57	%	February 14, 2023
	2.46	%	March 28, 2024
	1.70	%	August 20, 2024
	0.26	%	January 3, 2022
	2.08	%	January 6, 2022
Total term loans	**Total term loans**		

Following are maturities of borrowed funds as of December 31, 2022 December 31, 2023 (in thousands):

2023	
2024	
2025	
2026	
2027	
2028	
Thereafter	
Total borrowed funds	

11. 12. EMPLOYEE BENEFIT PLANS

Noncontributory Defined Benefit Pension Plan

The Bank sponsors a trusteed, noncontributory defined benefit pension plan covering substantially all employees and officers hired prior to January 1, 2007. The p termination of employment, employees can elect either an annuity benefit or a lump sum distribution of vested benefits in the pension plan. The Bank's funding policy is 2020. 2021.

In lieu of the pension plan, employees with a hire date of January 1, 2007 or later are eligible to receive, after meeting length of service requirements, an annual discre to a vesting requirement. Contributions by the Company totaled $354,000, $300,000 and $290,000 for 2023, 2022 and $212,0000 for 2022, 2021, and 2020, respectively.

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The following table sets forth the obligation and funded status of the pension plan as of December 31 (in thousands):

Change in benefit obligation	
Benefit obligation at beginning of year	
Service cost	
Interest cost	
Actuarial (Gain) / Loss	
Settlement gain	
Benefits paid	
Benefit obligation at end of year	
Change in plan assets	
Fair value of plan assets at beginning of year	
Actual return (loss) on plan assets	
Employer contribution	
Benefits paid	
Fair value of plan assets at end of year	
Funded status	

Amounts not yet recognized as a component of net periodic pension cost as of December 31 (in thousands):

Amounts recognized in accumulated other comprehensive loss consists of:	
Net loss	
Prior service cost	
Total	

The accumulated benefit obligation for the defined benefit pension plan was $9,556,000 and $9,324,000 at December 31, 2023 and $13,123,000 at December 31, 2022 a

The components of net periodic benefit costs for the years ended December 31 are as follows (in thousands):

Service cost	
Interest cost	
Return on plan assets	
Settlement loss (gain)	
Net amortization and deferral	
Net periodic benefit (income) cost	

The estimated net loss that will be amortized from accumulated other comprehensive loss into the net periodic benefit cost (income) in 2023 2024 is $28,000. $9,000.

The weighted-average assumptions used to determine benefit obligations at December 31, 2022 December 31, 2023, 2022 and 2021 is summarized in the following tab

Discount rate	
Discount rate FCCB Plan	
Rate of compensation increase	

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The weighted-average assumptions used to determine net periodic benefit cost (income) for the year ended December 31, 2022 December 31, 2023, 2021 2022 and 202

Discount rate FCCB Plan
Expected long-term return on plan assets
Expected long-term return on plan assets FCCB plan
Rate of compensation increase

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets as well as future rates expected to be earned. Th determined on the basis of sound economic principles and is continually reviewed in light of changes in market conditions. Asset allocation favors equity securities, wit re-allocate the equity portfolio for diversification purposes and reduce risk in the total portfolio. The following table sets forth by level, within the fair value hierarchy as d

2022	Level I		Level II		Level III
2023					
Assets					
Cash and cash equivalents	$	431	$	-	$
Equity Securities		5,391		-	
Mutual Funds and ETF's		3,322		-	
Corporate Bonds		-		2,143	
U.S. Agency Securities		-		48	
Total	$	9,144	$	2,191	$

2021	Level I		Level II		Level III
2022					
Assets					
Cash and cash equivalents	$	188	$	-	$
Equity Securities		6,291		-	
Mutual Funds and ETF's		5,246		-	
Corporate Bonds		-		2,191	
U.S. Agency Securities					
Total	$	11,725	$	2,191	$

Equity securities include the Company's common stock in the amounts of $746,000 (6.4% of total plan assets) and $876,000 (7.7% of total plan assets) at December 3

The Bank does not expect to make a contribution to its pension plan in 2023. 2024. Expected future benefit payments that the Bank estimates from its pension plan a

2023
2024
2025
2026
2027
2028 - 2032
2028
2029 - 2033

Defined Contribution Plan

The Company sponsors a voluntary 401(k) savings plan which eligible employees can elect to contribute up to the maximum amount allowable not to exceed the lim the Company totaled $769,000, $623,000 and $563,000 for 2023, 2022 and $518,000 for 2022, 2021, and 2020, respectively.

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Directors' Deferred Compensation Plan

The Company's directors may elect to defer all or portions of their fees until their retirement or termination from service. Amounts deferred under the deferred comp general liability of the Company. As of December 31, 2022 December 31, 2023, and 2021, 2022, an obligation of $580,000 $604,000 and $587,000, $580,000, respectively, w years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the Plan) whereby employees and non-employee corporate directors are eligible to receive awards of restricted sto case of employees, continuous employment or service with the Company. In April 2016, the Company's stockholder authorized a total of 150,000 shares of the Company' attracting, retaining and motivating employees to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a k

Outstanding, beginning of year
Granted
Forfeited
Vested
Outstanding, end of year

Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period. Compensation exper weighted-average grant-date fair value of restricted shares granted during 2023, 2022 and 2021 was $77.77, $68.69 and 2020 was $68.69, $60.73, and $50.89, respectively the next 3 years.

Supplemental Executive Retirement Plan

The Company maintains a non-qualified supplemental executive retirement plan ("SERP") for certain executives to compensate those executive participants in the obligation of $2,706,000 $2,897,000 and $2,509,000, $2,706,000, respectively, for the SERP was included in other liabilities in the Consolidated Balance Sheet. Expenses 2023, 2022 and 2021 and 2020 were $42,000, $42,000 and $32,000, respectively. $42,000.

Deferred Compensation Plan

The In 2018, the Company in 2018 initiated a non-qualified executive deferred compensation plan for eligible employees designated by the Board of Directors. At Dece Consolidated Balance Sheet. Expenses related to the deferred compensation plan totaled $268,000, $296,000 $309,000 and $230,000 $309,000 for the years ended Decemb

Salary Continuation Plan

The Company maintains a salary continuation plan for certain employees acquired through the acquisition of the FNB. At December 31, 2022 December 31, 2023 a continuation plan totaled $44,000, $47,000 $49,000 and $51,000 $49,000 for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respective respectively

Continuation of Life Insurance Plan

The Company, as part of the acquisition of FNB, has promised a continuation of life insurance coverage to certain persons post-retirement. GAAP requires the reco paid totaled $610,000 and $660,000 at December 31, 2023 and $696,000 at December 31, 2022 and 2021, 2022, respectively, which is included in other liabilities in the Cons respectively.

12. 13. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

Currently payable
Deferred tax liability (asset)
Provision for income taxes

The following temporary differences gave rise to the net deferred tax asset and liabilities at December 31, 2022 December 31, 2023 and 2021, 2022, respectively (in tho

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 4,581	$ 4,712
Deferred compensation	559	491
Merger & acquisition costs	1	1
Allowance for losses on available-for-sale securities	9	4
Pension and other retirement obligation	146	360
Interest on non-accrual loans	974	795
Incentive plan accruals	503	536
Other real estate owned	32	16
Unrealized losses on available-for-sale securities	9,972	-
Low income housing tax credits	138	137
NOL carry forward	1,134	1,226
Right of use asset	1,053	686
Accrued vacation	157	168
Other	164	159
Total	$ 19,423	$ 9,291
Deferred tax liabilities:		
Premises and equipment	$ (492)	$ (559)
Investment securities accretion	(240)	(90)
Loan fees and costs	(685)	(644)
Goodwill and core deposit intangibles	(2,332)	(2,309)
Mortgage servicing rights	(205)	(246)
Unrealized gains on available-for-sale securities	-	(81)
Unrealized gains on equity securities	(16)	(61)
Unrealized gains on interest rate swap	(1,443)	(401)
Right of use asset	(1,047)	(685)
Other	(77)	(133)
Total	(6,537)	(5,209)
Deferred tax (liability) asset, net	$ 12,886	$ 4,082

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 5,868	$ 4,581
Deferred compensation	597	559
Merger & acquisition costs	-	1
Allowance for losses on available-for-sale securities	147	9
Pension and other retirement obligation	166	146
Interest on non-accrual loans	1,263	974
Incentive plan accruals	662	503
Other real estate owned	16	32
Unrealized losses on available-for-sale securities	7,506	9,972
Low income housing tax credits	44	138
NOL carry forward	2,468	1,134
Unrealized losses on equity securities	24	-
Non-PCD loan interest rate	4,795	-
Right of use asset	2,349	1,053
Accrued vacation	281	157
Other	428	164
Total	$ 26,614	$ 19,423
Deferred tax liabilities:		
Premises and equipment	$ (679)	$ (492)

Investment securities accretion	(432)	(240)
Loan fees and costs	(859)	(685)
Goodwill and core deposit intangibles	(2,889)	(2,332)
Mortgage servicing rights	(201)	(205)
Unrealized gains on equity securities	-	(16)
Unrealized gains on interest rate swap	(1,143)	(1,443)
Borrowings fair value adjustment	(511)	-
Lease liability	(2,334)	(1,047)
Other	(227)	(77)
Total	(9,275)	(6,537)
Deferred tax asset, net	$ 17,339	$ 12,886

No valuation allowance was established at December 31, 2022 December 31, 2023 and 2021, 2022, due to the Company's ability to carryback to taxes paid in previous

The total provision for income taxes is different from that computed at the statutory rates due to the following items (dollars in thousands):

Provision at statutory rates on pre-tax income
Effect of tax-exempt income
Low income housing tax credits
Low income housing expense
Bank owned life insurance
Nondeductible interest
Nondeductible merger and acquisition expenses
Change in tax rate
Other items
Provision for income taxes
Statutory tax rates
Effective tax rates

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or exp 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 threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer m uncertain tax positions and no known unrecognized tax benefits. With limited exception, the Company's federal and state income tax returns for taxable years through 20

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Investments

14. AFFORDABLE HOUSING PROJECTS TAX CREDIT PARTNERSHIPS

The Company makes equity investments in Qualified Affordable various limited partnerships or limited liability companies that sponsor affordable housing projects facilitate the sale of affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of combination of debt and equity.

The Company is a limited partner or non-managing member in each LIHTC limited partnership or limited liability company, respectively. Each of these entities is man and authority granted or permitted to be granted to a general partner of a limited partnership or managing member of a limited liability company. Duties entrusted to th disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods, tax electio approval of certain transactions, the limited partner(s) and non-managing members may not participate in the operation, management, or control of the entity's busines limited partner(s) or managing member(s) in the event of a failure to comply with the terms of the agreement or negligence in performing its duties.

The general partner or managing member of each entity has both the power to direct the activities which most significantly affect the performance of each entity entity. The Company uses the effective yield method to account for its pre-2015 investments in these entities. Beginning January 1, 2015, any new investments that unfunded commitments were $8,541,000 and $1,304,000 as of December 31, 2023 and 2022, respectively, and are included in other assets in the consolidated balance she

Unfunded Commitments

As of December 31, 2022 and 2021, December 31, 2023, the Company was invested expected payments for unfunded affordable housing commitments were as follows

2024	$	4,063
2025		2,169
2026		124
2027		19
2028		19
Thereafter		136
	$	6,530

The balance of the investments, which is included within other assets in the Consolidated Balance Sheet, was $1,304,000 and $288,000 as of December 31, 2022 an expected to generate following table presents tax credits of $6,660,000 that will be utilized over the next thirteen years. During 2021, the Company entered into one addit $141,000 were recognized as a reduction of tax expense during 2022, 2021 and 2020. Included within other expenses on the Consolidated Statement of Income was $108 in thousands).

	2023	2022	2021
Effective Yield Method			
Tax credits and other tax benefits recognized	$ -	$ 141	$ 141
Amortization Expense in other expense	-	108	108
Proportional Amortization Method			
Tax credits and other tax benefits recognized	948	-	-
Amortization Expense in Provision for Income Taxes	762	-	-

There were no impairment losses related to LIHTC investments for the years ended December 31, 2023, December 31, 2022, and December 31, 2021.

13. 15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of accumulated other comprehensive income (loss), net of tax, as of December 31, were as follows (in thousands):

Net unrealized gain on securities available for sale
Net unrealized loss on securities available for sale
Tax effect
Net -of-tax amount
Unrealized loss on interest rate swap
Unrealized gain on interest rate swaps
Tax effect
Net -of-tax amount
Unrecognized pension costs
Tax effect
Net -of-tax amount
Total accumulated other comprehensive loss

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The following tables present the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2022 Decem

	Unrealized gain (loss) on available for sale securities (a)	Unrealized gain (loss) on interest rate swap (a)	Defined Benefit Pension Items (a)
Balance as of December 31, 2019	$ 2,290	$ -	$ (2,919)
Other comprehensive income (loss) before reclassifications (net of tax)	4,008	4	(727)

Amounts reclassified from accumulated other comprehensive income (loss) (net of tax)		(240	)		(13	)		184	
Net current period other comprehensive income (loss)		3,768			(9	)		(543	)
Balance as of December 31, 2020	$	6,058		$	(9	)	$	(3,462	)
Balance as of December 31, 2020	$	6,058		$	(9	)	$	(3,462	)
Other comprehensive income (loss) before reclassifications (net of tax)		(5,586	)		1,403			1,229	
Amounts reclassified from accumulated other comprehensive income (loss) (net of tax)		(168	)		115			265	
Net current period other comprehensive income (loss)		(5,754	)		1,518			1,494	
Balance as of December 31, 2021	$	304		$	1,509		$	(1,968	)
Balance as of December 31, 2021	$	304		$	1,509		$	(1,968	)
Other comprehensive income (loss) before reclassifications (net of tax)		(37,829	)		4,034			836	
Amounts reclassified from accumulated other comprehensive income (loss) (net of tax)		11			(114	)		76	
Net current period other comprehensive income (loss)		(37,818	)		3,920			912	
Balance as of December 31, 2022	$	(37,514	)	$	5,429		$	(1,056	)
Balance as of December 31, 2022									
Other comprehensive income (loss) before reclassifications (net of tax)									
mounts reclassified from accumulated other comprehensive income (loss) (net of tax)									
Net current period other comprehensive income (loss)									
Balance as of December 31, 2023									

(a) Amounts in parentheses indicate debits

The following table presents the significant amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31,

Details about accumulated other comprehensive income (loss)	Amount reclassified from accumulated comprehensive income (loss) (a)		
	December 31,		
	2022	2021	2020
Unrealized gains and losses on available for sale securities			
	$ (14)	$ 212	$ 30
	3	(44)	(6
	$ (11)	$ 168	$ 24
Unrealized gain (loss) on interest rate swap	$ 145	$ (147)	$ 1
	(31)	32	
	$ 114	$ (115)	$ 1
Defined benefit pension items			
	$ (96)	$ (336)	$ (23
	20	71	4
	$ (76)	$ (265)	$ (18
Total reclassifications	$ 27	$ (212)	$ 6

(a) Amounts in parentheses indicate debits to net income

(a) Amounts in parentheses indicate debits

14. 16. RELATED PARTY TRANSACTIONS

Certain executive officers and directors of the Company, or companies in which they have 10 percent or more beneficial ownership, were indebted to the Bank. A sum

Balance, beginning of year
New loans
Repayments
Balance, end of year

Letter of credit

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15. 17. REGULATORY MATTERS

Dividend Restrictions:

The approval of the Federal Reserve Board (FRB) is required for the Bank to pay dividends to the Company if the total of all dividends declared in any calendar yea without approval of the FRB or Pennsylvania Department of Banking of approximately $42,879,000, $29,939,000, plus the Bank's 2023 year-to-date net income at the time

Loans:

The Bank is subject to regulatory restrictions which limit its ability to loan funds to the Company. At December 31, 2022 December 31, 2023, the Bank's regulatory len

Regulatory Capital Requirements:

Federal regulations require the Bank to maintain minimum amounts of capital. Specifically, the Bank is required to maintain certain minimum dollar amounts and ratio

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from "well c regulatory actions.

As permitted by applicable federal regulation, the Bank has opted to use the community bank leverage ratio (the "CBLR") framework for determining its capital adequacy. Under Aid, Relief, and Economic Security ("CARES") Act in response to the COVID-19 pandemic, the federal banking regulators revised the CBLR framework as follows: (i) beginning in the then it will have two calendar quarters to maintain a leverage ratio of 7% or greater. These revisions under the CARES Act are were effective April 23, 2020 and will terminate termina be was set at 8% for the remainder of 2020, 8.5% for 2021, and 9% thereafter. The grace period is also adjusted to account for the graduating increase. As a result, in 2020 and 202 CBLR of at least 8%. If a qualifying community bank fails to maintain the applicable minimum CBLR during the grace period, or if it is unable to restore compliance with the CBLR with

capitalized" under the CBLR framework, with a leverage ratio of 8.94%.8.54% as the Bank was in the grace period provided by the framework. At December 31, 2022, the Bank leve
the prompt corrective action framework and will no longer utilize the CBLR framework. The following table provides the Bank's computed risk-based capital ratios as of December 31,

2022		Actual Amount		Ratio	
Total Capital *(to Risk Weighted Assets):*					
Company	$	238,966		12.87 %	$
Bank	$	222,714		12.01 %	$
Tier 1 Capital *(to Risk Weighted Assets):*					
Company	$	210,250		11.32 %	$
Bank	$	203,998		11.00 %	$
Common Equity Tier 1 Capital *(to Risk Weighted Assets):*					
Company	$	202,750		10.92 %	$
Bank	$	203,998		11.00 %	$
Tier 1 Capital *(to Average Assets):*					
Company	$	210,250		9.03 %	$
Bank	$	203,998		8.77 %	$

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16. 18. COMMITMENTS, CONTINGENT LIABILITIES, RISKS AND UNCERTAINTIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These fina amount recognized in the consolidated balance sheet.

Credit Extension Commitments

The Company's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters o instruments. Financial instruments, whose contract amounts represent credit risk at December 31, 2022 December 31, 2023 and 2021, 2022, are as follows (in thousands):

Commitments to extend credit	
Standby letters of credit	

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clau requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Compar

Standby letters of credit are conditional commitments issued by the Company to guarantee a financial agreement between a customer and a third party. Perform performance related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by m business assets.

The Company also offers limited overdraft protection as a non-contractual courtesy which is available to demand deposit accounts in good standing for business, pe the right to discontinue this service without prior notice.

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The allowance for credit losses for off-balance sheet commitments was $1,265,000 and $165,000 as of December 31, 2023 and 2022, respectively.

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Legal and Regulatory Proceedings

In the ordinary course of business, the Company is subject to legal proceedings, including claims, litigation, investigations and administrative proceedings, all of wh property matters, personal injuries and torts, regulatory and legal compliance, and other matters. The Company believes it has substantial defenses to the claims asserte

The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is prob increased or decreased to reflect any relevant developments. Where a loss is not probable or the amount of a probable loss is not reasonably estimable, the Company could incur beyond the accrued legal reserves. Under U.S. GAAP, an event is "reasonably possible" if "the chance of the future event or events occurring is more than re

While the outcome of legal proceedings and the timing of the ultimate resolution are inherently difficult to predict, based on information currently available, advice c legal proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial condition or results of operations. However, in the position, results of operations or cash flows for any particular reporting period of occurrence.

17. 19. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters int determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's know

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate moveme and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed interest payments. As of December 31, 2022 December 31

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive incor recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedg 2022 December 31, 2023 and 2021. 2022. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest expense.

Customer Swaps

The Company also enters into derivative contracts, which consist of interest rate swaps, to facilitate the needs of customers desiring to manage interest rate risk. T simultaneously enters into derivative contracts with third parties to offset the customer contracts, such that the Company minimizes its net risk exposure resulting from not speculative and arise from a service provided to customers. The Company utilizes a loan hedging program to accommodate clients preferring a fixed rate loan. The option, the Company enters into a dealer facing trade exactly mirroring the terms of the loan addendum. At December 31, 2022 December 31, 2023, the Company had inter

Mortgage Banking Derivatives

To Be Announced Securities

To be announced securities ("TBAs") are "forward delivery" securities considered derivative instruments under derivatives and hedging accounting guidance. The Company utili market pricing service, which compiles current prices for instruments from market sources and those prices represent the current executable price. TBAs are recorded at fair valu Consolidated Statements of Income. The fair value of the Company's derivative instruments, other than IRLCs, that are measured at fair value on a recurring basis is determined by u

Interest Rate Lock Commitments

Interest rate loan commitments known as IRLCs that relate to the origination of mortgages that will be held for sale upon funding are considered derivative instruments under the other liabilities with changes in their fair values recorded as a gain (loss) from hedging instruments in non-interest income in the Consolidated Statements of Income.

Forward Loan Sales Commitments

Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. close on the loans within the terms of the IRLCs. Forward loan sales commitments are recognized at fair value on the Consolidated Statements of Financial Condition as mortgage ba

Counterparty Credit Risk

As a result of its derivative contracts, the Company is exposed to credit risk. Specifically, approved counterparties and exposure limits are defined. On at least an an with derivative dealers, the Company may be required to post margin to these counterparties. At December 31, 2022 December 31, 2023, the Company has required collat

The following table reflects the estimated fair value positions of derivative contracts as of December 31, 2022 December 31, 2023 and 2021: 2022:

Derivatives designated as hedging instruments under ASC 815 (in thousands):

Third party interest rate swaps	Balance Sheet Location	Notional Amount	Interest rate Paid	Interest rate Received	Fair Value December 31, 2022	
Maturing in 2025	other assets/(other liabilities)	$ 15,000	Fixed - 0.57%	3-Month Libor	$ 1,269	$
Maturing in 2027	other assets/(other liabilities)	10,000	Fixed - 0.65%	3-Month Libor	1,324	
Maturing in 2027	other assets/(other liabilities)	7,500	Fixed - 3.57%	3-Month Libor + 280	995	
Maturing in 2027	other assets/(other liabilities)	6,000	Fixed - 0.61%	3-Month Libor	822	
Maturing in 2029	other assets/(other liabilities)	6,000	Fixed - 0.72%	3-Month Libor	1,065	
Maturing in 2032	other assets/(other liabilities)	6,000	Fixed - 0.82%	3-Month Libor	1,398	
		$ 50,500			$ 6,873	$

Derivatives not designated as hedging instruments under ASC 815 (in thousands):

Interest Rate Products	Balance Sheet Location	December 31, 2022 Notional Amount	December 31, 2022 Fair Value	Decem Notional Amount
Zero Premium Collar	other assets/(other liabilities)	$ 71,776	$ (9,726)	$ 67,375
Zero Premium Collar	other assets/(other liabilities)	$ -	$ -	$ 19,938
IRLCs				
Dealer Offset to Zero Premium Collar	other assets/(other liabilities)	$ 71,776	$ 9,726	$ 67,375
Dealer Offset to Zero Premium Collar	other assets/(other liabilities)	$ -	$ -	$ 19,938

The following table presents the effect of the Company's cash flow hedge accounting on Accumulated Other Comprehensive Income for the years ended December 3

The Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income	The Effect c	
	Amount of (Loss) Gain Recognized in OCI on Derivatives	
	Year Ended December 31,	
Derivatives in Hedging relationships	2022	2
Interest rate Products	$ 4,963	$ 1,

18. 20. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchai the accounting treatment for operating lease agreements in which the Company is the lessee.

Lessee Accounting

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches with terms extending through 2037. 2039. All of agreements are required to be recognized on the consolidated statements of condition as right-of-use ("ROU") assets and corresponding lease liabilities.

The following table represents the Consolidated Balance Sheet classification of the Company's ROU assets and lease liabilities (in thousands). The Company elected

Lease Type	Balance at D 2022
Right of Use Assets	
Operating	$ 4,987

Lease Liabilities:	
Operating	**$ 5,016**

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present va of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount r inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 201 and the weighted average discount rate for the Company's operating leases outstanding as of December 31, 2022 December 31, 2023:

Weighted average term (years)	
Weighted average discount rate	

The following table represents lease costs and other lease information for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021, respect variable payments such as common area maintenance and utilities.

Lease Cost	
Operating lease cost	
Variable lease cost	
Total lease cost	

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2022 December 31, 2023 along with a reconcilia

Undiscounted cash flows due within	
2023	
2024	
2025	
2026	
2027	
2028 and thereafter	
2028	
2029 and thereafter	
Total undiscounted cash flows	
Impact of present value discount	
Amount reported on balance sheet	

19. 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value.

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 quoted prices in active markets, which are either directly or indirectly observable as of the reported date. 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 a**

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the va

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally develope include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation ad

management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or a
recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company’s monthly and/or quarterly valuation p

Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis

The fair values of equity securities and securities available for sale are determined by quoted prices in active markets, when available, and classified as Level I. If quo quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities and classified as Level II. The fair valu credit information and the bond’s terms and conditions, among other things.

The following tables present the assets reported on the consolidated balance sheet at their fair value on a recurring basis as of December 31, 2022 December 31, 202 measurement.

2022
2023
Fair value measurements on a recurring basis:
Assets
Equity securities
Available for sale securities:
U.S. Agency securities
U.S. Treasuries securities
Obligations of state and political subdivisions
Corporate obligations
Mortgage-backed securities in government sponsored entities
Other Assets
Derivative instruments
Liabilities
Derivative instruments

2021
2022
Fair value measurements on a recurring basis:
Assets
Equity securities
Available for sale securities:
U.S. Agency securities
U.S. Treasuries securities
Obligations of state and political subdivisions
Corporate obligations
Mortgage-backed securities in government sponsored entities
Other Assets
Derivative instruments
Liabilities
Derivative instruments

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The following tables represent assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2023:

	Level 3	
	IRLC - Asset	IRLC - Liability
Beginning Balance: June 16, 2023	$ 657	$ -
Total gains (losses) (unrealized):		
Included in other comprehensive loss	-	-
Total (loss) gains included in earnings and held at reporting date	(333)	-
Purchases, sales and settlements	-	-
Transfers out of Level 3	-	-

Ending Balance December 31, 2023	$	324	$	-
Change in unrealized (losses) gains for the period included in earnings (or changes in net assets) for assets held as of December 31, 2023	$	(333)		-
Change in unrealized losses for the period included other comprehensive loss for assets held as of December 31, 2023	$	-		-

At December 31, 2023, the Company has classified $324,000 of net derivative assets related to IRLC as Level 3. The fair value of IRLCs is based on prices obtained for loans average pull-through rates applied ranged from 63.6% to 94.2%.

Significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis at December 31, 2023:

	Quantitative Information about Level 3 Fair Value Measurements		
2023	Fair Value	Valuation Technique(s)	Unobservable input
Measured at Fair Value on a Recurring Basis:			
Net derivative asset and liability:			
IRLC	**324**	Discounted cashflows	Pull-though rates

Financial Instruments, Non-Financial Assets and Non-Financial Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets, financial liabilities, non-financial assets and non-financial liabilities at fair value below cost at the end of the period. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or su assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during 2022 2023 and 2021 2022 include which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other non-interest expense.

Assets measured at fair value on a nonrecurring basis as of December 31, 2022 December 31, 2023 and 2021 2022 (in thousands) are included in the table below:

2022		**Level I**		**Level II**
Impaired Loans	$	-	$	-
Other real estate owned		-		-

2023		**Level I**		**Level II**		**Level III**		**Total**
Collateral-dependent loans	$	-	$	-	$	3,885	$	3,885
Other real estate owned		-		-		97		97

2021		**Level I**		**Level II**
Impaired Loans	$	-	$	-
Other real estate owned		-		-

2022		**Level I**		**Level II**
Impaired loans	$	-	$	-
Other real estate owned		-		-

- ***Collateral-Dependent Loans (in accordance with ASC 326)*** **- The Company records nonrecurring adjustments of collateral-dependent loans held for investment. S that include recent sales prices for comparable properties and cost of construction. Periodically, in cases where the carrying value exceeds the fair value of the c**

- ***Impaired Loans (in accordance with ASC 310)*-** The Company has measured impairment on impaired loans generally based on the fair value of the loan's collateral. I conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the pro losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a Level III me estimated selling costs of $50,000 and $47,000 at December 31, 2022 and 2021, respectively. .

- ***Other Real Estate Owned –*** OREO is carried at the lower of cost or fair value, less estimated costs to sell, which is measured at the date of foreclosure. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value. The fair value of OREO is based on the above table as a Level II measurement. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or unobservable inputs. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses fror

The following table provides a listing of the significant unobservable inputs used in the fair value measurement process for items valued utilizing level III techniques (

2022	Fair Value	Valuation Technique(s)	Unobservable input	Range	Weighted average
Impaired Loans	496	Appraised Collateral Values	Discount for time since appraisal	0-100%	25.16%
			Selling costs	8%-10%	8.41%
			Holding period	6 - 12 months	11.51 months
Other real estate owned	297	Appraised Collateral Values	Discount for time since appraisal	20-84%	39.84%

2023	Fair Value	Valuation Technique(s)	Unobservable input	Range	W
Collateral-dependent loans	3,885	Appraised Collateral Values	Discount for time since appraisal	0-100%	
			Selling costs	8%-12%	
			Holding period	3 - 12 months	
Other real estate owned	97	Appraised Collateral Values	Discount for time since appraisal	32%	

2021	Fair Value	Valuation Technique(s)	Unobservable input	Range	Weighted average
Impaired Loans	459	Appraised Collateral Values	Discount for time since appraisal	0-100%	23.38%
			Selling costs	8%-10%	8.27%
			Holding period	6 - 12 months	11.52 months
Other real estate owned	552	Appraised Collateral Values	Discount for time since appraisal	20-44%	41.76%

2022	Fair Value	Valuation Technique(s)	Unobservable input	Range	Weighted average
Impaired loans	496	Appraised Collateral Values	Discount for time since appraisal	0-100%	25.16%
			Selling costs	8%-10%	8.41%
			Holding period	6 - 12 months	11.51 months
Other real estate owned	297	Appraised Collateral Values	Discount for time since appraisal	20-84%	39.84%

Financial Instruments Not Required to be Measured or Reported at Fair Value

The carrying amount and fair value of the Company's financial instruments that are not required to be measured or reported at fair value on a recurring basis are as fo

December 31, 2022 December 31, 2023		Carrying Amount	
Financial assets:			
Interest bearing time deposits with other banks	$	6,055	$
Loans held for sale		725	
Net loans		1,706,447	
Financial liabilities:			
Deposits		1,844,208	
Borrowed funds		257,278	

December 31, 2021 December 31, 2022		Carrying Amount	
Financial assets:			
Interest bearing time deposits with other banks	$	11,026	$
Loans held for sale		4,554	
Net loans		1,424,229	
Financial liabilities:			
Deposits		1,836,151	
Borrowed funds		73,977	

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, determined with precision. Changes in assumptions can significantly affect the estimates.

Estimated fair values have been determined by the Company using historical data, as generally provided in the Company's regulatory reports, and an estimation met approximate fair value and are considered Level I measurements.

20. 22. CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The following is condensed financial information for Citizens Financial Services, Inc.:

CITIZENS FINANCIAL SERVICES, INC.

CONDENSED BALANCE SHEET

(in thousands)
Assets:
Cash
Investments
Investment in subsidiary:
First Citizens Community Bank
Other assets
Total assets
Liabilities:
Other liabilities
Borrowed funds
Total liabilities
Stockholders' equity
Total liabilities and stockholders' equity

CITIZENS FINANCIAL SERVICES, INC.

CONDENSED STATEMENT OF INCOME

(in thousands)
Dividends from:
Bank subsidiary
Equity securities
Interest income
Total income
Realized securities gains (losses)
Expenses
Income before equity in undistributed earnings of subsidiary
Equity in undistributed earnings - First Citizens Community Bank
Net income
Comprehensive (loss) income
Comprehensive income (loss)

CITIZENS FINANCIAL SERVICES, INC.

STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net income	$ 29,060	$ 29,118	$ 25,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(22,135)	(20,744)	(9,685)
Investment securities losses (gains), net	219	(284)	23
Other, net	240	543	14
Net cash provided by operating activities	7,384	8,633	15,455
Cash flows from investing activities:			
Purchases of equity securities	(218)	-	(1,339)
Proceeds from the sale of equity securities	33	-	168
Acquisition of Midcoast	-	-	(7,614)
Net cash used in investing activities	(185)	-	(8,785)
Cash flows from financing activities:			
Cash dividends paid	(7,588)	(7,383)	(6,539)
Issuance of subordinated debt	-	9,869	-
Purchase of treasury stock	(1,279)	(1,374)	(2,122)
Sale of treasury stock to employee stock purchase plan	112	-	126
Net cash (used in) provided by financing activities	(8,755)	1,112	(8,535)
Net (decrease) increase in cash	(1,556)	9,745	(1,865)
Cash at beginning of year	15,046	5,301	7,166
Cash at end of year	$ 13,490	$ 15,046	$ 5,301

CITIZENS FINANCIAL SERVICES, INC.
STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	$ 17,811	$ 29,060	$ 29,118
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(7,804)	(22,135)	(20,744)
Investment securities losses (gains), net	209	219	(284)
Other, net	(206)	240	543
Net cash provided by operating activities	10,010	7,384	8,633
Cash flows from investing activities:			
Purchases of equity securities	-	(218)	-
Proceeds from the sale of equity securities	127	33	-
Investment in subsidiaries	(15,000)	-	-
Acquisition of HVB	(10,780)	-	-
Net cash used in investing activities	(25,653)	(185)	-
Cash flows from financing activities:			
Cash dividends paid	(8,503)	(7,588)	(7,383)
Issuance of subordinated debt	-	-	9,869
Issuance of short-term debt	12,572	-	-
Purchase of treasury stock	(265)	(1,279)	(1,374)
Sale of treasury stock to employee stock purchase plan	34	112	-
Purchase of restricted stock	-	-	-
Net cash provided by (used in) financing activities	3,838	(8,755)	1,112
Net decrease in cash	(11,805)	(1,556)	9,745
Cash at beginning of year	13,490	15,046	5,301
Cash at end of year	$ 1,685	$ 13,490	$ 15,046

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MANAGEMENT'S ANNUAL RE

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d
financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiven

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 5), or a combination of significan
management or employees in the normal course by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023. Management's asses

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013
over financial reporting was effective.

/s/ Randall E. Black
By: Randall E. Black
Chief Executive Officer and President
(Principal Executive Officer)
Date: March 9, 2023 March 7, 2024

/s/ Stephen J. Guillaume
By: Stephen J. Guillaume
Chief Financial Officer
(Principal Financial & Accounting Officer)
Date: March 9, 2023
March 7, 2024

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Citizens Financial Services, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Citizens Financial Services, Inc. and subsidiaries (the "Company") as of December 31, 2022 Decembe
ended December 31, 2022 December 31, 2023; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the fin
flows for each of the three years in the period ended December 31, 2022 December 31, 2023, in conformity with accounting principles generally accepted in the United Sta

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Acc

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 base
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 ab
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 ex

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing proced
the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that

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 cor
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 communi

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Allowance for Loan Credit Losses (ALL)

Description of the Matter

The Company's loan portfolio totaled $1.7 billion $2.2 billion as of December 31, 2022 December 31, 2023, and the associated ALL allowance for credit losses on loans was
account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the ALL requires significant judgment
relevant to assessing exposure to credit loss over the collectability contractual term of the instruments.

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In calculating the allowance for credit losses, loans which includes an assessment were segmented into pools based upon similar risk characteristics. For each of quanti
cash flow projections at the loan level, adjusting payment expectations for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss gi
loans default and testing loss given default. The Company's analysis also determines how expected probability of certain commercial loans for impairment. Management
certain macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period. Management uses Federal Open Market Committe
macroeconomic variables were reverted to a long-run average utilizing a rational, systematic basis.

Additionally, a portion of the collective ACL is comprised of adjustments to historical loss information for asset-specific risk characteristics to reflect the extent they do r
the measurement of estimated credit losses within the loan pools. Management uses a Qualitative Scorecard (Scorecard) to provide the adjustments to the historical loss
measure risk in the loan pools that may not be captured in the quantitative methodology. Benefits of the Scorecard model include the following:

- Provides a structured and consistent framework
- Standardizes benchmarks for measurement
- Ensures directional consistency with changes in environmental factors
- Correlates measurement between the inputs and outcomes

Loans that do not share similar risk characteristics with the loans evaluated using a collective (pooled) basis are evaluated individually. Management uses the collateral r
appraised values, including selling and administrative costs, and other expenses necessary to liquidate the collateral.

Auditing management's estimate of the ACL involves a high degree of subjectivity due to the complexities of the key assumptions used, such as applicable loss drivers f
adjustments is highly judgmental and had a significant effect on the ACL. There was a high degree of auditor judgment involved, due to the significant judgments made b

How We Addressed the Matter in Our Audit

The primary procedures we performed related to this critical audit matter (CAM) included:

- Obtained an understanding of the Company's process for establishing the ACL, including the implementation of models and assumptions and the qualitative factor ad
- Evaluated and tested the reliability and accuracy of data used to calculate and estimate the various components of the ACL including:
  - o Loan data completeness and accuracy
  - o Grouping of loans based on similar risk characteristics
  - o Use of historical internal data and external peer data
  - o Model inputs utilized
  - o Approval of model assumptions selected
  - o Establishment of qualitative factors
  - o Loan risk ratings
- Tested the mathematical accuracy of the calculation of the ACL
- Performed reviews of individual credit files and internally prepared loan review reports and support to evaluate the reasonableness of loan credit risk ratings
- Performed a review of external loan review reports issued by the third-party
- Tested the completeness and accuracy, including the evaluation of the relevance and reliability of inputs utilized in the calculation of the ACL
- Evaluated the reasonableness of selected loss drivers utilized and loss driver forecasts for loan pools
- Tested the reasonableness of specific allowances on individually reviewed loans
- Tested the reasonableness of the peer group utilized for inclusion with the selected loss drivers
- Evaluated analytically credit quality trends in delinquencies, non-accruals, charge offs, and loan delinquencies risk ratings
- Evaluated the overall reasonableness of the ACL considering trends identified within peer groups
- Evaluated qualitative adjustments made to the ACL, including assessing the reasonableness and classified loans, collateral basis for those adjustments in estimating t

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Acquisition of HV Bancorp, Inc. – Fair Value of Acquired Loans and Core Deposit Intangible

Description of the Matter

During 2023, the Company completed the acquisition of HV Bancorp, Inc. (HVB) for consideration of $76.7 million, as disclosed in Note 2 to the consolidated financial sta
concentrations identifiable intangible assets are recorded at fair value. Determination of credit risk the acquisition date fair value required management to make significar

Auditing the Company's accounting for the commercial acquisition was complex due to the significant estimation required by management to determine the fair value of t
interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considered a number of factors in ev
grade, estimated value of the underlying collateral, and interest rate environment. The Company determined the fair value of the CDI by using a discounted cash flow mod
involved in determining the discount rate used to discount the expected cash flows for acquired loans and the CDI, along with other factors described above, to establish

We identified these qualitative adjustments within the ALL determination of the acquisition-date fair value of loans and the CDI as a critical audit matters because they inv
value. This required a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a hig

How We Addressed the Matter in Our Audit

We gained obtained an understanding, of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the desig
over the completeness and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability accuracy of the data u
models.

To test the qualitative adjustments, estimated fair value of the loans acquired and core deposit intangibles, we evaluated performed audit procedures that included, amon
management's methodology the underlying data supporting the factors and assessed whether all relevant risks were reflected estimates. For example, when evaluating th

Regarding the measurement Our primary audit procedures performed to address this critical audit matter included:

- We obtained an understanding of the qualitative adjustments, we Company's process for determining the fair value of the acquired loan portfolio and the CDI resulting
- We evaluated the completeness and accuracy and relevance of data inputs used as a basis for the valuation of the data and inputs utilized in management's estimate. I information. We also compared the ALL to a range of historical losses to evaluate the ALL, including the reasonableness of qualitative adjustments. Furthermore, we a

- We also utilized internal credit review specialists with knowledge to evaluate tested the appropriateness mathematical accuracy of management's risk-rating processes the calculation
- We evaluated the completeness and accuracy of the purchased credit deteriorated loan portfolio and tested the mathematical accuracy of the estimated fair value, incl

We have served as the Company's auditor since 1994.

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

Cranberry Township, Pennsylvania
March 9, 2023 7, 2024

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

None.

ITEM 9A – CONTROLS AND PROCEDURES.

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Con
evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disc
Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules a
required disclosure.

(b) Internal Control Over Financial Reporting

Management's annual report on internal control over financial reporting is incorporated herein by reference to Item 8 - the Company's audited Consolidated Fi

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2022 December 31, 2023 that h

ITEM 9B – OTHER INFORMATION.

None.

During the three months ended December 31, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan
defined in Item 408 of SEC Regulation S-K).

ITEM 9C – DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

For information relating to the directors of the Company, the section captioned *"Proposal 1. Election of Directors"* in the Company's Proxy Statement for the 2023 202

Executive Officers

For information relating to officers of the Company, the section captioned *"Proposal 1. Election of Directors"* in the 2023 2024 Proxy Statement is incorporated by refe

Compliance with Section 16(a) of the Exchange Act

For information regarding compliance with Section 16(a) of the Exchange Act, the section captioned *"Other Information Relating to Directors and Executive Officers -*

Disclosure of Code of Ethics

**The Company has adopted a Code of Ethics that applies to directors, officers and employees of the Company and the Bank. A copy of the Code of Ethics is posted c
Ethics by posting such information on its website.**

Corporate Governance

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned *"Corporate Governance – Commit*

ITEM 11 – EXECUTIVE COMPENSATION

Executive Compensation

For information regarding executive and director compensation, the sections captioned *"Director Compensation", "Executive Compensation", "Compensation Discu*

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

(a) Security Ownership of Certain Beneficial Owners Information required by this item is incorporated herein by reference to the section captioned *"Stock Owne*

(b) Security Ownership of Management Information required by this item is incorporated herein by reference to the section captioned *"Stock Ownership"* in the

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a su

(c) Changes in Control

(d) Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a

(d) Equity Compensation Plan Information

The following table sets forth information as of December 31, 2021

The following table sets forth information as of December 31, 2023 about Company common stock that may be issued under the Company's 2016 Restricted S

Plan Category	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	n/a		n/a		116,058 112,563
Equity compensation plans not approved by security holders	n/a	n/a	n/a		n/a
Total	n/a		n/a		119,391 112,563

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

Certain Relationships and Related Transactions

For information regarding certain relationships and related transactions, the section captioned *“Other Information Relating to Directors and Executive Officers - Transactions with Related Persons”* in the Company’s 2023 2024 Proxy Statement is incorporated by reference.

Director Independence

For information regarding director independence, the section captioned *“Corporate Governance – Director Independence”* in the Company’s 2023 2024 Proxy Statement is incorporated by reference.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information regarding the principal accountant fees and expenses the section captioned “*Audit – Related Matters*” in the Company’s 2023 2024 Proxy Statement is incorporated by reference.

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PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this report:

1. The following financial statements are incorporated by reference in Item 8:

Report of Independent Registered Public Accounting Firm (PCAOB ID 74)
Consolidated Balance Sheet as of December 31, 2022 December 31, 2023 and 2021 2022
Consolidated Statement of Income for the Years Ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021
Consolidated Statement of Comprehensive Income for the Years Ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021
Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021
Consolidated Statement of Cash Flows for the Years Ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021
Notes to Consolidated Financial Statements

2. All financial statement schedules are omitted because the required information is either not applicable, not required or isshown is shown in the respective financial statement or in the notes thereto, which are incorporated by reference at subsection (a)(1) of this item.

3. The following Exhibits are filed herewith, or incorporated by reference as a part of this report.

3.1	Restated Articles of Incorporation of Citizens Financial Services, Inc., as amended(1)
3.2	Articles of Amendment of Restated Articles of Incorporation of Citizens Financial Services, Inc. (2)
3.3	Bylaws of Citizens Financial Services, Inc.(3)
3.4	Amendment No. 1 to Amended and restated Bylaws of Citizens Financial Services, Inc. (4)
4	Instrument defining the rights of security holders(5)
10.1	*Amended and Restated Executive Employment Agreement between Citizens Financial Services, Inc., First Citizens Community Bank and Randall E. Black(5) (6)
10.2	*Citizens Financial Services, Inc. Directors' Deferred Compensation Plan(6) (7)
10.3	*Citizens Financial Services, Inc. Directors' Life Insurance Program(7) (8)
10.4	*Supplemental Executive Retirement Plan(8) (9)
10.5	*Second Amendment to First Citizens Community Bank Supplemental Executive Retirement Plan(9) (10)
10.6	*Change in Control Agreement, between First Citizens Community Bank, Citizens Financial Services, Inc. (as guarantor) and Mickey L. Jones (10) (11)
10.7	*First Citizens Community Bank Annual Incentive Plan (11) (12)
10.8	*Amended and Restated First Citizens Community Bank Annual Incentive Plan
10.9	*First Citizens Community Bank Endorsement Split-Dollar Life Insurance Plan (12) (13)
10.10	Citizens Financial Services, Inc. 2016 Equity Incentive Plan (13) (14)
10.11	*Change in Control Agreement, between First Citizens Community Bank, Citizens Financial Services, Inc. (as guarantor) and Jeffrey L. Wilson (14) (15)

10.12	*Change in Control Agreement, between First Citizens Community Bank, Citizens Financial Services, Inc. (as guarantor) and David Z. Richards, Jr. (15) (16)
10.13	*Change in Control Agreement, between First Citizens Community Bank, Citizens Financial Services, Inc. (as guarantor) and Jeffrey B. Carr (16) (17)
10.14	*First Citizens Community Bank Executive Deferred Compensation Plan (17) (18)
10.15	*Amended and Restated First Citizens Community Bank Executive Deferred Compensation Plan (18) (19)
10.16	*First Citizens Community Bank Long Term Incentive Plan (19) (20)
10.17	*Change in Control Agreement, between First Citizens Community Bank, Citizens Financial Services, Inc. (as guarantor) and Stephen J. Guillaume(21)
21	List of Subsidiaries
23	Consent of S.R. Snodgrass, P.C., Independent Registered Public Accountants
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
97	Citizens Financial Services, Inc. Clawback Policy

101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, formatted in XBRL (Extensible Business Reporting Language): (i) The Consolidated Balance Sheet, (ii) the Consolidated Statement of Income, (iii) the Consolidated Statement of Comprehensive Income, (iv) the Consolidated Statement of Changes in Stockholders' Equity, (v) the Consolidated Statement of Cash Flows and (vi) related notes.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

***Management contract or compensatory plan, contract or arrangement**

(1) Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, as filed with the Commission on August 9, 2018.

(2)Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on April 26, 2021.

(3)Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on December 17, 2020.

(4) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on November 23, 2022
(5)Incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the Commission on March 9, 2023.

(5) (6) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the Commission on August 9, 2012.

(6) (7) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, as filed with the Commission on August 8, 2019.

(7) (8) Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the Commission on March 15, 2005.

(8) (9) Incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Commission on March 7, 2013.

(9) (10) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, as filed with the Commission on November 4, 2021.

(10) (11) Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the Commission on August 9, 2012.

(11) (12) Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, as filed with the Commission on August 8, 2013.

(12) (13) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on January 7, 2015.

(13) (14) Incorporated by reference to Exhibit A to the Company's definitive proxy statements for the 2016 Annual Meeting of Shareholders, as filed with the Commission on March 10, 2016.

(14) (15) Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K, as filed with the Commission on December 22, 2016.

(15) (16) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, as filed with the Commission on December 11, 2017.

(16) (17) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, as filed with the Commission on December 21, 2017.

(17) (18) Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Commission on March 7, 2019.

(18) (19) Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as filed with the Commission on March 10, 2022

(19) (20) Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Commission on March 12, 2020.

(21)Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, as filed with the Commission on November 22, 2023.

ITEM 16 – FORM 10-K SUMMARY

Not Applicable.

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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.

Citizens Financial Services, Inc.

(Registrant)

/s/ Randall E. Black
By: Randall E. Black
Chief Executive Officer and President
(Principal Executive Officer)

Date: March 9, 2023
March 7, 2024

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 and on the dates indicated.

Signature and Capacity	Date
/s/ Randall E. Black Randall E. Black, Chief Executive Officer, President and Director (Principal Executive Officer)	March 9, 2023 7, 2024
/s/ Stephen J. Guillaume Stephen J. Guillaume, Chief Financial Officer (Principal Financial & Accounting Officer)	March 9, 2023 7, 2024
/s/ Robert W. Chappell Robert W. Chappell, Director	March 9, 2023 7, 2024
/s/ R. Joseph Landy R. Joseph Landy, Director	March 9, 2023 7, 2024
/s/ Roger C. Graham, Jr. Jr. Roger C. Graham, Director	March 9, 2023 7, 2024
/s/ E. Gene Kosa E. Gene Kosa, Director	March 9, 2023 7, 2024
/s/ Rinaldo A. DePaola Rinaldo A. DePaola, Director	March 9, 2023 7, 2024

/s/ Thomas E. Freeman	**March 9, 2023 7, 2024**
Thomas E. Freeman, Director	
/s/ Alletta M. Schadler	**March 9, 2023 7, 2024**
Alletta M. Schadler, Director	
/s/ Christopher W. Kunes	**March 9, 2023 7, 2024**
Christopher W. Kunes	
/s/ David Z, Richards, Jr. Jr.	**March 9, 2023 7, 2024**
David Z. Richards, Jr., Director	
/s/ Mickey L. Jones.	**March 9, 2023 7, 2024**
Mickey L. Jones, Director	
/s/ Janie M Hifiger	**March 9, 2023 7, 2024**
Janie M Hilfiger, Director	

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Exhibit 10.8

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Exhibit 4

Exhibit 10.8

FIRST CITIZENS COMMUNITY BANK
ANNUAL INCENTIVE PLAN
(as amended and restated effective January 1, 2022 January 1, 2023)

I. Introduction and Objectives

I. Introduction and Objectives

The Annual Incentive Plan (the “Plan”) is designed to recognize and reward participants for their collective and individual contributions to the success of **First Citizens Community Bank** (the “Bank”) and **Citizens Financial Services, Inc.** (the “Company”) collectively referred to herein as the “Employer”. The Plan focuses on performance measures that are critical to the Bank’s growth and profitability.

The objectives of the Plan are to:

- • Reward results, not effort.
- • Align the Employer’s strategic plan, budget, and shareholder interests with participant performance.
- • Motivate and reward participants for achieving /exceeding performance goals.
- • Align incentive pay with performance.

- • Enable the Employer to attract and retain talent needed to drive the success of the Bank and the Company.
- • Encourage teamwork across the Bank and the Company.

II. Performance Period/Plan Year

II. Performance Period/Plan Year

The performance period and the Plan operate on a calendar year basis (January 1st - December 31st).

III. Incentive Award Opportunity

III. Incentive Award Opportunity

A.The Company's Compensation/Human Resource Committee (the "Committee"), in consultation with executive management, determines each participant's Incentive Award Opportunity under the Plan. Notwithstanding the foregoing, the Company's named executive officers (as noted in the Company's annual proxy statement) do not participate in the determination of their annual Incentive Award Opportunities. As noted in Section III (B) of this Plan, Incentive Award Opportunities are shown as a percentage of "base salary" as such term is defined in Section II (C) of this Plan. Actual awards vary based on Company, Bank and Departmental/Branch performance. *(See Section IV – Performance Measures.)*

B. Appendix B, attached hereto, sets forth the Incentive Award Opportunities for the various positions at the Bank and the Company level. These incentive opportunities are reviewed annually by the Committee to ensure the awards remain competitive, based on industry standards and Company objectives. As noted in Section III (A) above, Incentive Award Opportunities are illustrated as a percentage of a participant's "base salary" (as defined in paragraph C below).

C.Exclusively for purposes of this Plan, "base salary" is defined as the compensation earned by a Participant during the Plan Year for services rendered to the Employer, **excluding the following items**:

- Profit sharing contributions
- Other discretionary incentive compensation (such as leadership awards and service awards)
- Cash payments received for waiving Employer-paid health insurance
- Cell phone allowances
- Fringe benefits

IV. Performance Measures

IV. Performance Measures

There are two primary categories in which performance is measured under the Plan: Corporate/Bank goals and Branch/Department goals. Goals and weightings will be tailored to each Participant's position, branch or department, as applicable.

The Committee takes into consideration the budget, strategic plan and other relevant items when setting specific performance measures. Weightings for the categories are subject to review and adjustment by the Committee on an annual basis. (*See Appendix C*.)

A.Corporate/Bank Performance Measures: The Company/Bank goals focus on overall bank performance such as Company returns, income and other similar measures. These goals will reflect core measures of profitability and efficiency of Bank and Company resources. The Committee generally establishes these performance measures based on three-year averages as compared to the Company's peer group. The current peer group is set forth on Appendix A to this Plan and is reviewed annually. In calculating performance results, the Compensation Committee reviews public peer data compiled by the President/Chief Executive Officer and Chief Operating Officer of the Bank.

B.Branch/Department Performance Measures: The Branch/Department goals focus on key discipline areas of the Branch or Department and may include items such as deposit growth, asset quality, strategic planning and other similar projects/initiatives. Specific goals are set annually by Executive Management and the Committee.

V. Determining Payouts and the Distribution of Incentive Awards

V. Determining Payouts and the Distribution of Incentive Awards

A. At the beginning of each performance period, Participants will be given a performance scorecard for the Plan Year, setting forth Company/Bank performance goals and Branch or Departmental performance goals, as applicable to each Participant. At the end of the performance period, the President/Chief Executive Officer and Chief Operating Officer of the Company will evaluate the achievement of the Bank/Company performance goals, utilizing peer group performance when applicable, and review the results with the Committee. Executive Management, in consultation with Senior Management, will evaluate the achievement of the Department/Branch Performance goals and review such results with the Committee. The Chief Operating Officer will then complete a scorecard for each Participant and provide the scorecards to the Committee for final review.

B.Incentive Award amounts are calculated based on a percentage of base salary (*as defined in Section III (C)*) as of December 31st for the applicable Plan Year. Incentive Awards are considered ordinary income to Participants in the year distributed and are subject to income tax and other applicable tax withholding.

C.Incentive Awards may be paid in cash or Company common stock ("Restricted Stock"), as determined by the Committee on an annual basis. Any such Restricted Stock shall be granted under the Citizens Financial Services, Inc. 2016 Equity Incentive Plan and shall be subject to the terms and conditions thereof. *(See Appendix D for specific Award allocations.)*

D. The Committee, in its sole discretion, determines the payments to be made under this Plan based on the scorecards and the overall financial performance of the Bank and the Company.

VI. Terms and Conditions

VI. Terms and Conditions

A.**Eligibility**. Eligible employees are determined annually by the Company, in consultation with executive management. Eligibility in the Plan does not guarantee an Incentive Award will be paid.

B.**Effective Date**. This Plan was originally effective as of January 1, 2010. The Plan was amended and restated in its entirety effective January 1, 2022.

C.**Program Administration**. The Program is authorized by the Committee and administered by Executive Management.

D.**Program Changes or Discontinuance**. The Bank developed the Plan based on current business, market and economic conditions; current services; and staff assignments. If changes occur that affect these conditions, services, assignments, or forecasts, the Bank may add to, amend, modify or discontinue any of the terms or conditions of the plan at any time.

The Committee may, in its sole discretion, waive, change or amend the Plan as it deems appropriate and at any time.

E.**Promotions and Transfers**

If a Participant changes his/her role or is promoted during the Plan year such that the Incentive Award opportunity changes, he/she will be eligible for the new position's incentive award opportunity on a pro rata basis (i.e., the award will be prorated based on the number of months employed in each respective position.)

F.**Termination of Employment**

Unless otherwise noted in this Plan, a Participant must be actively employed by the Bank or the Company on the date an Incentive Award is paid in order to be eligible to receive the award. In addition, if an employee has given notice of termination, any incentive award not yet paid will be forfeited. *(See exceptions for death and retirement below.)*

G.**Death, Retirement or a Change in Control**

Death. In the event of a Participant's death, the Employer will pay to the Participant's estate an Incentive Award earned for the Plan Year in which the Participant dies. Such award will be determined based on the participant's base salary earned as of his or her date of death. In addition, if a Participant dies prior to the distribution of an Incentive Award from a prior Plan Year, the participant's estate will receive the Award that the Participant would have received had the Participant been employed as of the date of distribution of the Incentive Award payout.

Retirement. If a Participant retires upon the attainment of Normal Retirement Age or Early Retirement Age (as defined in the Bank's tax-qualified retirement plan), the Participant will receive an Incentive Award earned for the Plan Year in which he or she retires. Such award will be determined based on the participant's base salary earned as of his or her retirement date. In addition, if the Participant retires prior to the distribution of an Incentive Award from a prior Plan Year, the Participant will receive the award that the Participant would have received had the Participant been employed as of the date of distribution of the Incentive Award payout.

Change in Control. In the event of a Change in Control (as defined herein) followed by a separation from service, Participants will receive a pro rata payout based on the period of active employment with the Employer. Performance results will be determined according to the results for the current year on a pro rata period basis and applied to the pro rata base salary earned. Adjustments may be made by Executive Management and/or Committee in their sole discretion. Performance results that are based on peer company results not yet reported will be assumed to have been 100% achieved. Incentive Awards will be distributed within ten (10) business days of the date of separation from service.

For purposes of this Plan, the term "Change in Control" shall mean: a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A and any successor rule or regulation promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") if Company or Bank were subject to the Exchange Act reporting requirements; provided that, without limiting the foregoing, such a Change in Control shall be deemed to have occurred if the Board of Directors certifies that one of the following has occurred: (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than the Company or Bank or any "person" who on the date hereof is a director or officer of the Company or Bank is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or Bank representing fifty percent (50%) or more of the combined voting power of the Company's or Bank's then outstanding securities, or (b) a merger, consolidation or business combination with the Company and/or Bank occurs. Notwithstanding any other provision in this Plan, in the event a Participant is determined to be a key employee as that term is defined by Section 409A of the Internal Revenue Code no payment shall be made until one day following six months from the date of separation from service as that term is defined by Section 409A of the Internal Revenue Code.

VII. Ethics and Interpretation

VII. Ethics and Interpretation

If there is any ambiguity as to the meaning of any terms or provisions of this Plan or any questions as to the correct interpretation of any information contained therein, the Employer's interpretation expressed by Executive Management and/or Committee will be final and binding.

The altering, inflating, and/or inappropriate manipulation of performance/financial results or any other infraction of recognized ethical business standards will subject the employee to disciplinary action up to and including termination of employment. In addition, any incentive compensation as provided by the Plan to which the Participant would otherwise be entitled will be revoked.

Participants who have willfully engaged in any activity injurious to the Bank or the Company will, upon termination of service, forfeit any incentive award earned during the award period in which the termination occurred.

VIII. Miscellaneous

VIII. Miscellaneous

The Plan will not be deemed to give any Participant the right to be retained in the employ of the Bank or the Company, nor will the Plan interfere with the right of the Bank or the Company to discharge any Participant at any time.

In the absence of an authorized, written employment contract, the relationship between employees and the Bank and the Company is one of at-will employment. The Plan does not alter the relationship.

This Plan and the transactions and payments hereunder shall, in all respect, be governed by, and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

Each provision in this Plan is severable, and if any provision is held to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not, in any way, be affected or impaired thereby.

APPENDIX A

PEER GROUP
(Updated Annually)

Bank	Location	State
Adams County National Bank	Gettysburg	PA
Chemung Canal Trust Company	Elmira	NY
Citizens and Northern	Wellsboro	PA
First Keystone Community Bank	Berwick	PA
F&M Trust	Chambersburg	PA
Orrstown Bank	Shippensburg	PA
Jersey Shore State Bank	Williamsport	PA
Peoples Security Bank & Trust	Hallstead	PA
QNB Bank	Quakertown	PA
AmeriServ Financial	Johnstown	PA
Ephrata National Bank	Ephrata	PA
First National Community Bank	Dunmore	PA
PeoplesBank	York	PA
Bank of Delmarva	Salisbury	MD
Fidelity Bank	Dunmore	PA
ESSA Bank & Trust	Stroudsburg	PA
First Citizens Community Bank	**Mansfield**	**PA**

APPENDIX B

INCENTIVE AWARD OPPORTUNITY
(Subject to Annual Review by the Committee)

Position	Incentive Award Opportunity as a Percentage of Base Salary (up to)
CEO/President	100.0%
Executive Management:	
Chief Operating Officer	75.0%
EVP – Chief Market Dev Officer	35.0%
Senior Management	25.0%

Incentive Award Opportunities for all other Participants will be provided to each Participant by Management at the beginning of each Plan Year.

APPENDIX C

PERFORMANCE MEASURE WEIGHTINGS
(Subject to Annual Review by the Committee)

Position	Company/Bank Measures	Department/ Branch Measures
CEO/President	85%	15%
Executive Management:		
Chief Operating Officer	80%	20%
EVP – Chief Market Dev Officer	50%	50%

Performance Measure Weightings for Senior Management and all other Participants will be provided by Management at the beginning of each Plan Year.

The specific performance measures and the weighting for each measure are reviewed annually by the Committee in order to reflect the Employer's strategic priorities and financial objectives. Notwithstanding the foregoing, the Committee may elect, in its sole discretion, to amend or modify these measures at any time *(See Section VI (D) – Program Changes or Discontinuance.)*

APPENDIX D

DISTRIBUTION OF INCENTIVE AWARDS
(Subject to Annual Review by the Committee)

CEO, Executive Management and Senior Management

Event *	Cash	Restricted Stock/Stock
Plan Year Prior to Attaining Retirement Eligibility	70%	30% Restricted Stock
Year of Attaining Retirement Eligibility and Each Year Thereafter	Option of 70% to 100%	Option of 30% to 0% Stock

* Retirement eligibility as defined in the Bank's tax-qualified retirement plan

All shares of Restricted Stock awarded are provided through the Company's 2016 Equity Incentive Plan, approved by Company shareholders. Restricted Stock will vest ratably over the three-year period commencing on the date of the first anniversary of each award. For employees who have reached Retirement Eligibility, stock awards will be granted with no restrictions (i.e., fully vested) and fully taxable in the year of the grant.

Income Tax Withholding. For Participants who have attained Retirement Eligibility, a Participant may satisfy the income tax withholding obligation by electing to use cash or a combination of cash and stock, by requesting the Company withhold a portion of a Stock Award (between 0% and 30% of the incentive award) based on the current fair market value.

All Other Participants

The Committee determines cash and stock percentages, unless otherwise stated elsewhere.

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EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

CZFS Acquisition Company, LLC of Mansfield, Pennsylvania is the Company's sole subsidiary.

First Citizens Community Bank of Mansfield, Pennsylvania is CZFS Acquisition Company, LLC's sole subsidiary.

The Bank's Bank's subsidiaries are First Citizens Insurance Agency, Inc. and 1st Realty of PA, LLC, both of Mansfield, Pennsylvania.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Citizens Financial Services, Inc.:

- Registration Statement on Form S-8 relating to the Citizens Financial Services, Inc. 2016 Equity Incentive Plan (File # 333-211662)
- Registration Statement on Form S-4 related to the merger with HV Bancorp, Inc. (File # 333-268840) #333-211662)
- Registration Statement on Form S-3/D related to the Citizens Financial Services, Inc. Dividend Reinvestment Plan (File # 187451) #333-187451)

of our report dated March 9, 2023 March 7, 2024, related with respect to our audit of the consolidated financial statements of Citizens Financial Services, Inc. and subsidiaries included in this Annual Report (Form 10-K) of Citizens Financial Services Inc. for the year ended December 31, 2022 December 31, 2023.

Cranberry Township, Pennsylvania
March 9, 2023 7, 2024

PITTSBURGH, PA
2009 Mackenzie Way • Suite 340
Cranberry Township, PA 16066
(724) 934-0344

PHILADELPHIA, PA
2100 Renaissance Blvd. • Suite 110
King of Prussia, PA 19406
(610) 278-9800

WHEELING, WV
980 National Road
Wheeling, WV 26003
(304) 233-5030

STEUBENVILLE, OH
511 N. Fourth Street
Steubenville, OH 43952
(304) 233-5030

S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

I, Randall E. Black, certify that:

1. I have reviewed this Form 10-K of Citizens Financial Services, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2023March 7, 2024

/s/ Randall E. Black
By: Randall E. Black
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

I, Stephen J. Guillaume, certify that:

1. I have reviewed this Form 10-K of Citizens Financial Services, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2023 Date: March 7, 2024

/s/ Stephen J. Guillaume
By: Stephen J. Guillaume
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT 32.1
Certification Pursuant To
18 U.S.C. Section 1350
As Added By
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Citizens Financial Services, Inc. (the "Company") on Form 10-K (the "Report") for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission, I, Randall E. Black, Chief Executive Officer and President, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities 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 as of the dates and for the periods expressed in the Report.

/s/ Randall E. Black
By: Randall E. Black
Randall E. Black
Chief Executive Officer and President
Date: March 9, 2023

EXHIBIT 32.2
Certification Pursuant To
18 U.S.C. Section 1350
As Added By
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Citizens Financial Services, Inc. (the "Company") on Form 10-K (the "Report") for the year ended December 31, 2022, as filed with the Securities and Exchange Commission, I, Stephen J, Guillaume, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities 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 as of the dates and for the periods expressed in the Report.

/s/ Randall E. Black
By: Randall E. Black
Randall E. Black
Chief Executive Officer and President

Date: March 7, 2024

EXHIBIT 32.2
Certification Pursuant To
18 U.S.C. Section 1350
As Added By
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Citizens Financial Services, Inc. (the "Company") on Form 10-K (the "Report") for the year ended December 31, 2023, as filed with the Securities and Exchange Commission, I, Stephen J, Guillaume, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities 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 as of the dates and for the periods expressed in the Report.

/s/ Stephen J. Guillaume
By: Stephen J. Guillaume
Stephen J. Guillaume
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Date: March 9, 7, 2024

Exhibit 97

Citizens Financial Services, Inc.

Incentive Compensation Recovery Policy

Adopted by the Compensation/Human Resource Committee of the Board of Directors of Citizens Financial Services, Inc. (the "Company") on November 8, 2023

The Compensation/Human Resource Committee of the Company is adopting this Incentive Compensation Recovery Policy (this "Policy") to provide for the recovery of certain Incentive Compensation in the event of an Accounting Restatement.

Statement of Policy

In the event that the Company is required to prepare an Accounting Restatement, except as otherwise set forth in this Policy, the Company shall recover, reasonably promptly, the Excess Incentive Compensation received by any Covered Executive during the Recoupment Period.

This Policy applies to all Incentive Compensation received during the Recoupment Period by a person (a) after beginning service as a Covered Executive, (b) who served as a Covered Executive at any time during the performance period for that Incentive Compensation and (c) while the Company has a class of securities listed on the Nasdaq Stock Market LLC ("Nasdaq") or another national securities exchange or association. This Policy may therefore apply to a Covered Executive even after that person that is no longer a Company employee or a Covered Executive at the time of recovery.

Incentive Compensation is deemed "received" for purposes of this Policy in the fiscal period during which the financial reporting measure specified in the Incentive Compensation award is attained, even if the payment or issuance of such Incentive Compensation occurs after the end of that period. For example, if the performance target for an award is based on total stockholder return for the year ended December 31, 2023, the award will be deemed to have been received in 2023 even if paid in 2024.
Exceptions

The Company is not required to recover Excess Incentive Compensation pursuant to this Policy to the extent the Compensation/Human Resource Committee (the "Committee") makes a determination that recovery would be impracticable for one of the following reasons (and the applicable procedural requirements are met):

(a) after making a reasonable and documented attempt to recover the Excess Incentive Compensation, which documentation will be provided to Nasdaq to the extent required, the Committee determines that the direct expenses that would be paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered;

(b) based on a legal opinion of counsel acceptable to the Nasdaq, the Committee determines that recovery would violate a home country law adopted prior to November 28, 2022; or

(c) the Committee determines that recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

Definitions

"*Accounting Restatement*" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.For the avoidance of doubt, a restatement resulting solely from the retrospective application of a change in generally accepted accounting principles is not an Accounting Restatement.

"*Covered Executive*" means the Company's Chief Executive Officer, President, Chief Financial Officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function, any other officer who performs a policy-making function for the Company, any other person who performs similar policy-making functions for the Company, and any other employee who may from time to time be deemed subject to this Policy by the Committee.

"*Excess Incentive Compensation*" means the amount of Incentive Compensation received during the Recoupment Period by any Covered Executive that exceeds the amount of Incentive Compensation that otherwise would have been received by such Covered Executive if the determination of the Incentive Compensation to be received had been determined based on restated amounts in the Accounting Restatement and without regard to any taxes paid.

"*Incentive Compensation*" means any compensation (including cash and equity compensation) that is granted, earned, or vested based wholly or in part upon the attainment of a financial reporting measure. For purposes of this definition, a "*financial reporting measure*" is (i) any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements and any measure derived wholly or in part from such measures, or (ii) the Company's stock price and/or total shareholder return. A financial reporting measure need not be presented within the financial statements or included in a filing with the commission. Incentive Compensation subject to this Policy may be provided by the Company or subsidiaries or affiliates of the Company.

"*Recoupment Period*" means the three completed fiscal years preceding the Trigger Date, and any transition period (that results from a change in the Company's fiscal year) of less than nine months within or immediately following those three completed fiscal years, provided that any transition period of nine months or more shall count as a full fiscal year.

"*Trigger Date*" means the earlier to occur of: (a) the date the Board of Directors, the Audit and Examination Committee (or such other Committee of the Board as may be authorized to make such a conclusion), or the officer or officers of the Company authorized to take such action if action by the Board of Directors is not required concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or (b) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement; in the case of both (a) and (b) regardless of if or when restated financial statements are filed.

Administration

This Policy is intended to comply with Nasdaq Listing Rule 5608, Section 10D of the Securities Exchange Act of 1934, as amended (the "Act"), and Rule 10D-1(b)(1) as promulgated under the Act, and shall be interpreted in a manner consistent with those requirements. The Committee has full authority to interpret and administer this Policy. The Committee's determinations under this Policy shall be final and binding on all persons, need not be uniform with respect to each individual covered by the Policy, and shall be given the maximum deference permitted by law.

The Committee has the authority to determine the appropriate means of recovering Excess Incentive Compensation based on the particular facts and circumstances, which could include, but is not limited to, seeking direct reimbursement, forfeiture of awards, offsets against other payments, and forfeiture of deferred compensation (subject to compliance with Section 409A of the Internal Revenue Code).

Subject to any limitations under applicable law, the Committee may authorize any officer or employee of the Company to take actions necessary or appropriate to carry out the purpose and intent of this Policy, provided that no such authorization shall relate to any recovery under this Policy that involves such officer or employee.

If the Committee cannot determine the amount of excess Incentive Compensation received by a Covered Executive directly from the information in the Accounting Restatement, such as in the case of Incentive Compensation tied to stock price or total stockholder return, then it shall make its determination based on its reasonable estimate of the effect of the Accounting Restatement and shall maintain documentation of such determination, including for purposes of providing such documentation to Nasdaq.

Except where an action is required by Nasdaq Listing Rule 5608, Section 10D of the Act or Rule 10D-1(b)(1) promulgated under the Act to be determined in a different matter, the Board may act to have the independent directors of the Board administer this Policy in place of the Committee.

No Indemnification or Advancement of Legal Fees

Notwithstanding the terms of any indemnification agreement, insurance policy, contractual arrangement, the governing documents of the Company or other document or arrangement, the Company shall not indemnify any Covered Executive against, provide advancement of expenses for or pay the premiums for any insurance policy to cover, any amounts recovered under this Policy or any expenses that a Covered Executive incurs in opposing Company efforts to recoup amounts pursuant to the Policy.

Non-Exclusive Remedy; Successors

Recovery of Incentive Compensation pursuant to this Policy shall not in any way limit or affect the rights of the Company to pursue disciplinary, legal, or other action or pursue any other remedies available to it. This Policy shall be in addition to, and is not intended to limit, any rights of the Company to recover Incentive Compensation from Covered Executives under any legal remedy available to the Company and applicable laws and regulations, including but not limited to the Sarbanes-Oxley Act of 2002, as amended, or pursuant to the terms of any other Company policy, employment agreement, equity award agreement, or similar agreement with a Covered Executive.

This Policy shall be binding and enforceable against all Covered Executives and their successors, beneficiaries, heirs, executors, administrators, or other legal representatives.

Amendment

This Policy may be amended from time to time by the Committee or the Board of Directors of the Company.

Effective Date

This Policy shall apply to any Incentive Compensation received on or after November 8, 2023.

EXHIBIT A

CITIZENS FINANCIAL SERVICES, INC.
FORM OF ACKNOWLEDGMENT

By my signature below, I hereby acknowledge that I have read and understand the Citizens Financial Services, Inc. Incentive Compensation Recovery Policy (the “Policy”) adopted by Citizens Financial Services, Inc. (the “Company”), consent and agree to abide by its provisions and further agree that:

1. Defined terms used but not defined in this acknowledgment shall have the meanings set forth in the Policy.
2. The Policy shall apply to any Incentive Compensation as set forth in the Policy by the Compensation/Human Resource Committee and all such Incentive Compensation shall be subject to recovery under the Policy;
3. Any applicable award agreement or other document setting forth the terms and conditions of any Incentive Compensation granted to me by the Company or its affiliates shall be deemed to include the restrictions imposed by the Policy and shall incorporate it by reference and in the event of any inconsistency between the provisions of the Policy and the applicable award agreement or other document setting forth the terms and conditions of any Incentive Compensation granted to me, the terms of the Policy shall govern unless the terms of such other agreement or other document would result in a greater recovery by the Company;
4. In the event it is determined by the Company that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement;
5. I acknowledge that, notwithstanding any indemnification agreement or other arrangement between the Company and me, the Company shall not indemnify me against, provide advancement of expenses for or pay the premiums for any insurance policy to cover, losses incurred under the Policy; and
6. The Policy may be amended from time to time in accordance with its terms.
7. This acknowledgement and the Policy shall survive and continue in full force and in accordance with its terms, notwithstanding any termination of my employment with the Company and its affiliates.

Signature: ______________________________

Print Name: ______________________________

Date: ______________________________

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

REFINITIV