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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from ______________to______________________

Commission file number: 001-38229

FIDELITY D & D BANCORP, INC.

STATE OF INCORPORATION:	IRS EMPLOYER IDENTIFICATION NO:
Pennsylvania	**23-3017653**

Address of principal executive offices:
Blakely & Drinker St.
Dunmore, Pennsylvania 18512
TELEPHONE: **570-342-8281**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common stock, without par value	FDBC	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subjected 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, 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 ☐ Non-accelerated filer ☒ Accelerated filer ☐ Smaller reporting company ☒ Emerging growth company ☐

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

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

The number of outstanding shares of Common Stock of Fidelity D & D Bancorp, Inc. on October 31, 2024 the latest practicable date, was 5,736,025 shares.

FIDELITY D & D BANCORP, INC.

Form 10-Q September 30, 2024

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PART I – Financial Information
Item 1: Financial Statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
(Unaudited)

(dollars in thousands)		**September 30, 2024**		December 31, 2023
Assets:				
Cash and due from banks	**$**	**36,302**	$	28,949
Interest-bearing deposits with financial institutions		**83,867**		83,000
Total cash and cash equivalents		**120,169**		111,949
Available-for-sale securities, at fair value		**334,446**		344,040
Held-to-maturity securities (fair value of $203,222 in 2024; $197,176 in 2023)		**225,373**		224,233
Restricted investments in bank stock		**3,944**		3,905
Loans and leases, net (allowance for credit losses of $19,630 in 2024; $18,806 in 2023)		**1,774,156**		1,666,292
Loans held-for-sale (fair value $1,792 in 2024; $1,483 in 2023)		**1,762**		1,457
Foreclosed assets held-for-sale		**440**		1
Bank premises and equipment, net		**36,057**		34,232
Leased property under finance leases, net		**1,004**		1,173
Right-of-use assets		**8,869**		7,771
Cash surrender value of bank owned life insurance		**57,672**		54,572
Accrued interest receivable		**9,802**		9,092
Goodwill		**19,627**		19,628
Core deposit intangible, net		**949**		1,184
Other assets		**21,663**		23,630
Total assets	**$**	**2,615,933**	$	2,503,159
Liabilities:				
Deposits:				
Interest-bearing	**$**	**1,792,796**	$	1,622,282
Non-interest-bearing		**549,710**		536,143
Total deposits		**2,342,506**		2,158,425
Allowance for credit losses on off-balance sheet credit exposures		**1,169**		944
Finance lease obligation		**1,039**		1,201
Operating lease liabilities		**9,782**		8,549
Short-term borrowings		**25,000**		117,000
Secured borrowings		**6,323**		7,372
Accrued interest payable and other liabilities		**22,853**		20,189
Total liabilities		**2,408,672**		2,313,680
Shareholders' equity:				
Preferred stock authorized 5,000,000 shares with no par value; none issued		**-**		-
Capital stock, no par value (10,000,000 shares authorized; shares issued and outstanding; 5,736,025 at September 30, 2024; and 5,703,636 at December 31, 2023)		**119,112**		117,695
Retained earnings		**136,601**		128,251
Accumulated other comprehensive loss		**(48,452)**		(56,467)
Treasury stock, at cost (24 shares at September 30, 2024 and 38 shares at December 31, 2023)		**-**		-
Total shareholders' equity		**207,261**		189,479
Total liabilities and shareholders' equity	**$**	**2,615,933**	$	2,503,159

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
(Unaudited)

(dollars in thousands except per share data)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Interest income:				
Loans and leases:				
Taxable	**$ 22,719**	$ 19,766	**$ 64,940**	$ 56,760
Nontaxable	**1,317**	736	**3,745**	2,463
Interest-bearing deposits with financial institutions	**216**	60	**1,032**	212
Restricted investments in bank stock	**88**	59	**244**	240
Investment securities:				
U.S. government agency and corporations	**1,423**	1,461	**4,372**	4,456
States and political subdivisions (nontaxable)	**1,093**	1,152	**3,301**	3,529
States and political subdivisions (taxable)	**443**	444	**1,329**	1,335
Total interest income	**27,299**	23,678	**78,963**	68,995
Interest expense:				
Deposits	**11,297**	8,488	**31,697**	19,713
Secured borrowings	**101**	123	**342**	352
Other short-term borrowings	**470**	428	**1,433**	1,784
Total interest expense	**11,868**	9,039	**33,472**	21,849
Net interest income	**15,431**	14,639	**45,491**	47,146
Provision for credit losses on loans	**675**	525	**1,075**	1,380
Net provision (benefit) for credit losses on unfunded loan commitments	**135**	(275)	**225**	(100)
Net interest income after provision for credit losses	**14,621**	14,389	**44,191**	45,866
Other income:				
Service charges on deposit accounts	**1,021**	1,039	**2,923**	2,962
Interchange fees	**1,202**	1,169	**3,691**	3,588
Service charges on loans	**392**	244	**977**	826
Fees from trust fiduciary activities	**924**	783	**2,657**	2,197
Fees from financial services	**300**	169	**863**	618
Fees and other revenue	**469**	349	**1,205**	1,701
Earnings on bank-owned life insurance	**394**	335	**1,100**	980
Gain (loss) on write-down, sale or disposal of:				
Loans	**281**	315	**752**	721
Available-for-sale debt securities	**-**	-	**-**	(1)
Premises and equipment	**(4)**	(78)	**(1)**	(243)
Total other income	**4,979**	4,325	**14,167**	13,349
Other expenses:				
Salaries and employee benefits	**7,173**	6,258	**21,233**	19,203
Premises and equipment	**2,224**	2,276	**6,555**	6,653
Data processing and communication	**707**	765	**2,164**	2,141
Advertising and marketing	**493**	461	**1,637**	1,831
Professional services	**1,032**	950	**3,286**	2,949
Automated transaction processing	**472**	434	**1,383**	1,339
Office supplies and postage	**162**	165	**555**	543
PA shares tax	**389**	261	**804**	553
Loan collection	**28**	45	**82**	105
Other real estate owned	**3**	3	**(10)**	6
FDIC assessment	**314**	282	**914**	843
Other	**843**	884	**2,543**	2,900
Total other expenses	**13,840**	12,784	**41,146**	39,066
Income before income taxes	**5,760**	5,930	**17,212**	20,149
Provision for income taxes	**793**	590	**2,252**	2,407
Net income	**$ 4,967**	$ 5,340	**$ 14,960**	$ 17,742
Per share data:				
Net income - basic	**$ 0.87**	$ 0.94	**$ 2.61**	$ 3.13
Net income - diluted	**$ 0.86**	$ 0.93	**$ 2.59**	$ 3.11
Dividends	**$ 0.38**	$ 0.36	**$ 1.14**	$ 1.08

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
(Unaudited)

(dollars in thousands)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Net income	**$ 4,967**	$ 5,340	**$ 14,960**	$ 17,742
Other comprehensive gain (loss), before tax:				
Unrealized holding gain (loss) on available-for-sale debt securities	**10,134**	(21,129)	**8,388**	(14,823)
Reclassification adjustment for net losses (gains) realized in income	**-**	-	**-**	1
Amortization of unrealized loss on held-to-maturity securities	**591**	577	**1,758**	1,718
Net unrealized gain (loss)	**10,725**	(20,552)	**10,146**	(13,104)
Tax effect	**(2,252)**	4,316	**(2,131)**	2,752
Unrealized gain (loss), net of tax	**8,473**	(16,236)	**8,015**	(10,352)
Other comprehensive income (loss), net of tax	**8,473**	(16,236)	**8,015**	(10,352)
Total comprehensive income (loss), net of tax	**$ 13,440**	$ (10,896)	**$ 22,975**	$ 7,390

See notes to unaudited consolidated financial statements

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Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months Ended September 30, 2024
and 2023
(Unaudited)

(dollars in thousands)	Capital stock Shares	Capital stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock	Total
Balance, December 31, 2022	5,630,794	$ 115,611	$ 119,754	$ (71,152)	$ (1,263)	$ 162,950
Cumulative-effect adjustment for adoption of ASU 2016-13 (Footnote 1)	-	-	(1,326)	-	-	(1,326)
Net income	-	-	17,742	-	-	17,742
Other comprehensive loss	-	-	-	(10,352)	-	(10,352)
Issuance of common stock through Employee Stock Purchase Plan	7,294	302	-	-	-	302
Re-issuance of common stock through Dividend Reinvestment Plan	26,765	193	-	-	1,035	1,228
Issuance of common stock from vested restricted share grants through stock compensation plans	24,442	-	-	-	-	-
Issuance of common stock through exercise of SSARs	8,442	-	-	-	-	-
Stock-based compensation expense	-	1,321	-	-	-	1,321
Repurchase of shares to cover withholdings	(1,386)	(171)	-	-	(68)	(239)
Cash dividends declared	-	-	(6,194)	-	-	(6,194)
Balance, September 30, 2023	5,696,351	$ 117,256	$ 129,976	$ (81,504)	$ (296)	$ 165,432
Balance, December 31, 2023	5,703,636	$ 117,695	$ 128,251	$ (56,467)	$ -	$ 189,479
Net income	**-**	**-**	**14,960**	**-**	**-**	**14,960**
Other comprehensive income	-	-	-	**8,015**	-	**8,015**
Issuance of common stock through Employee Stock Purchase Plan	**6,764**	**280**	**-**	**-**	**-**	**280**
Re-issuance of common stock through Dividend Reinvestment Plan	**1,645**	**4**	**-**	**-**	**79**	**83**
Forfeited restricted dividend reinvestment shares	**(25)**	**-**	**-**	**-**	**-**	**-**
Issuance of common stock from vested restricted share grants through stock compensation plans	**25,611**	**-**	**-**	**-**	**-**	**-**
Stock-based compensation expense	**-**	**1,133**	**-**	**-**	**-**	**1,133**
Repurchase of shares to cover withholdings	**(1,606)**	**-**	**-**	**-**	**(79)**	**(79)**
Cash dividends declared	**-**	**-**	**(6,610)**	**-**	**-**	**(6,610)**
Balance, September 30, 2024	**5,736,025**	**$ 119,112**	**$ 136,601**	**$ (48,452)**	**$ -**	**$ 207,261**

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity

For the Three Months Ended September 30, 2024
and 2023
(Unaudited)

(dollars in thousands)	Capital stock Shares	Capital stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock	Total
Balance, June 30, 2023	5,681,260	$ 116,959	$ 126,711	$ (65,268)	$ (658)	$ 177,744
Net income	-	-	5,340	-	-	5,340
Other comprehensive loss	-	-	-	(16,236)	-	(16,236)
Re-issuance of common stock through Dividend Reinvestment Plan	9,189	57	-	-	362	419
Issuance of common stock from vested restricted share grants through stock compensation plans	159	-	-	-	-	-
Issuance of common stock through exercise of SSARs	5,743	-	-	-	-	-
Stock-based compensation expense	-	358	-	-	-	358
Repurchase of shares to cover withholdings	-	(118)	-	-	-	(118)
Cash dividends declared	-	-	(2,075)	-	-	(2,075)
Balance, September 30, 2023	5,696,351	$ 117,256	$ 129,976	$ (81,504)	$ (296)	$ 165,432
Balance, June 30, 2024	5,735,728	$ 118,777	$ 133,840	$ (56,925)	$ -	$ 195,692
Net income	**-**	**-**	**4,967**	**-**	**-**	**4,967**
Other comprehensive income	**-**	**-**	**-**	**8,473**	**-**	**8,473**
Forfeited restricted dividend reinvestment shares	**(10)**	**-**	**-**	**-**	**-**	**-**
Issuance of common stock from vested restricted share grants through stock compensation plans	**307**	-	-	-	-	-
Stock-based compensation expense	**-**	**335**	**-**	**-**	**-**	**335**
Cash dividends declared	**-**	**-**	**(2,206)**	**-**	**-**	**(2,206)**
Balance, September 30, 2024	**5,736,025**	**$ 119,112**	**$ 136,601**	**$ (48,452)**	**$ -**	**$ 207,261**

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

(Unaudited)	Nine months ended September 30,	
(dollars in thousands)	**2024**	2023
Cash flows from operating activities:		
Net income	**$ 14,960**	$ 17,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	**4,257**	4,251
Provision for credit losses on loans	**1,075**	1,380
Net provision (benefit) for credit losses on unfunded loan commitments	**225**	(100)
Deferred income tax expense (benefit)	**(1,233)**	(489)
Stock-based compensation expense	**1,133**	1,321
Excess tax benefit from exercise of SSARs	-	104
Proceeds from sale of loans held-for-sale	**44,944**	38,105
Originations of loans held-for-sale	**(43,807)**	(38,801)
Earnings from bank-owned life insurance	**(1,100)**	(980)
Gain from bank-owned life insurance claim	**-**	(142)
Net gain from sales of loans	**(752)**	(721)
Net loss from sales of investment securities	**-**	1
Net gain from sale and write-down of foreclosed assets held-for-sale	**(13)**	-
Net (gain) loss from write-down and disposal of bank premises and equipment	**1**	243
Operating lease payments	**43**	53
Change in:		
Accrued interest receivable	**(711)**	(271)
Other assets	**1,533**	250
Accrued interest payable and other liabilities	**2,544**	(571)
Net cash provided by operating activities	**23,099**	21,375
Cash flows from investing activities:		
Available-for-sale securities:		
Proceeds from sales	**-**	31,208
Proceeds from maturities, calls and principal pay-downs	**17,469**	19,392
Purchases	**(1,490)**	-
(Increase) decrease in restricted investments in bank stock	**(39)**	1,468
Net increase in loans and leases	**(112,915)**	(83,220)
Principal portion of lease payments received under direct finance leases	**3,362**	4,106
Purchase of bank-owned life insurance policies	**(2,000)**	-
Purchases of bank premises and equipment	**(4,076)**	(4,576)
Proceeds from death benefits received on bank-owned life insurance	**-**	931
Proceeds from sale of bank premises and equipment	**19**	22
Proceeds from sale of foreclosed assets held-for-sale	**243**	-
Net cash used in investing activities	**(99,427)**	(30,669)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**184,085**	(15,130)
Net (decrease) increase in other borrowings	**(93,048)**	110,883
Repayment of finance lease obligation	**(163)**	(176)
Proceeds from employee stock purchase plan participants	**280**	302
Repurchase of shares to cover withholdings	**(79)**	(239)
Dividends paid, net of dividends reinvested	**(6,527)**	(4,966)
Net cash provided by financing activities	**84,548**	90,674
Net increase in cash and cash equivalents	**8,220**	81,380
Cash and cash equivalents, beginning	**111,949**	29,091
Cash and cash equivalents, ending	**$ 120,169**	$ 110,471

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows (continued)

(Unaudited)	Nine months ended September 30,	
(dollars in thousands)	**2024**	2023
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	**$ 32,080**	$ 20,067
Income tax	**3,091**	2,550
Supplemental Disclosures of Non-cash Investing Activities:		
Net change in unrealized losses on available-for-sale securities	**8,388**	(14,821)
Cumulative-effect adjustment for adoption of ASU 2016-13	**-**	(1,326)
Amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity	**1,758**	1,718
Transfers from/(to) loans to/(from) foreclosed assets held-for-sale	**668**	(82)
Transfers from/(to) loans to/(from) loans held-for-sale, net	**706**	(205)
Transfers from premises and equipment to other assets held-for-sale	**268**	739
Right-of-use asset	**1,391**	303
Lease liability	**1,483**	303

See notes to unaudited consolidated financial statements

FIDELITY D & D BANCORP, INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of operations and critical accounting policies

Nature of operations

Fidelity D & D Bancorp, Inc. (the Company) is a bank holding company and the parent of The Fidelity Deposit and Discount Bank (the Bank). The Bank is a commercial bank and trust company chartered under the laws of the Commonwealth of Pennsylvania and a wholly-owned subsidiary of the Company. Having commenced operations in 1903, the Bank is committed to provide superior customer service, while offering a full range of banking products and financial and trust services to both our consumer and commercial customers from our main office located in Dunmore and other branches located throughout Lackawanna, Northampton and Luzerne Counties and Wealth Management offices in Schuylkill and Lebanon Counties.

Principles of consolidation

The accompanying unaudited consolidated financial statements of the Company and the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to this Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the periods have been included. All significant inter-company balances and transactions have been eliminated in consolidation.

For additional information and disclosures required under U.S. GAAP, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Management is responsible for the fairness, integrity and objectivity of the unaudited financial statements included in this report. Management prepared the unaudited financial statements in accordance with U.S. GAAP. In meeting its responsibility for the financial statements, management depends on the Company's accounting systems and related internal controls. These systems and controls are designed to provide reasonable but not absolute assurance that the financial records accurately reflect the transactions of the Company, the Company's assets are safeguarded and that the financial statements present fairly the financial condition and results of operations of the Company.

In the opinion of management, the consolidated balance sheets as of September 30, 2024 and December 31, 2023 and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity for the three and nine months ended September 30, 2024 and 2023 and consolidated statements of cash flows for the nine months ended September 30, 2024 and 2023 present fairly the financial condition and results of operations of the Company. All material adjustments required for a fair presentation have been made. These adjustments are of a normal recurring nature.

In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred after September 30, 2024 through the date these consolidated financial statements were issued.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2023, and the notes included therein, included within the Company's Annual Report filed on Form 10-K.

Critical accounting policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

A material estimate is the calculation of fair values of the Company's investment securities. Fair values of investment securities are determined by pricing provided by a third-party vendor, who is a provider of financial market data, analytics and related services to financial institutions. Based on experience, management is aware that estimated fair values of investment securities tend to vary among valuation services. Accordingly, when buying or selling investment securities, price quotes may be obtained from more than one source. All of the Company's debt securities are classified as available-for-sale (AFS) or held-to-maturity (HTM). AFS debt securities are carried at fair value on the consolidated balance sheets, with unrealized gains and losses, net of income tax, reported separately within shareholders' equity as a component of accumulated other comprehensive income (AOCI). Debt securities, for which the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. On occasion, the Company may transfer securities from AFS to HTM at fair value on the date of transfer.

Another material estimate that is particularly susceptible to significant change relates to the determination of the allowance for credit losses. Management believes that the allowance for credit losses at September 30, 2024 is adequate and reasonable to cover expected losses. Given the subjective nature of identifying and estimating loan losses, it is reasonably possible that well-informed individuals could make different assumptions and could, therefore, calculate a materially different allowance amount. While management uses available information to recognize losses on loans, changes in current economic conditions and reasonable and supportable forecasts may necessitate revisions in the future. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgment of information available to them at the time of their examination.

Management continually evaluates the credit quality of the Company's loan portfolio and performs a formal review of the adequacy of the allowance for credit losses (ACL) on a quarterly basis. The allowance reflects management's best estimate of the amount of credit losses in the loan portfolio. When estimating the net amount expected to be collected, management considers the effects of past events, current conditions, and reasonable and supportable forecasts of the collectability of the Company's financial assets. Those estimates may be susceptible to significant change. Credit losses are charged directly against the allowance when loans are deemed to be uncollectible. Recoveries from previously charged-off loans are added to the allowance when received.

The methodology to analyze the adequacy of the ACL is based on seven primary components:

- **Data:** The quality of the Company's data is critically important as a foundation on which the ACL estimate is generated. For its estimate, the Company uses both internal and external data with a preference toward internal data where possible. Data is complete, accurate, and relevant, and subjected to appropriate governance and controls.
- **Segmentation:** Financial assets are segmented based on similar risk characteristics.
- **Estimated term of financial assets:** The estimated term of financial assets is a significant driver of ACL estimates. Financial assets or pools of financial assets with shorter estimated maturities typically result in a lower reserve than those with longer estimated maturities. As the average life of a financial asset or pool of assets increases, there generally is a corresponding increase to the ACL estimate because the likelihood of default is considered over a longer time frame. As such, pool-based assumptions for a pool's estimated term (i.e., average life) are based on the contractual maturity of the financial assets within the pool and adjusted in accordance with GAAP, if appropriate. Key assumptions for the estimated term of financial assets are prepayment rates for amortizing financial assets and curtailment rates for non-amortizing financial assets.
- **Credit loss measurement method:** Multiple measurement methods for estimating ACLs are allowable per ASC Topic 326. The Company applies different estimation methods to different groups of financial assets. The discounted cash flow method is used for the Commercial & Industrial, Commercial Real Estate Non-Owner Occupied, Commercial Real Estate Owner Occupied, Commercial Construction, Home Equity Installment Loan, Home Equity Line of Credit, Residential Real Estate, and Residential Construction pools. The weighted average remaining maturity (WARM) method is used for the Municipal, Non-Recourse Auto, Recourse Auto, Direct Finance Lease, and Consumer Other pools.
- **Reasonable and supportable forecasts:** ASC Topic 326 requires Management to consider reasonable and supportable forecasts that affect expected collectability of financial assets. As such, the Company's forecasts incorporate anticipated changes in the economic environment that may affect credit loss estimates over a time horizon when Management can reasonably support and document expectations. Forward-looking information may reflect positive or negative expectations relative to the current environment. As of the reporting date, management is using the median Federal Open Market Committee (FOMC) National Gross Domestic Product (GDP) and Unemployment Rate forecasts as well as the Federal Housing Finance Agency (FHFA) House Price Index (HPI) for its reasonable and supportable forecasts. The Company currently uses a 12 month (4 quarter) reasonable and supportable forecast period.
- **Reversion period:** ASC Topic 326 does not require management to estimate a reasonable and supportable forecast for the entire estimated life of financial assets. Management may apply reversion techniques for the estimated life remaining after considering the reasonable and supportable forecast period, which allows Management to apply a historical loss rate to latter periods of the financial asset's life. The Company currently uses a 12 month (4 quarter) straight-line reversion period.
- **Qualitative factor adjustments:** The Company's ACL estimate considers all significant factors relevant to the expected collectability of its financial assets as of the reporting date; Qualitative factors reflect the impact of conditions not captured elsewhere, such as the historical loss data or within the economic forecast. The qualitative considerations can be captured directly within measurement models or as additional components in the overall ACL methodologies. Currently, the Company uses the following qualitative factors:

    - levels of and trends in delinquencies and non-accrual loans;
    - levels of and trends in charge-offs and recoveries;
    - trends in volume and terms of loans;
    - changes in risk selection and underwriting standards;
    - changes in lending policies and legal and regulatory requirements;
    - experience, ability and depth of lending management;
    - national and local economic trends and conditions;
    - changes in credit concentrations; and
    - changes in underlying collateral.

Assets are evaluated on a collective (or pool) basis or individually, as applicable consistent with ASC Topic 326. In accordance with ASC Topic 326, the Company will evaluate individual instruments for expected credit losses when those instruments do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. In contrast to legacy accounting standards, this criterion is broader than the "impairment" concept as management may evaluate assets individually even when no specific expectation of collectability is in place. Instruments will not be included in both collective and individual analysis. Individual analysis will establish a specific reserve for instruments in scope.

For individually evaluated assets, an ACL is determined separately for each financial asset. As of the reporting date, the Company is using the collateral and cash flow methods.

ASC Topic 326 defines a collateral-dependent asset as a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on Management's assessment, is experiencing financial difficulty. The ACL for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable. The fair value of collateral must be adjusted for estimated costs to sell if repayment or satisfaction of the asset depends on the sale of the collateral. If repayment is dependent only on the operation of the collateral, and not on the sale of the collateral, the fair value of the collateral would not be adjusted for estimated costs to sell. If the fair value of the collateral, adjusted for costs to sell if applicable, is less than the amortized cost basis of the collateral-dependent asset, the difference is recorded as an ACL.

The Company's policy is to charge-off unsecured consumer loans when they become 90 days or more past due as to principal and interest. In the other portfolio segments, amounts are charged-off at the point in time when the Company deems the balance, or a portion thereof, to be uncollectible.

If the individually evaluated asset is determined to not be collateral dependent, the ACL is measured based on the expected cash flows. This measurement is based on the amount and timing of cash flows; the effective interest rate (EIR) is used to discount the cash flows; and the basis for the determination of cash flows, including consideration of past events, current conditions, and reasonable and supportable forecasts about the future. These cash flows are discounted back by the EIR and compared to the amortized cost basis of the asset. If the present value of cash flows is less than the amortized cost, an ACL is recorded. When the present value of cash flows is equal to or greater than the amortized cost, no ACL is recorded.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies.

2. New accounting pronouncements

In March 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323)*. The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The amendments are effective for the Company this reporting period with no impacts on the consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements*. The amendments in this update are the result of the FASB's decision to incorporate into the Codification certain disclosures referred by the SEC that overlap with, but require incremental information to, generally accepted accounting principles (GAAP). The amendments in this update represent changes to clarify or improve disclosure and presentation requirements of a variety of topics in the Codification. For entities subject to the SEC's existing requirements, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The amendments in this update should be applied prospectively. The adoption is not expected to have a material impact on the consolidated financial statements but could change certain disclosures in SEC filings.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 840): Improvements to Income Tax Disclosures*. The amendments in this update require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold. The amendments in this update also require that all entities disclose on an annual basis the amount of income taxes paid disaggregated by federal, state, and foreign taxes and the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5 percent of total income taxes paid. The amendments will require the disclosure of pre-tax income disaggregated between 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 benefits and certain temporary differences. This ASU is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted in any annual period where financial statements have not yet been issued. The amendments should be applied on a prospective basis but retrospective application is permitted. The Company does not expect adoption of the standard to have a material impact on its consolidated financial statements.

In November 2024, FASB issued ASU 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses, which requires disclosure in the notes to the financial statements of specified information about certain costs and expenses. The amendments are effective for fiscal years beginning after December 15, 2026, and for interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The amendments should be applied either prospectively to financial statements issued for reporting periods after the effective date of this ASU or retrospectively to any or all prior periods presented in the financial statements. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements and related disclosures, but expects additional disclosures upon adoption.

3. Accumulated other comprehensive income

The following tables illustrate the changes in accumulated other comprehensive income by component and the details about the components of accumulated other comprehensive income as of and for the periods indicated:

As of and for the nine months ended September 30, 2024

(dollars in thousands)	Unrealized gains (losses) on available-for-sale debt securities	Securities transferred to held-to-maturity	Total
Beginning balance	**$ (40,760)**	**$ (15,707)**	**$ (56,467)**
Other comprehensive income before reclassifications, net of tax	**6,627**	**-**	**6,627**
Amounts reclassified from accumulated other comprehensive income, net of tax	**-**	**1,388**	**1,388**
Net current-period other comprehensive income	**6,627**	**1,388**	**8,015**
Ending balance	**$ (34,133)**	**$ (14,319)**	**$ (48,452)**

As of and for the three months ended September 30, 2024

(dollars in thousands)	Unrealized gains (losses) on available-for-sale debt securities	Securities transferred to held-to-maturity	Total
Beginning balance	**$ (42,139)**	**$ (14,786)**	**$ (56,925)**
Other comprehensive income before reclassifications, net of tax	**8,006**	**-**	**8,006**
Amounts reclassified from accumulated other comprehensive income, net of tax	**-**	**467**	**467**
Net current-period other comprehensive income	**8,006**	**467**	**8,473**
Ending balance	**$ (34,133)**	**$ (14,319)**	**$ (48,452)**

As of and for the nine months ended September 30, 2023

(dollars in thousands)		Unrealized gains (losses) on available-for-sale securities		Securities transferred to held-to-maturity		Total
Beginning balance	$	(53,624)	$	(17,528)	$	(71,152)
Other comprehensive loss before reclassifications, net of tax		(11,710)		-		(11,710)
Amounts reclassified from accumulated other comprehensive income, net of tax		1		1,357		1,358
Net current-period other comprehensive (loss) income		(11,709)		1,357		(10,352)
Ending balance	$	(65,333)	$	(16,171)	$	(81,504)

As of and for the three months ended September 30, 2023

(dollars in thousands)		Unrealized gains (losses) on available-for-sale debt securities		Securities transferred to held-to-maturity		Total
Beginning balance	$	(48,641)	$	(16,627)	$	(65,268)
Other comprehensive (loss) income before reclassifications, net of tax		(16,692)		-		(16,692)
Amounts reclassified from accumulated other comprehensive income, net of tax		-		456		456
Net current-period other comprehensive (loss) income		(16,692)		456		(16,236)
Ending balance	$	(65,333)	$	(16,171)	$	(81,504)

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income								Affected line item in the statement where net income is presented
	For the three months ended September 30,				For the nine months ended September 30,				
(dollars in thousands)		**2024**		2023		**2024**		2023	
Unrealized (losses) gains on AFS debt securities	**$**	**-**	$	-	**$**	**-**	$	(1)	Gain (loss) on sale of investment securities
Amortization of unrealized loss on held-to-maturity securities		**(591)**		(577)		**(1,758)**		(1,718)	Interest income on investment securities
Total reclassifications for the period		**(591)**		(577)		**(1,758)**		(1,719)	Income before income taxes
Income tax effect		**124**		121		**370**		361	Provision for income taxes
Total reclassifications for the period	**$**	**(467)**	$	(456)	**$**	**(1,388)**	$	(1,358)	Net income

4. Investment securities

Agency – Government-sponsored enterprise (GSE) and Mortgage-backed securities (MBS) - GSE residential

Agency – GSE and MBS – GSE residential securities consist of short- to long-term notes issued by Federal Home Loan Mortgage Corporation (FHLMC), FNMA, FHLB and Government National Mortgage Association (GNMA). These securities have interest rates that are fixed, have varying short to long-term maturity dates and have contractual cash flows guaranteed by the U.S. government or agencies of the U.S. government.

Obligations of states and political subdivisions (municipal)

The municipal securities are general obligation and revenue bonds rated as investment grade by various credit rating agencies and have fixed rates of interest with mid- to long-term maturities. Fair values of these securities are highly driven by interest rates. Management performs ongoing credit quality reviews on these issues.

The Company did not record any allowance for credit losses on its available-for-sale or held-to-maturity securities. The Company excludes accrued interest receivable from the amortized cost basis of investment securities disclosed throughout this footnote. As of September 30, 2024 and December 31, 2023, accrued interest receivable for investment securities totaled $ 2.9 million and $3.4 million, respectively, and is included in accrued interest receivable line in the consolidated balance sheets. The amortized cost and fair value of investment securities at September 30, 2024 and December 31, 2023 are summarized as follows:

(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2024				
Held-to-maturity securities:				
Agency - GSE	**$ 82,205**	**$ -**	**$ (5,619)**	**$ 76,586**
Obligations of states and political subdivisions	**143,168**	**-**	**(16,532)**	**126,636**
Total held-to-maturity securities	**$ 225,373**	**$ -**	**$ (22,151)**	**$ 203,222**
Available-for-sale debt securities:				
Agency - GSE	**$ 31,248**	**$ -**	**$ (2,677)**	**$ 28,571**
Obligations of states and political subdivisions	**136,227**	**1**	**(13,446)**	**122,782**
MBS - GSE residential	**210,178**	**-**	**(27,085)**	**183,093**
Total available-for-sale debt securities	**$ 377,653**	**$ 1**	**$ (43,208)**	**$ 334,446**

(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2023				
Held-to-maturity securities:				
Agency - GSE	$ 81,382	$ -	$ (7,561)	$ 73,821
Obligations of states and political subdivisions	142,851	-	(19,496)	123,355
Total held-to-maturity securities	$ 224,233	$ -	$ (27,057)	$ 197,176
Available-for-sale debt securities:				
Agency - GSE	$ 31,178	$ -	$ (3,633)	$ 27,545
Obligations of states and political subdivisions	138,217	1	(15,421)	122,797
MBS - GSE residential	226,240	-	(32,542)	193,698
Total available-for-sale debt securities	$ 395,635	$ 1	$ (51,596)	$ 344,040

Some of the Company's debt securities are pledged to secure trust funds, public deposits, short-term borrowings, FHLB advances, Federal Reserve Bank of Philadelphia Discount Window borrowings and certain other deposits as required by law.

The amortized cost and fair value of debt securities at September 30, 2024 by contractual maturity are summarized below:

(dollars in thousands)	Amortized cost	Fair value
Held-to-maturity securities:		
Due in one year or less	$ -	$ -
Due after one year through five years	32,984	31,510
Due after five years through ten years	76,736	70,178
Due after ten years	115,653	101,534
Total held-to-maturity securities	$ 225,373	$ 203,222
Available-for-sale securities:		
Debt securities:		
Due in one year or less	$ 1,999	$ 1,965
Due after one year through five years	40,999	37,821
Due after five years through ten years	14,608	12,891
Due after ten years	108,726	98,676
MBS - GSE residential	210,178	183,093
Total available-for-sale debt securities	$ 376,510	$ 334,446

There was a $1.1 million increase to the carrying value of municipal AFS securities resulting from the interest rate swap that was not included in the maturity table above.

Actual maturities will differ from contractual maturities because issuers and borrowers may have the right to call or repay obligations with or without call or prepayment penalty. Agency – GSE and municipal securities are included based on their original stated maturity. MBS – GSE residential, which are based on weighted-average lives and subject to monthly principal pay-downs, are listed in total. Most of the securities have fixed rates or have predetermined scheduled rate changes and many have call features that allow the issuer to call the security at par before its stated maturity without penalty.

Securities pledged at September 30, 2024 had a carrying amount of $393.7 million and were pledged to secure public deposits, trust client deposits, borrowings and derivative instruments.

The following table presents the fair value and gross unrealized losses of debt securities aggregated by investment type, the length of time and the number of securities that have been in a continuous unrealized loss position as of September 30, 2024 and December 31, 2023:

	Less than 12 months		More than 12 months		Total	
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2024						
Agency - GSE	**$ -**	**$ -**	**$ 105,157**	**$ (8,296)**	**$ 105,157**	**$ (8,296)**
Obligations of states and political subdivisions	**-**	**-**	**249,022**	**(28,835)**	**249,022**	**(28,835)**
MBS - GSE residential	**1,466**	**(24)**	**181,627**	**(25,918)**	**183,093**	**(25,942)**
Total	**$ 1,466**	**$ (24)**	**$ 535,806**	**$ (63,049)**	**$ 537,272**	**$ (63,073)**
Number of securities	**1**		**416**		**417**	
December 31, 2023						
Agency - GSE	$ -	$ -	$ 101,366	$ (11,194)	$ 101,366	$ (11,194)
Obligations of states and political subdivisions	781	(22)	244,224	(33,814)	245,005	(33,836)
MBS - GSE residential	-	-	193,698	(31,462)	193,698	(31,462)
Total	$ 781	$ (22)	$ 539,288	$ (76,470)	$ 540,069	$ (76,492)
Number of securities	2		414		416	

There were $2.3 million and $2.2 million increases to the carrying value of AFS securities resulting from the interest rate swap that increased the unrealized loss position at September 30, 2024 and December 31, 2023 that were not included in the table above.

The Company had 417 debt securities in an unrealized loss position at September 30, 2024, including 46 agency-GSE securities, 136 MBS – GSE residential securities and 235 municipal securities. The severity of these unrealized losses based on their underlying cost basis was as follows at September 30, 2024: 7.31% for agency - GSE, 12.41% for total MBS-GSE residential; and 10.38% for municipals. Management has no intent to sell any securities in an unrealized loss position as of September 30, 2024.

The Company reassessed classification of certain investments and effective April 1, 2022, the Company transferred agency and municipal investment securities with a book value of $245.5 million from available-for-sale to held-to-maturity. The securities were transferred at their fair value. The market value of the securities on the date of the transfer was $221.7 million, after netting unrealized losses totaling $18.9 million. The $18.9 million, net of deferred taxes, is being accreted into interest income from other comprehensive income over the life of the bonds. The allowance for credit losses on these securities was evaluated under the accounting policy for HTM debt securities.

Unrealized losses on available-for-sale securities have not been recognized into income because management believes the cause of the unrealized losses is related to changes in interest rates and is not directly related to credit quality. Quarterly, management conducts a formal review of investment securities to assess whether the fair value of a debt security is less than its amortized cost as of the balance sheet date. An allowance for credit losses has not been recognized on these securities in an unrealized loss position because: (1) the entity does not intend to sell the security; (2) more likely than not the entity will not be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is sufficient to recover the entire amortized cost. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bond(s) approach maturity.

The Company has U.S. agency bonds and municipal securities classified as held-to-maturity. Management estimated no credit loss reserve will be necessary for agency bonds HTM given the strong credit history of GSE and other U.S. agency issued bonds and the involvement of the U.S. government. For municipal securities HTM, the Company utilized a third-party model to analyze whether a credit loss reserve is needed for these bonds. The amount of credit loss reserve calculated using this model was immaterial to the Company's financial statements, therefore no reserve was recorded, but the Company will continue to evaluate these securities on a quarterly basis.

5. Loans and leases

The classifications of loans and leases at September 30, 2024 and December 31, 2023 are summarized as follows:

(dollars in thousands)	**September 30, 2024**	December 31, 2023
Commercial and industrial:		
Commercial	**$ 168,633**	$ 152,640
Municipal	**113,362**	94,724
Commercial real estate:		
Non-owner occupied	**382,097**	337,671
Owner occupied	**296,201**	278,293
Construction	**56,273**	39,823
Consumer:		
Home equity installment	**54,618**	56,640
Home equity line of credit	**57,387**	52,348
Auto loans - Recourse	**11,485**	10,756
Auto loans - Non-recourse	**83,905**	112,595
Direct finance leases	**28,591**	33,601
Other	**23,524**	16,500
Residential:		
Real estate	**490,442**	465,010
Construction	**29,208**	36,536
Total	**1,795,726**	1,687,137
Less:		
Allowance for credit losses on loans	**(19,630)**	(18,806)
Unearned lease revenue	**(1,940)**	(2,039)
Loans and leases, net	**$ 1,774,156**	$ 1,666,292

Total unamortized net costs and premiums included in loan totals were as follows:

(dollars in thousands)	**September 30, 2024**	December 31, 2023
Net unamortized fair value mark discount on acquired loans	**$ (5,261)**	$ (6,468)
Net unamortized deferred loan origination costs	**4,993**	4,930
Total	**$ (268)**	$ (1,538)

The Company excludes accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of September 30, 2024 and December 31, 2023, accrued interest receivable for loans totaled $6.9 million and $5.7 million, respectively, and is included in the accrued interest receivable line in the consolidated balance sheets and is excluded from the estimate of credit losses.

Direct finance leases include the lease receivable and the guaranteed lease residual. Unearned lease revenue represents the difference between the lessor's investment in the property and the gross investment in the lease. Unearned revenue is accrued over the life of the lease using the effective interest method.

The Company services real estate loans for investors in the secondary mortgage market which are not included in the accompanying consolidated balance sheets. The approximate unpaid principal balance of mortgages serviced for others amounted to $490.9 million as of September 30, 2024 and $477.7 million as of December 31, 2023. Mortgage servicing rights amounted to $1.4 million and $1.5 million as of September 30, 2024 and December 31, 2023, respectively, and is included in other assets in the consolidated balance sheets.

During the second quarter of 2024, the Company reviewed its commercial real estate loan portfolios to ensure the loans in those portfolios reflect proper purpose and collateral. Based on this analysis, loans with a net balance of $25.4 million were reclassified from commercial real estate owner-occupied to commercial real estate non-owner-occupied categories. This adjustment was applied to December 31, 2023, for purposes of comparison. As of December 31, 2023, the non-owner-occupied portfolio increased and the owner-occupied portfolio decreased by $ 26.1 million.

Non-accrual loans

Non-accrual loans and loans past due over 89 days still accruing, segregated by class, at September 30, 2024 and December 31, 2023, were as follows:

(dollars in thousands)	Non-accrual With No Allowance for Credit Loss	Non-accrual With an Allowance for Credit Loss	Total Non-accrual	Loans Past Due Over 89 Days Still Accruing
At September 30, 2024				
Commercial and industrial:				
Commercial	**$ -**	**$ 2,843**	**$ 2,843**	**$ -**
Municipal	**-**	**-**	**-**	**-**
Commercial real estate:				
Non-owner occupied	**426**	**-**	**426**	**-**
Owner occupied	**2,531**	**84**	**2,615**	**-**
Consumer:				
Home equity installment	**51**	**-**	**51**	**-**
Home equity line of credit	**223**	**277**	**500**	**-**
Auto loans - Recourse	**-**	**-**	**-**	**8**
Auto loans - Non-recourse	**4**	**-**	**4**	**-**
Direct finance leases	**-**	**-**	**-**	**58**
Other	**20**	**-**	**20**	**-**
Residential:				
Real estate	**619**	**-**	**619**	**-**
Total	**$ 3,874**	**$ 3,204**	**$ 7,078**	**$ 66**

(dollars in thousands)	Non-accrual With No Allowance for Credit Loss	Non-accrual With an Allowance for Credit Loss	Total Non-accrual	Loans Past Due Over 89 Days Still Accruing
At December 31, 2023				
Commercial and industrial:				
Commercial	$ 39	$ 16	$ 55	$ -
Municipal	-	-	-	-
Commercial real estate:				
Non-owner occupied	252	-	252	-
Owner occupied	2,040	210	2,250	-
Construction	-		-	
Consumer:				
Home equity installment	70	-	70	-
Home equity line of credit	297	67	364	-
Auto loans - Recourse	-	-	-	-
Auto loans - Non-recourse	32	7	39	-
Direct finance leases	-	-	-	14
Other	-	-	-	-
Residential:				
Real estate	278	-	278	-
Total	$ 3,008	$ 300	$ 3,308	$ 14

The decision to place loans on non-accrual status is made on an individual basis after considering factors pertaining to each specific loan. C&I and CRE loans are placed on non-accrual status when management has determined that payment of all contractual principal and interest is in doubt or the loan is past due 90 days or more as to principal and interest, unless well-secured and in the process of collection. Consumer loans secured by real estate and residential mortgage loans are placed on non-accrual status at 90 days past due as to principal and interest and unsecured consumer loans are charged-off when the loan is 90 days or more past due as to principal and interest. The Company considers all non-accrual loans to be impaired loans.

Loan modifications to borrowers experiencing financial difficulty

Occasionally, the Company modifies loans to borrowers in financial distress by providing interest rates below the market rate, temporary interest-only payment periods, term extensions at interest rates lower than the current market rate for new debt with similar risk and/or converting revolving credit lines to term loans. The Company typically does not forgive principal when modifying loans.

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 the borrower continues to experience financial difficulty, another concession, such as lowering the interest rate, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

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The following tables present the amortized cost basis of loans at September 30, 2024 and September 30, 2023 that were both experiencing financial difficulty and modified during the nine months ended September 30, 2024 and 2023, by class and type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty as compared to the amortized cost basis of each class of financing receivable is also presented below:

	Loans modified during the nine months ended:						
(dollars in thousands)	**September 30, 2024**						
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial and industrial:							
Commercial	**$ -**	**$ 50**	**$ -**	**$ -**	**$ -**	**$ -**	**0.03%**
Commercial real estate:							
Non-owner occupied	-	**285**	-	-	-	-	**0.07%**
Owner occupied	-	**-**	**6,614**	-	-	-	**2.23%**
Total	**$ -**	**$ 335**	**$ 6,614**	**$ -**	**$ -**	**$ -**	

	Loans modified during the nine months ended:						
(dollars in thousands)	**September 30, 2023**						
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial and industrial:							
Commercial	$ -	$ 46	$ -	$ -	$ -	$ -	0.03%
Commercial real estate:							
Non-owner occupied	-	-	915	3,131	-	-	1.30%
Owner occupied	-	-	128	-	-	-	0.04%
Total	$ -	$ 46	$ 1,043	$ 3,131	$ -	$ -	

For the nine months ended September 30, 2024, a term extension totaling 12 months was granted to a single borrower who was experiencing financial difficulty. This borrower has paid as agreed under those additional terms.

The Company has not committed to lend additional amounts to the borrowers included in the previous tables.

The following table represents the performance of such loans that have been modified in the last 12 months as of September 30, 2024:

(dollars in thousands)	**September 30, 2024**				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
Commercial and industrial:					
Commercial	**$ 50**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial real estate:					
Non-owner occupied	**-**	**-**	**285**	**-**	**285**
Owner occupied	**8,143**	**-**	**-**	**-**	**-**
Total	**$ 8,193**	**$ -**	**$ 285**	**$ -**	**$ 285**

No loans have been modified in the last 12 months to borrowers experiencing financial difficulty that were past due at September 30, 2023.

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The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the nine months ended September 30, 2024 and 2023:

(dollars in thousands)	September 30, 2024		
	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate:			
Owner occupied	**$ -**	**-**	**12.0**

(dollars in thousands)	September 30, 2023		
	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate:			
Non-owner occupied	$ -	6.13%	8.8
Owner occupied	-	-	74.0
Total	$ -	6.13%	82.8

The following table provides the amortized cost basis of financing receivables that had a payment default during the nine months ended September 30, 2024 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty:

Loans modified within the previous twelve months that subsequently defaulted during the nine months ended:

(dollars in thousands)	September 30, 2024			
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction
Commercial real estate:				
Non-owner occupied	**$ -**	**$ 285**	**$ -**	**$ -**
Total	**$ -**	**$ 285**	**$ -**	**$ -**

There were no financing receivables that had a payment default during the nine months ended September 30, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. The allowance for credit losses (ACL) may be increased, adjustments may be made in the allocation of the ACL or partial charge-offs may be taken to further write-down the carrying value of the loan.

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Past due loans

Loans are considered past due when the contractual principal and/or interest is not received by the due date. For loans reported 30-59 days past due, certain categories of loans are reported past due as and when the loan is in arrears for two payments or billing cycles. An aging analysis of past due loans, segregated by class of loans, as of the period indicated is as follows (dollars in thousands):

September 30, 2024	30 - 59 Days past due	60 - 89 Days past due	Past due 90 days or more (1)	Total past due	Current	Total loans (3)	Recorded investment past due ≥ 90 days and accruing
Commercial and industrial:							
Commercial	$ **29**	$ **-**	$ **2,843**	$ **2,872**	$ **165,761**	$ **168,633**	$ -
Municipal	**-**	**-**	**-**	**-**	**113,362**	**113,362**	
Commercial real estate:							
Non-owner occupied	**-**	**285**	**426**	**711**	**381,386**	**382,097**	**-**
Owner occupied	**2,383**	**-**	**2,615**	**4,998**	**291,203**	**296,201**	**-**
Construction	**-**	**-**	**-**	**-**	**56,273**	**56,273**	**-**
Consumer:							
Home equity installment	**265**	**-**	**51**	**316**	**54,302**	**54,618**	**-**
Home equity line of credit	**37**	**15**	**500**	**552**	**56,835**	**57,387**	**-**
Auto loans - Recourse	**43**	**2**	**8**	**53**	**11,432**	**11,485**	**8**
Auto loans - Non-recourse	**429**	**75**	**4**	**508**	**83,397**	**83,905**	**-**
Direct finance leases	**102**	**-**	**58**	**160**	**26,491**	**26,651 (2)**	**58**
Other	**5**	**4**	**20**	**29**	**23,495**	**23,524**	**-**
Residential:							
Real estate	**-**	**274**	**619**	**893**	**489,549**	**490,442**	**-**
Construction	**-**	**-**	**-**	**-**	**29,208**	**29,208**	**-**
Total	$ **3,293**	$ **655**	$ **7,144**	$ **11,092**	$ **1,782,694**	$ **1,793,786**	$ **66**

(1) Includes non-accrual loans. (2) Net of unearned lease revenue of $1.9 million. (3) Includes net deferred loan costs of $5.0 million.

December 31, 2023	30 - 59 Days past due	60 - 89 Days past due	Past due 90 days or more (1)	Total past due	Current	Total loans (3)	Recorded investment past due ≥ 90 days and accruing
Commercial and industrial							
Commercial	$ 77	$ 16	$ 55	$ 148	$ 152,492	$ 152,640	$ -
Municipal	-	-	-	-	94,724	94,724	
Commercial real estate:							
Non-owner occupied	85	65	252	402	337,269	337,671	-
Owner occupied	1,875	104	2,250	4,229	274,064	278,293	-
Construction	-	-	-	-	39,823	39,823	-
Consumer:							
Home equity installment	105	150	70	325	56,315	56,640	-
Home equity line of credit	60	92	364	516	51,832	52,348	-
Auto loans - Recourse	86	1	-	87	10,669	10,756	-
Auto loans - Non-recourse	417	48	39	504	112,091	112,595	-
Direct finance leases	548	-	14	562	31,000	31,562 (2)	14
Other	30	4	-	34	16,466	16,500	-
Residential:							
Real estate	42	682	278	1,002	464,008	465,010	-
Construction	-	-	-	-	36,536	36,536	-
Total	$ 3,325	$ 1,162	$ 3,322	$ 7,809	$ 1,677,289	$ 1,685,098	$ 14

(1) Includes non-accrual loans. (2) Net of unearned lease revenue of $2.0 million. (3) Includes net deferred loan costs of $4.9 million.

Credit Quality Indicators

Management is responsible for conducting the Company’s credit risk evaluation process, which includes credit risk grading of individual commercial and industrial and commercial real estate loans. Commercial and industrial and commercial real estate loans are assigned credit risk grades based on the Company’s assessment of conditions that affect the borrower’s ability to meet its contractual obligations under the loan agreement. That process includes reviewing borrowers’ current financial information, historical payment experience, credit documentation, public information, and other information specific to each individual borrower. Upon review, the commercial loan credit risk grade is revised or reaffirmed. The credit risk grades may be changed at any time management feels an upgrade or downgrade may be warranted. The Company utilizes an external independent loan review firm that reviews and validates the credit risk program on at least an annual basis. Results of these reviews are presented to management and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company’s policies and procedures.

Commercial and industrial and commercial real estate

The Company utilizes a loan grading system and assigns a credit risk grade to its loans in the C&I and CRE portfolios. The grading system provides a means to measure portfolio quality and aids in the monitoring of the credit quality of the overall loan portfolio. The credit risk grades are arrived at using a risk rating matrix to assign a grade to each of the loans in the C&I and CRE portfolios.

These loans are assigned credit risk grades based on the Company's assessment of conditions that affect the borrower's ability to meet its contractual obligations under the loan agreement. That process includes reviewing borrowers' current financial information, historical payment experience, credit documentation, public information and other information specific to each individual borrower. Upon review, the commercial loan credit risk grade is revised or reaffirmed. The credit risk grades may be changed at any time management feels an upgrade or downgrade is warranted.

The following is a description of each risk rating category the Company uses to classify each of its C&I and CRE loans:

Pass

Loans in this category have an acceptable level of risk and are graded in a range of one to five. Secured loans generally have good collateral coverage. Current financial statements reflect acceptable balance sheet ratios, sales and earnings trends. Management is competent, and a reasonable succession plan is evident. Payment experience on the loans has been good with minor or no delinquency experience. Loans with a grade of one are of the highest quality in the range. Those graded five are of marginally acceptable quality.

Special Mention

Loans in this category are graded a six and may be protected but are potentially weak. They constitute a credit risk to the Company but have not yet reached the point of adverse classification. Some of the following conditions may exist: little or no collateral coverage; lack of current financial information; delinquency problems; highly leveraged; available financial information reflects poor balance sheet ratios and profit and loss statements reflect uncertain trends; and document exceptions. Cash flow may not be sufficient to support total debt service requirements.

Substandard

Loans in this category are graded a seven and have a well-defined weakness which may jeopardize the ultimate collectability of the debt. The collateral pledged may be lacking in quality or quantity. Financial statements may indicate insufficient cash flow to service the debt; and/or do not reflect a sound net worth. The payment history indicates chronic delinquency problems. Management is weak. There is a distinct possibility that the Company may sustain a loss. All loans on non-accrual are rated substandard. Other loans that are included in the substandard category can be accruing, as well as loans that are current or past due. Loans 90 days or more past due, unless otherwise fully supported, are classified substandard. Also, borrowers that are bankrupt or have loans categorized as modifications experiencing financial difficulty can be graded substandard.

Doubtful

Loans in this category are graded an eight and have a better than 50% possibility of the Company sustaining a loss, but the loss cannot be determined because of specific reasonable factors which may strengthen credit in the near-term. Many of the weaknesses present in a substandard loan exist. Liquidation of collateral, if any, is likely. Any loan graded lower than an eight is considered to be uncollectible and charged-off.

Consumer and residential

The consumer and residential loan segments are regarded as homogeneous loan pools and as such are not risk rated. For these portfolios, the Company utilizes payment activity and history in assessing performance. Non-performing loans are comprised of non-accrual loans and loans past due 90 days or more and accruing. All loans not classified as non-performing are considered performing.

The following table presents loans including $5.0 million and $4.9 million of deferred costs, segregated by class and vintage, categorized into the appropriate credit quality indicator category as of September 30, 2024 and December 31, 2023, respectively:

Commercial credit exposure
Credit risk profile by creditworthiness category
As of September 30, 2024
(dollars in thousands)

September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial and industrial									
Risk Rating									
Pass	**$ 26,038**	**$ 27,376**	**$ 12,323**	**$ 13,091**	**$ 3,604**	**$ 15,431**	**$ 62,747**	**$ -**	**$160,610**
Special Mention	**-**	**-**	**70**	**150**	**-**	**-**	**-**	**-**	**220**
Substandard	**-**	**38**	**366**	**6,247**	**13**	**1,041**	**98**	**-**	**7,803**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commercial and industrial	**$ 26,038**	**$ 27,414**	**$ 12,759**	**$ 19,488**	**$ 3,617**	**$ 16,472**	**$ 62,845**	**$ -**	**$168,633**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ 30**	**$ 21**	**$ 202**	**$ -**	**$ -**	**$ 253**
Commercial and industrial - municipal									
Risk Rating									
Pass	**$ 22,439**	**$ 24,442**	**$ 14,729**	**$ 21,682**	**$ 12,806**	**$ 17,264**	**$ -**	**$ -**	**$113,362**
Special Mention	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commercial and industrial - municipal	**$ 22,439**	**$ 24,442**	**$ 14,729**	**$ 21,682**	**$ 12,806**	**$ 17,264**	**$ -**	**$ -**	**$113,362**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial real estate - non-owner occupied									
Risk Rating									
Pass	**$ 64,523**	**$ 34,847**	**$ 59,010**	**$ 69,135**	**$ 45,837**	**$ 92,976**	**$ 7,770**	**$ -**	**$374,098**
Special Mention	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	**-**	**-**	**-**	**689**	**97**	**7,213**	**-**	**-**	**7,999**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commercial real estate - non-owner occupied	**$ 64,523**	**$ 34,847**	**$ 59,010**	**$ 69,824**	**$ 45,934**	**$100,189**	**$ 7,770**	**$ -**	**$382,097**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Commercial real estate - owner occupied									
Risk Rating									
Pass	**$ 36,214**	**$ 32,684**	**$ 32,171**	**$ 42,201**	**$ 21,863**	**$ 96,223**	**$ 15,727**	**$ -**	**$277,083**
Special Mention	**-**	**-**	**-**	**463**	**-**	**-**	**-**	**-**	**463**
Substandard	-	-	**6,751**	**452**	**515**	**10,794**	**143**	-	**18,655**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commercial real estate - owner occupied	**$ 36,214**	**$ 32,684**	**$ 38,922**	**$ 43,116**	**$ 22,378**	**$107,017**	**$ 15,870**	**$ -**	**$296,201**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 132**	**$ -**	**$ -**	**$ 132**
Commercial real estate - construction									
Risk Rating									
Pass	**$ 14,078**	**$ 23,970**	**$ 15,831**	**$ -**	**$ -**	**$ 394**	**$ 2,000**	**$ -**	**$ 56,273**
Special Mention	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commercial real estate - construction	**$ 14,078**	**$ 23,970**	**$ 15,831**	**$ -**	**$ -**	**$ 394**	**$ 2,000**	**$ -**	**$ 56,273**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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Consumer & Mortgage lending credit exposure
Credit risk profile based on payment activity
As of September 30, 2024
(dollars in thousands)

September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Home equity installment									
Payment performance									
Performing	**$ 5,301**	**$ 7,910**	**$ 16,110**	**$ 8,074**	**$ 6,715**	**$ 10,457**	**$ -**	**$ -**	**$ 54,567**
Non-performing	**-**	-	**-**	-	**-**	**51**	**-**	**-**	**51**
Total home equity installment	**$ 5,301**	**$ 7,910**	**$ 16,110**	**$ 8,074**	**$ 6,715**	**$ 10,508**	**$ -**	**$ -**	**$ 54,618**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 7**	**$ -**	**$ -**	**$ 7**
Home equity line of credit									
Payment performance									
Performing	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 46,592**	**$ 10,295**	**$ 56,887**
Non-performing	**-**	-	**-**	-	**-**	**-**	**500**	**-**	**500**
Total home equity line of credit	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 47,092**	**$ 10,295**	**$ 57,387**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 13**	**$ 13**
Auto loans - recourse									
Payment performance									
Performing	**$ 4,089**	**$ 2,498**	**$ 1,338**	**$ 1,939**	**$ 1,199**	**$ 414**	**$ -**	**$ -**	**$ 11,477**
Non-performing	**-**	8	**-**	-	**-**	**-**	**-**	**-**	**8**
Total auto loans - recourse	**$ 4,089**	**$ 2,506**	**$ 1,338**	**$ 1,939**	**$ 1,199**	**$ 414**	**$ -**	**$ -**	**$ 11,485**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Auto loans - non-recourse									
Payment performance									
Performing	**$ 4,554**	**$ 30,413**	**$ 31,146**	**$ 11,628**	**$ 4,562**	**$ 1,598**	**$ -**	**$ -**	**$ 83,901**
Non-performing	**-**	-	**-**	-	**-**	**4**	**-**	**-**	**4**
Total auto loans - non-recourse	**$ 4,554**	**$ 30,413**	**$ 31,146**	**$ 11,628**	**$ 4,562**	**$ 1,602**	**$ -**	**$ -**	**$ 83,905**
Current period gross write-offs	**$ -**	**$ 16**	**$ 47**	**$ 23**	**$ 6**	**$ 13**	**$ -**	**$ -**	**$ 105**
Direct finance leases (1)									
Payment performance									
Performing	**$ 6,337**	**$ 7,713**	**$ 8,264**	**$ 3,995**	**$ 259**	**$ 25**	**$ -**	**$ -**	**$ 26,593**
Non-performing	**-**	**-**	**-**	**58**	**-**	**-**	**-**	**-**	**58**
Total direct finance leases	**$ 6,337**	**$ 7,713**	**$ 8,264**	**$ 4,053**	**$ 259**	**$ 25**	**$ -**	**$ -**	**$ 26,651**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Consumer - other									
Payment performance									
Performing	**$ 10,806**	**$ 6,395**	**$ 2,191**	**$ 1,176**	**$ 455**	**$ 666**	**$ 1,815**	**$ -**	**$ 23,504**
Non-performing	**-**	-	**20**	**-**	**-**	**-**	**-**	**-**	**20**
Total consumer - other	**$ 10,806**	**$ 6,395**	**$ 2,211**	**$ 1,176**	**$ 455**	**$ 666**	**$ 1,815**	**$ -**	**$ 23,524**
Current period gross write-offs	**$ 21**	**$ 80**	**$ 20**	**$ 27**	**$ 5**	**$ 34**	**$ -**	**$ -**	**$ 187**
Residential real estate									
Payment performance									
Performing	**$ 27,383**	**$ 53,157**	**$ 88,117**	**$139,021**	**$ 52,430**	**$129,715**	**$ -**	**$ -**	**$489,823**
Non-performing	**-**	**315**	**-**	**-**	**-**	**304**	**-**	**-**	**619**
Total residential real estate	**$ 27,383**	**$ 53,472**	**$ 88,117**	**$139,021**	**$ 52,430**	**$130,019**	**$ -**	**$ -**	**$490,442**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Residential - construction									
Payment performance									
Performing	**$ 9,997**	**$ 13,958**	**$ 2,941**	**$ 2,312**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 29,208**
Non-performing	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total residential - construction	**$ 9,997**	**$ 13,958**	**$ 2,941**	**$ 2,312**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 29,208**
Current period gross write-offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

(1) Net of unearned lease revenue of $1.9 million.

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Commercial credit exposure
Credit risk profile by creditworthiness category
As of December 31, 2023
(dollars in thousands)

December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial and industrial									
Risk Rating									
Pass	$ 30,328	$ 19,115	$ 22,820	$ 4,848	$ 6,922	$ 12,156	$ 53,758	$ -	$149,947
Special Mention	-	597	288	-	-	55	30	-	970
Substandard	-	-	16	20	53	324	1,310	-	1,723
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial and industrial	$ 30,328	$ 19,712	$ 23,124	$ 4,868	$ 6,975	$ 12,535	$ 55,098	$ -	$152,640
Current period gross write-offs	$ -	$ -	$ 300	$ 20	$ -	$ -	$ -	$ -	$ 320
Commercial and industrial - municipal									
Risk Rating									
Pass	$ 27,016	$ 13,933	$ 21,241	$ 13,137	$ 1,445	$ 17,952	$ -	$ -	$ 94,724
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial and industrial - municipal	$ 27,016	$ 13,933	$ 21,241	$ 13,137	$ 1,445	$ 17,952	$ -	$ -	$ 94,724
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate - non-owner occupied									
Risk Rating									
Pass	$ 34,349	$ 57,874	$ 72,806	$ 48,088	$ 16,245	$ 89,117	$ 7,168	$ -	$325,647
Special Mention	-	-	1,044	304	-	1,375	-	-	2,723
Substandard	-	65	1,063	129	566	7,478	-	-	9,301
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied	$ 34,349	$ 57,939	$ 74,913	$ 48,521	$ 16,811	$ 97,970	$ 7,168	$ -	$337,671
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ 32	$ -	$ -	$ 32
Commercial real estate - owner occupied									
Risk Rating									
Pass	$ 29,182	$ 38,767	$ 45,643	$ 23,980	$ 25,781	$ 85,167	$ 9,342	$ -	$257,862
Special Mention	-	199	554	-	-	-	125	-	878
Substandard		7,029	379	560	-	10,991	594	-	19,553
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate - owner occupied	$ 29,182	$ 45,995	$ 46,576	$ 24,540	$ 25,781	$ 96,158	$ 10,061	$ -	$278,293
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ 59	$ -	$ -	$ 59
Commercial real estate - construction									
Risk Rating									
Pass	$ 15,075	$ 17,358	$ 852	$ -	$ -	$ 3,739	$ 2,799	$ -	$ 39,823
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate - construction	$ 15,075	$ 17,358	$ 852	$ -	$ -	$ 3,739	$ 2,799	$ -	$ 39,823
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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Consumer & Mortgage lending credit exposure
Credit risk profile based on payment activity
As of December 31, 2023
(dollars in thousands)

December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Home equity installment									
Payment performance									
Performing	$ 8,581	$ 17,890	$ 9,487	$ 7,988	$ 3,832	$ 8,792	$ -	$ -	$ 56,570
Non-performing	-	-	-	-	-	70	-	-	70
Total home equity installment	$ 8,581	$ 17,890	$ 9,487	$ 7,988	$ 3,832	$ 8,862	$ -	$ -	$ 56,640
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ 26	$ -	$ -	$ 26
Home equity line of credit									
Payment performance									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ 40,939	$ 11,045	$ 51,984
Non-performing	-	-	-	-	-	-	364	-	364
Total home equity line of credit	$ -	$ -	$ -	$ -	$ -	$ -	$ 41,303	$ 11,045	$ 52,348
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auto loans - recourse									
Payment performance									
Performing	$ 3,120	$ 1,957	$ 2,834	$ 1,926	$ 765	$ 154	$ -	$ -	$ 10,756
Non-performing	-	-	-	-	-	-	-	-	-
Total auto loans - recourse	$ 3,120	$ 1,957	$ 2,834	$ 1,926	$ 765	$ 154	$ -	$ -	$ 10,756
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auto loans - non-recourse									
Payment performance									
Performing	$ 39,673	$ 42,059	$ 17,314	$ 8,162	$ 3,999	$ 1,349	$ -	$ -	$112,556
Non-performing	-	-	3	17	-	19	-	-	39
Total auto loans - non-recourse	$ 39,673	$ 42,059	$ 17,317	$ 8,179	$ 3,999	$ 1,368	$ -	$ -	$112,595
Current period gross write-offs	$ 3	$ 7	$ 105	$ 36	$ 15	$ -	$ -	$ -	$ 166
Direct finance leases (2)									
Payment performance									
Performing	$ 11,569	$ 10,728	$ 7,508	$ 1,660	$ 83	$ -	$ -	$ -	$ 31,548
Non-performing	-	-	14	-	-	-	-	-	14
Total direct finance leases	$ 11,569	$ 10,728	$ 7,522	$ 1,660	$ 83	$ -	$ -	$ -	$ 31,562
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer - other									
Payment performance									
Performing	$ 8,127	$ 3,266	$ 1,963	$ 705	$ 368	$ 762	$ 1,309	$ -	$ 16,500
Non-performing	-	-	-	-	-	-	-	-	-
Total consumer - other	$ 8,127	$ 3,266	$ 1,963	$ 705	$ 368	$ 762	$ 1,309	$ -	$ 16,500
Current period gross write-offs	$ 125	$ 77	$ 16	$ 7	$ 17	$ 29	$ -	$ -	$ 271
Residential real estate									
Payment performance									
Performing	$ 53,604	$ 80,516	$137,620	$ 51,710	$ 29,859	$111,423	$ -	$ -	$464,732
Non-performing	-	-	-	-	-	278	-	-	278
Total residential real estate	$ 53,604	$ 80,516	$137,620	$ 51,710	$ 29,859	$111,701	$ -	$ -	$465,010
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential - construction									
Payment performance									
Performing	$ 10,733	$ 13,084	$ 9,267	$ 2,675	$ 343	$ 434	$ -	$ -	$ 36,536
Non-performing	-	-	-	-	-	-	-	-	-
Total residential - construction	$ 10,733	$ 13,084	$ 9,267	$ 2,675	$ 343	$ 434	$ -	$ -	$ 36,536
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(2) Net of unearned lease revenue of $2.0 million.

Collateral dependent loans

Loans that do not share risk characteristics are evaluated on an individual basis. For loans that are individually evaluated and foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the financial asset is expected to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. The following table presents the individually evaluated, collateral dependent loans as of September 30, 2024 and December 31, 2023:

(dollars in thousands)	Real Estate	Other	Total Collateral-Dependent Loans
At September 30, 2024			
Commercial and industrial:			
Commercial	**$ -**	**$ 2,843**	**$ 2,843**
Commercial real estate:			
Non-owner occupied	**426**	**-**	**426**
Owner occupied	**2,615**	**-**	**2,615**
Consumer:			
Home equity installment	**51**	**-**	**51**
Home equity line of credit	**500**	**-**	**500**
Auto loans - Non-recourse	**-**	**4**	**4**
Other	**20**	**-**	**20**
Residential:			
Real estate	**619**	**-**	**619**
Total	**$ 4,231**	**$ 2,847**	**$ 7,078**

(dollars in thousands)	Real Estate	Other	Total Collateral-Dependent Loans
At December 31, 2023			
Commercial and industrial:			
Commercial	$ -	$ 55	$ 55
Commercial real estate:			
Non-owner occupied	252	-	252
Owner occupied	2,250	-	2,250
Consumer:			
Home equity installment	70	-	70
Home equity line of credit	364	-	364
Auto loans - Non-recourse	-	39	39
Residential:			
Real estate	278	-	278
Total	$ 3,214	$ 94	$ 3,308

Allowance for credit losses

Management continually evaluates the credit quality of the Company's loan portfolio and performs a formal review of the adequacy of the allowance for credit losses (ACL) on a quarterly basis. The allowance reflects management's best estimate of the amount of credit losses in the loan portfolio.

Information related to the change in the allowance for credit losses on loans and the Company's recorded investment in loans by portfolio segment as of the period indicated is as follows:

As of and for the nine months ended September 30, 2024

(dollars in thousands)	Commercial & industrial	Commercial real estate	Consumer	Residential real estate	Unallocated	Total
Allowance for Credit Losses:						
Beginning balance	**$ 1,850**	**$ 8,835**	**$ 2,391**	**$ 5,694**	**$ 36**	**$ 18,806**
Charge-offs	**(253)**	**(132)**	**(312)**	**-**	**-**	**(697)**
Recoveries	**7**	**335**	**59**	**45**	**-**	**446**
Provision (benefit) for credit losses	**940**	**31**	**208**	**(100)**	**(4)**	**1,075**
Ending balance	**$ 2,544**	**$ 9,069**	**$ 2,346**	**$ 5,639**	**$ 32**	**$ 19,630**

As of and for the three months ended September 30, 2024

(dollars in thousands)	Commercial & industrial	Commercial real estate	Consumer	Residential real estate	Unallocated	Total
Allowance for Credit Losses:						
Beginning balance	**$ 2,181**	**$ 8,687**	**$ 2,368**	**$ 5,726**	**$ 13**	**$ 18,975**
Charge-offs	**(100)**	**(1)**	**(119)**	**-**	**-**	**(220)**
Recoveries	**2**	**181**	**17**	**-**	**-**	**200**
Provision (benefit) for credit losses	**461**	**202**	**80**	**(87)**	**19**	**675**
Ending balance	**$ 2,544**	**$ 9,069**	**$ 2,346**	**$ 5,639**	**$ 32**	**$ 19,630**

As of and for the nine months ended September 30, 2023

(dollars in thousands)	Commercial & industrial	Commercial real estate	Consumer	Residential real estate	Unallocated	Total
Allowance for Credit Losses:						
Beginning balance	$ 2,924	$ 7,162	$ 2,827	$ 4,169	$ 67	$ 17,149
Impact of adopting ASC 326	278	756	(547)	198	(67)	618
Initial allowance on loans purchased with credit deterioration	-	126	-	-	-	126
Charge-offs	(320)	(92)	(349)	-	-	(761)
Recoveries	23	44	148	30	-	245
Provision (benefit) for credit losses	(1,039)	803	56	1,536	24	1,380
Ending balance	$ 1,866	$ 8,799	$ 2,135	$ 5,933	$ 24	$ 18,757

As of and for the three months ended September 30, 2023

(dollars in thousands)	Commercial & industrial	Commercial real estate	Consumer	Residential real estate	Unallocated	Total
Allowance for Credit Losses:						
Beginning balance	$ 2,361	$ 8,578	$ 2,514	$ 4,847	$ 50	$ 18,350
Charge-offs	-	(59)	(105)	-	-	(164)
Recoveries	1	3	22	20	-	46
Provision (benefit) for credit losses	(496)	277	(296)	1,066	(26)	525
Ending balance	$ 1,866	$ 8,799	$ 2,135	$ 5,933	$ 24	$ 18,757

Unfunded commitments

In accordance with ASC Topic 326, the Company estimates expected credit losses for off-balance-sheet credit exposures over the contractual period during which the Company is exposed to credit risk. The estimate of expected credit losses takes into consideration the likelihood that funding will occur (i.e., funding rate) as well as the amount expected to be collected over the estimated remaining contractual term of the off-balance-sheet credit exposures (i.e., loss rate). The Company does not record an estimate of expected credit losses for off-balance-sheet exposures that are unconditionally cancellable. On a quarterly basis, management evaluates expected credit losses for off-balance-sheet credit exposures.

The Company's allowance for credit losses on unfunded commitments is recognized as a liability on the consolidated balance sheets, with adjustments to the reserve recognized in the provision for credit losses on unfunded commitments on the consolidated statements of income. The Company's activity in the allowance for credit losses on unfunded commitments for the period was as follows:

(dollars in thousands)	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Beginning balance	**$ 944**	$ 49
Impact of adopting ASC 326	**-**	1,060
Provision (benefit) for credit losses	**225**	(100)
Ending balance	**$ 1,169**	$ 1,009

Direct finance leases

The Company originates direct finance leases through three automobile dealerships. The amortized cost of the Company’s lease receivables, net of unearned income, was $4.8 million and $6.1 million as of September 30, 2024 and December 31, 2023, respectively. The residual value of the direct finance leases is fully guaranteed by the dealerships. Residual values amounted to $21.4 million and $25.1 million at September 30, 2024 and December 31, 2023, respectively, and are included in the amortized cost of direct finance leases. As of September 30, 2024, there was also $469 thousand in deferred lease expense included in the carrying value of direct finance leases that is not included in the table below.

The undiscounted cash flows to be received on an annual basis for the direct finance leases are as follows:

(dollars in thousands)	Amount
2024	$ 2,811
2025	14,174
2026	7,082
2027	3,666
2028	286
2029 and thereafter	104
Total future minimum lease payments receivable	28,123
Less: Unearned income	(1,940)
Undiscounted cash flows to be received	$ 26,183

6. Earnings per share

Basic earnings per share (EPS) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed in the same manner as basic EPS but also reflects the potential dilution that could occur from the grant of stock-based compensation awards. The Company maintains one active share-based compensation plan that may generate additional potentially dilutive common shares. For granted and unexercised stock-settled stock appreciation rights (SSARs), dilution would occur if Company-issued SSARs were exercised and converted into common stock. As of the three and nine months ended September 30, 2024, there were 9,236 and 9,017 potentially dilutive shares related to issued and unexercised SSARs compared to 11,297 and 16,469 for the same 2023 periods, respectively. The calculation did not include 46,423 weighted average unexercised SSARs that could potentially dilute earnings per share but their effect was antidilutive as of the three and nine months ended September 30, 2024. For restricted stock, dilution would occur from the Company's previously granted but unvested shares. There were 31,352 and 27,775 potentially dilutive shares related to unvested restricted share grants as of the three and nine months ended September 30, 2024 compared to 26,406 and 21,094 for the same 2023 periods, respectively.

In the computation of diluted EPS, the Company uses the treasury stock method to determine the dilutive effect of its granted but unexercised SSARs and unvested restricted stock. Under the treasury stock method, the assumed proceeds, as defined, received from shares issued in a hypothetical stock option exercise or restricted stock grant, are assumed to be used to purchase treasury stock. Proceeds include amounts received from the exercise of outstanding stock options and compensation cost for future service that the Company has not yet recognized in earnings. The Company does not consider awards from share-based grants in the computation of basic EPS.

The following table illustrates the data used in computing basic and diluted EPS for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	**2024**	2023
(dollars in thousands except per share data)				
Basic EPS:				
Net income available to common shareholders	**$ 4,967**	$ 5,340	**$ 14,960**	$ 17,742
Weighted-average common shares outstanding	**5,735,926**	5,687,553	**5,731,313**	5,669,454
Basic EPS	**$ 0.87**	$ 0.94	**$ 2.61**	$ 3.13
Diluted EPS:				
Net income available to common shareholders	**$ 4,967**	$ 5,340	**$ 14,960**	$ 17,742
Weighted-average common shares outstanding	**5,735,926**	5,687,553	**5,731,313**	5,669,454
Potentially dilutive common shares	**40,588**	37,703	**36,792**	37,563
Weighted-average common and potentially dilutive shares outstanding	**5,776,514**	5,725,256	**5,768,105**	5,707,017
Diluted EPS	**$ 0.86**	$ 0.93	**$ 2.59**	$ 3.11

7. Stock plans

The Company has one active stock-based compensation plan (the stock compensation plan) from which it can grant stock-based compensation awards and applies the fair value method of accounting for stock-based compensation provided under current accounting guidance. The guidelines require the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. The Company's stock compensation plan was shareholder-approved and permits the grant of share-based compensation awards to its employees and directors. The Company believes that the stock-based compensation plan will advance the development, growth and financial condition of the Company by providing incentives through participation in the appreciation in the value of the Company's common stock. In return, the Company hopes to secure, retain and motivate the employees and directors who are responsible for the operation and the management of the affairs of the Company by aligning the interest of its employees and directors with the interest of its shareholders. In the stock compensation plan, employees and directors are eligible to be awarded stock-based compensation grants which can consist of stock options (qualified and non-qualified), stock appreciation rights (SARs) and restricted stock.

At the 2022 annual shareholders' meeting, the Company's shareholders approved and the Company adopted the 2022 Omnibus Stock Incentive Plan which replaced the 2012 Omnibus Stock Incentive Plan and the 2012 Director Stock Incentive Plan (collectively, the 2012 stock incentive plans). The 2012 stock incentive plans expired in 2022. Unless terminated by the Company's board of directors, the 2022 Omnibus Stock Incentive Plan will expire on and no stock-based awards shall be granted after the year 2032.

In the 2022 Omnibus Stock Incentive Plan, the Company has reserved 500,000 shares of its no-par common stock for future issuance. The Company recognizes share-based compensation expense over the requisite service or vesting period. Since 2019, the Company has approved a Long-Term Incentive Plan (LTIP) each year that awarded restricted stock and/or stock-settled stock appreciation rights (SSARs) to senior officers and managers based on the attainment of performance goals. The SSAR awards have a ten-year term from the date of each grant.

During the first quarter of 2024, the Company approved a LTIP and awarded restricted stock to senior officers and managers in February 2024 based on 2023 performance.

During the first quarter of 2023, the Company approved a LTIP and awarded restricted stock to senior officers and managers in February 2023 based on 2022 performance. During the second quarter of 2023, the Company awarded 1,000 shares of restricted stock to one new employee.

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The following table summarizes the weighted-average fair value and vesting of restricted stock grants awarded during the periods ended September 30, 2024 and 2023 under the 2022 stock incentive plan:

	September 30, 2024		September 30, 2023	
	Shares granted	**Weighted-average grant date fair value**	**Shares granted**	**Weighted-average grant date fair value**
Omnibus plan	**10,000**(2)	**$ 46.96**	18,000(2)	$ 49.43
Omnibus plan	**1,558**(2)	**46.96**	17,684(3)	49.43
Omnibus plan	**10,871**(3)	**46.96**	50(1)	49.43
Omnibus plan	**50**(1)	**46.96**	1,000(3)	44.06
Total	**22,479**	**$ 46.96**	36,734	$ 49.28

(1) Vest after 1 year (2) Vest after 3 years – 33% each year (3) Vest fully after 3 years

The fair value of the shares granted in 2024 and 2023 was calculated using the grant date closing stock price.

A summary of the status of the Company's non-vested restricted stock as of and changes during the period indicated are presented in the following table:

	2012 & 2022 Stock incentive plans			
	Director	Omnibus	Total	Weighted- average grant date fair value
Non-vested balance at December 31, 2023	12,519	61,200	73,719	$ 50.03
Granted	-	22,479	22,479	46.96
Forfeited	-	(921)	(921)	48.66
Vested	(7,719)	(17,892)	(25,611)	51.05
Non-vested balance at September 30, 2024	**4,800**	**64,866**	**69,666**	**$ 48.68**

A summary of the status of the Company's SSARs as of and changes during the period indicated are presented in the following table:

	Awards	Weighted-average grant date fair value	Weighted-average remaining contractual term (years)
Outstanding December 31, 2023	64,326	$ 11.59	3.8
Granted	-		
Exercised	-		
Forfeited	-		
Outstanding September 30, 2024	**64,326**	**$ 11.59**	**3.1**

Of the SSARs outstanding at September 30, 2024, all SSARs vested and were exercisable.

During the first nine months of 2024 and 2023, there were zero and 22,807 SSARs exercised, respectively.

Share-based compensation expense is included as a component of salaries and employee benefits in the consolidated statements of income. The following tables illustrate stock-based compensation expense recognized on non-vested equity awards during the three and nine months ended September 30, 2024 and 2023 and the unrecognized stock-based compensation expense as of September 30, 2024:

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	**2024**	2023	**2024**	2023
Stock-based compensation expense:				
2012 Director stock incentive plan	**$ 60**	$ 99	**$ 199**	$ 385
2012 Omnibus stock incentive plan	**60**	119	**209**	378
2022 Omnibus stock incentive plan	**215**	140	**599**	524
Employee stock purchase plan	**-**	-	**126**	34
Total stock-based compensation expense	**$ 335**	$ 358	**$ 1,133**	$ 1,321

(dollars in thousands)	As of September 30, 2024
Unrecognized stock-based compensation expense:	
2012 Director stock incentive plan	$ 90
2012 Omnibus stock incentive plan	91
2022 Omnibus stock incentive plan	1,553
Total unrecognized stock-based compensation expense	$ 1,734

The unrecognized stock-based compensation expense as of September 30, 2024 will be recognized ratably over the periods ended February 2025, February 2025 and February 2027 for the 2012 Director Stock Incentive Plan, 2012 Omnibus Stock Incentive Plan and 2022 Omnibus Stock Incentive Plan, respectively.

In addition to the 2022 stock incentive plan, the Company established the 2002 Employee Stock Purchase Plan (the ESPP) and reserved 165,000 shares of its un-issued capital stock for issuance under the plan. The ESPP was designed to promote broad-based employee ownership of the Company's stock and to motivate employees to improve job performance and enhance the financial results of the Company. Under the ESPP, participation is voluntary whereby employees use automatic payroll withholdings to purchase the Company's capital stock at a discounted price based on the fair market value of the capital stock as measured on either the commencement or termination dates, as defined. As of September 30, 2024, 108,591 shares have been issued under the ESPP. The ESPP is considered a compensatory plan and is required to comply with the provisions of current accounting guidance. The Company recognizes compensation expense on its ESPP on the date the shares are purchased, and it is included as a component of salaries and employee benefits in the consolidated statements of income.

8. Fair value measurements

The accounting guidelines establish a framework for measuring and disclosing information about fair value measurements. The guidelines of fair value reporting instituted a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs are quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - inputs are unobservable and are based on the Company's own assumptions to measure assets and liabilities at fair value. Level 3 pricing for securities may also include unobservable inputs based upon broker-traded transactions.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company uses fair value to measure certain assets and, if necessary, liabilities on a recurring basis when fair value is the primary measure for accounting. Thus, the Company uses fair value for AFS securities. Fair value is used on a non-recurring basis to measure certain assets when adjusting carrying values to market values, such as individually evaluated loans, other real estate owned (ORE) and other repossessed assets.

The following table represents the carrying amount and estimated fair value of the Company's financial instruments as of the periods indicated:

	September 30, 2024				
(dollars in thousands)	Carrying amount	Estimated fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 120,169	$ 120,169	$ 120,169	$ -	$ -
Held-to-maturity securities	225,373	203,222	-	203,222	-
Available-for-sale debt securities	334,446	334,446	-	334,446	-
Restricted investments in bank stock	3,944	3,944	-	3,944	-
Loans and leases, net	1,774,156	1,650,914	-	-	1,650,914
Loans held-for-sale	1,762	1,792	-	1,792	-
Accrued interest receivable	9,802	9,802	-	9,802	-
Interest rate swaps	135	135	-	135	-
Financial liabilities:					
Deposits with no stated maturities	2,033,390	2,033,390	-	2,033,390	-
Time deposits	309,116	308,177	-	308,177	-
Short-term borrowings	25,000	25,000	-	25,000	-
Secured borrowings	6,323	5,420	-	-	5,420
Accrued interest payable	4,434	4,434	-	4,434	-
Interest rate swaps	2,420	2,420	-	2,420	-

(dollars in thousands)	Carrying amount	Estimated fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	December 31, 2023				
Financial assets:					
Cash and cash equivalents	$ 111,949	$ 111,949	$ 111,949	$ -	$ -
Held-to-maturity securities	224,233	197,176	-	197,176	-
Available-for-sale debt securities	344,040	344,040	-	344,040	-
Restricted investments in bank stock	3,905	3,905	-	3,905	-
Loans and leases, net	1,666,292	1,532,195	-	-	1,532,195
Loans held-for-sale	1,457	1,483	-	1,483	-
Accrued interest receivable	9,092	9,092	-	9,092	-
Interest rate swaps	171	171	-	171	-
Financial liabilities:					
Deposits with no stated maturities	1,945,456	1,945,456	-	1,945,456	-
Time deposits	212,969	210,423	-	210,423	-
Short-term borrowings	117,000	117,010	-	117,010	-
Secured borrowings	7,372	8,067	-	-	8,067
Accrued interest payable	3,042	3,042	-	3,042	-
Interest rate swaps	2,332	2,332	-	2,332	-

The carrying value of short-term financial instruments, as listed below, approximates their fair value. These instruments generally have limited credit exposure, no stated or short-term maturities, carry interest rates that approximate market and generally are recorded at amounts that are payable on demand:

- Cash and cash equivalents;
- Non-interest bearing deposit accounts;
- Savings, interest-bearing checking and money market accounts
- Short-term borrowings and
- Accrued interest.

Securities: Fair values on investment securities are determined by prices provided by a third-party vendor, who is a provider of financial market data, analytics and related services to financial institutions.

Accruing loans and leases: The fair value of accruing loans is estimated by calculating the net present value of the future expected cash flows discounted at current offering rates for similar loans. Current offering rates consider, among other things, credit risk.

The carrying value that fair value is compared to is net of the allowance for credit losses and since there is significant judgment included in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

Non-accrual loans: Loans which the Company has measured as non-accruing are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. These loans are classified within Level 3 of the fair value hierarchy. The fair value consists of loan balances less the valuation allowance.

Loans held-for-sale: The fair value of loans held-for-sale is estimated using rates currently offered for similar loans and is typically obtained from the Federal National Mortgage Association (FNMA) or the Federal Home Loan Bank of Pittsburgh (FHLB).

Interest rate swaps: Fair values on derivative instruments are determined by valuations provided by a third-party vendor, who is a provider of financial market data, analytics and related services to financial institutions.

Time deposits: The fair value of time deposits is based on discounted cash flows using rates which approximate market rates for deposits of similar maturities.

Secured borrowings: The fair value for these obligations uses an income approach based on expected cash flows on a pooled basis.

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The following tables illustrate the financial instruments measured at fair value on a recurring basis segregated by hierarchy fair value levels as of the periods indicated:

(dollars in thousands)		Total carrying value September 30, 2024		Quoted prices in active markets (Level 1)		Significant other observable inputs (Level 2)		Significant other unobservable inputs (Level 3)
Assets:								
Available-for-sale securities:								
Agency - GSE	**$**	**28,571**	**$**	**-**	**$**	**28,571**	**$**	**-**
Obligations of states and political subdivisions		**122,782**		**-**		**122,782**		**-**
MBS - GSE residential		**183,093**		**-**		**183,093**		**-**
Total available-for-sale debt securities	**$**	**334,446**	**$**	**-**	**$**	**334,446**	**$**	**-**
Interest rate swaps		**135**		-		**135**		-
Total assets	**$**	**334,581**	**$**	-	**$**	**334,581**	**$**	-
Liabilities:								
Interest rate swaps	**$**	**2,420**	**$**	-	**$**	**2,420**	**$**	-
Total liabilities	**$**	**2,420**	**$**	-	**$**	**2,420**	**$**	-

(dollars in thousands)		Total carrying value December 31, 2023		Quoted prices in active markets (Level 1)		Significant other observable inputs (Level 2)		Significant other unobservable inputs (Level 3)
Assets:								
Available-for-sale securities:								
Agency - GSE	$	27,545	$	-	$	27,545	$	-
Obligations of states and political subdivisions		122,797		-		122,797		-
MBS - GSE residential		193,698		-		193,698		-
Total available-for-sale debt securities	$	344,040	$	-	$	344,040	$	-
Interest rate swaps		171		-		171		-
Total assets	$	344,211	$	-	$	344,211	$	-
Liabilities:								
Interest rate swaps	$	2,332	$	-	$	2,332	$	-
Total liabilities	$	2,332	$	-	$	2,332	$	-

Debt securities in the AFS portfolio are measured at fair value using market quotations provided by a third-party vendor, who is a provider of financial market data, analytics and related services to financial institutions. Assets classified as Level 2 use valuation techniques that are common to bond valuations. That is, in active markets whereby bonds of similar characteristics frequently trade, quotes for similar assets are obtained.

There were no changes in Level 3 financial instruments measured at fair value on a recurring basis as of and for the periods ending September 30, 2024 and December 31, 2023, respectively.

From time-to-time, the Company may be required to record at fair value financial instruments on a non-recurring basis, such as individually evaluated loans, ORE and other repossessed assets. These non-recurring fair value adjustments involve the application of lower-of-cost-or-market accounting on write downs of individual assets. The following table illustrates the financial instruments measured at fair value on a non-recurring basis segregated by hierarchy fair value levels as of the periods indicated:

(dollars in thousands)	**Valuation techniques**		**Total carrying value at September 30, 2024**		**Quoted prices in active markets (Level 1)**		**Significant other observable inputs (Level 2)**		**Significant other unobservable inputs (Level 3)**
Individually evaluated loans	Fair value of collateral appraised value	**$**	**2,378**	**$**	**-**	**$**	**-**	**$**	**2,378**
Other repossessed assets	Fair value of asset less selling costs		**10**		**-**		**-**		**10**
Total		**$**	**2,388**	**$**	**-**	**$**	**-**	**$**	**2,388**

(dollars in thousands)			Total carrying value at December 31, 2023		Quoted prices in active markets (Level 1)		Significant other observable inputs (Level 2)		Significant other unobservable inputs (Level 3)
Individually evaluated loans	Fair value of collateral appraised value	$	120	$	-	$	-	$	120
Other real estate owned	Fair value of asset less selling costs		1		-		-		1
Total		$	121	$	-	$	-	$	121

The following describes valuation methodologies used for financial instruments measured at fair value on a non-recurring basis. Individually evaluated loans that are collateral dependent are written down to fair value through the establishment of specific reserves, a component of the allowance for credit losses, and as such are carried at the lower of net recorded investment or the estimated fair value. Estimates of fair value of the collateral are determined based on a variety of information, including available valuations from certified appraisers for similar assets, present value of discounted cash flows and inputs that are estimated based on commonly used and generally accepted industry liquidation advance rates and estimates and assumptions developed by management.

Valuation techniques for individually evaluated, collateral dependent loans are typically determined through independent appraisals of the underlying collateral or may be determined through present value of discounted cash flows. Both techniques include various Level 3 inputs which are not identifiable. The valuation technique may be adjusted by management for estimated liquidation expenses and qualitative factors such as economic conditions. If real estate is not the primary source of repayment, present value of discounted cash flows and estimates using generally accepted industry liquidation advance rates and other factors may be utilized to determine fair value.

At September 30, 2024 and December 31, 2023, the range of liquidation expenses and other valuation adjustments applied to individually evaluated, collateral dependent loans ranged from -13.57% to -21.00% and from -31.47% to -31.47%, respectively. The weighted average of liquidation expenses and other valuation adjustments applied to individually evaluated, collateral dependent loans amounted to -16.93% as of September 30, 2024 and -31.47% as of December 31, 2023, respectively. Due to the multitude of assumptions, many of which are subjective in nature, and the varying inputs and techniques used to determine fair value, the Company recognizes that valuations could differ across a wide spectrum of techniques employed. Accordingly, fair value estimates for individually evaluated, collateral dependent loans are classified as Level 3.

For ORE, fair value is generally determined through independent appraisals of the underlying properties which generally include various Level 3 inputs which are not identifiable. Appraisals form the basis for determining the net realizable value from these properties. Net realizable value is the result of the appraised value less certain costs or discounts associated with liquidation which occurs in the normal course of business. Management's assumptions may include consideration of the location and occupancy of the property, along with current economic conditions. Subsequently, as these properties are actively marketed, the estimated fair values may be periodically adjusted through incremental subsequent write-downs. These write-downs usually reflect decreases in estimated values resulting from sales price observations as well as changing economic and market conditions. At December 31, 2023, the discounts applied to the appraised values of ORE ranged from -77.60% to -77.60%, and the weighted average of discount to the appraisal values of ORE amounted to -77.60%. At September 30, 2024, the net realizable values of properties in ORE were higher than the carrying value.

At September 30, 2024, there was one other repossessed asset totaling $10 thousand. At December 31, 2023, there were no other repossessed assets. The Company refers to the National Automobile Dealers Association (NADA) guide to determine a vehicle's fair value.

9. Employee Benefits

Bank-Owned Life Insurance (BOLI)

The Company has purchased single premium BOLI policies on certain officers. The policies are recorded at their cash surrender values. Increases in cash surrender values are included in non-interest income in the consolidated statements of income. The policies' cash surrender value totaled $57.7 million and $54.6 million, respectively, as of September 30, 2024 and December 31, 2023 and is reflected as an asset on the consolidated balance sheets. For the nine months ended September 30, 2024 and 2023, the Company has recorded income of $1.1 million and $1.0 million, respectively, due to an increase in cash surrender values.

Officer Life Insurance

The Bank enters into separate split dollar life insurance arrangements (Split Dollar Agreements) with certain officers which provide each officer a specified death benefit should the officer die while in the Bank's employ. The Bank owns the policies and all cash values thereunder. Upon death of the covered employee, the agreed-upon amount of death proceeds from the policies will be paid directly to the insured's beneficiary. As of September 30, 2024, the policies had total death benefits of $57.7 million of which $9.6 million would be paid to the officer's beneficiaries and the remaining $48.1 million would be paid to the Bank. In addition, four executive officers have the opportunity to retain a split dollar benefit equal to two times their highest base salary after separation from service if the vesting requirements are met. In June 2024, the Bank entered into an agreement with one officer pursuant to which the Bank will share a portion of the net death proceeds of certain bank-owned life insurance (BOLI) policies with the participant's beneficiary should they die while employed by the Bank. Net death proceeds are the total death proceeds from the BOLI policies less the greater of the cash surrender value or aggregate premiums paid. Under the Split Dollar Agreement, the participant's beneficiary will receive a death benefit equal to the lesser of three times the participant's base salary at the date of death or the net death proceeds from the BOLI policies. See exhibit 10.15 for further information. As of September 30, 2024 and December 31, 2023, the Company had a balance in accrued expenses of $437 thousand and $352 thousand, respectively, for the split dollar benefit.

Supplemental Executive Retirement plan (SERP)

On March 29, 2017, the Bank entered into separate supplemental executive retirement agreements (individually the "SERP Agreement") with five officers, pursuant to which the Bank will credit an amount to a SERP account established on each participant's behalf while they are actively employed by the Bank for each calendar month from March 1, 2017 until retirement. On March 20, 2019, the Bank entered into a SERP Agreement with one officer, pursuant to which the Bank will credit an amount to a SERP account established for the participant's behalf while they are actively employed by the Bank for each calendar month from March 1, 2019 until normal retirement age. As a result of the acquisition of Landmark, the Company acquired a SERP agreement with one former employee. In June 2024, the bank entered into a supplemental executive retirement plan agreement (the "SERP Agreement") with one officer; pursuant to which the Bank will credit an amount to a SERP account established for the participant's behalf while they are actively employed by the Bank for each calendar month from June 1, 2024 until normal retirement age of 70. See exhibit 10.14 for further information. As of September 30, 2024 and December 31, 2023, the Company had a balance in accrued expenses of $4.8 million and $4.4 million in connection with these SERPs.

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10. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations and economic conditions. The Company uses derivative financial instruments primarily to manage risks to the Company associated with changing interest rates and to assist customers with their risk management objectives. All derivative instruments are recognized as either assets or liabilities at fair value in the statement of financial position.

Interest rate derivative - no hedge designation

The Company is a party to interest rate derivatives that are not designated as hedging instruments. The Company enters into interest rate swaps that allow certain commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. These interest rate swaps with customers are simultaneously offset by interest rate swaps that the Company executes with a third-party financial institution, such that the Company minimizes its net interest rate risk exposure resulting from such transactions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated balance sheets (asset positions are included in other assets and liability positions are included in other liabilities). As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit-quality variations between counterparties, which may impact earnings as required by FASB ASC 820. There was no effect on earnings in any periods presented.

(dollars in thousands)	Notional Amount	Weighted Average Maturity (Years)	Interest Rate Paid	Interest Rate Received	Fair Value
September 30, 2024					
Classified in Other assets:					
Customer interest rate swaps	$ 1,816	13.16	30 Day SOFR + Margin	Fixed	$ 135
Classified in Accrued interest payable and other liabilities:					
Third party interest rate swaps	$ 1,816	13.16	Fixed	30 Day SOFR + Margin	$ 135

Interest rate derivative - fair value hedge designation

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 movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. This interest rate swap is designated as a fair value hedge and limits the risk to the investment portfolio of rising interest rates. The Company entered into an interest rate swap with a third-party financial institution to convert fixed rate investment securities to an adjustable rate to produce a more asset sensitive profile. The Company recorded the fair value of the fair value hedge in other assets and accrued interest payable and other liabilities on the consolidated balance sheet. The hedged items (fixed rate securities available-for-sale) are also recorded at fair value which offsets the adjustment to the fair value hedge. The related gains and losses are reported in interest income investment securities - U.S. government agencies and corporations and interest income investment securities - state and political subdivisions (nontaxable) in the consolidated statements of income. For the nine months ended September 30, 2024, there was $265 thousand in interest income investment securities - U.S. government agencies and corporations and $ 265 thousand in interest income investment securities - state and political subdivisions (nontaxable). A qualitative assessment of hedge effectiveness was applied at inception of the hedge. Future hedge effectiveness will be determined on a qualitative basis at least annually. The hedge is expected to remain effective as long as the balance of the hedged item is projected to remain at or above the notional amount of the swap.

(dollars in thousands)	Notional Amount	Weighted Average Maturity (Years)	Fair Value
September 30, 2024			
Pay-fixed interest rate swap agreements - securities AFS	$ 100,000	2.0	$ (2,285)

The Company had investment securities with a book value of $ 2.7 million pledged as collateral on its interest rate swaps with a third-party financial institution as of September 30, 2024.

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

The following is management's discussion and analysis of the significant changes in the consolidated financial condition of the Company as of September 30, 2024 compared to December 31, 2023 and a comparison of the results of operations for the three and nine months ended September 30, 2024 and 2023. Current performance may not be indicative of future results. This discussion should be read in conjunction with the Company's 2023 Annual Report filed on Form 10-K.

Forward-looking statements

Certain of the matters discussed in this Quarterly Report on Form 10-Q may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "estimate," and similar expressions are intended to identify such forward-looking statements.

The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

- local, regional and national economic conditions and changes thereto;
- the short-term and long-term effects of inflation, and rising costs to the Company, its customers and on the economy;
- the risks of changes and volatility of interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- securities markets and monetary fluctuations and volatility;
- disruption of credit and equity markets;
- impacts of the capital and liquidity requirements of the Basel III standards and other regulatory pronouncements, regulations and rules;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- effects of short- and long-term federal budget and tax negotiations and their effect on economic and business conditions;
- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- the impact of new or changes in existing laws and regulations, including laws and regulations concerning taxes, banking, securities and insurance and their application with which the Company and its subsidiaries must comply;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
- the effects of economic conditions of any pandemic, epidemic or other health-related crisis such as COVID-19 and responses thereto on current customers and the operations of the Company, specifically the effect of the economy on loan customers' ability to repay loans;
- the effects of bank failures, banking system instability, deposit fluctuations, loan and securities value changes;
- technological changes;
- the interruption or breach in security of our information systems, continually evolving cybersecurity and other technological risks and attacks resulting in failures or disruptions in customer account management, general ledger processing and loan or deposit updates and potential impacts resulting therefrom including additional costs, reputational damage, regulatory penalties, and financial losses;
- acquisitions and integration of acquired businesses;
- the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities;
- acts of war or terrorism; and
- the risk that our analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

The Company cautions readers not to place undue reliance on forward-looking statements, which reflect analyses only as of the date of this document. The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

Readers should review the risk factors described in other documents that we file or furnish, from time to time, with the Securities and Exchange Commission, including Annual Reports to Shareholders, Annual Reports filed on Form 10-K and other current reports filed or furnished on Form 8-K.

Executive Summary

The Company is a Pennsylvania corporation and a bank holding company, whose wholly-owned state chartered commercial bank and trust subsidiary is The Fidelity Deposit and Discount Bank. The Company is headquartered in Dunmore, Pennsylvania. We consider Lackawanna, Northampton and Luzerne Counties our primary marketplace, the "market area".

As a leading Northeastern and Eastern Pennsylvania community bank, our goals are to enhance shareholder value while continuing to build a full-service community bank. We focus on growing our core business of retail and business lending and deposit gathering while maintaining strong asset quality and controlling operating expenses. We continue to implement management strategies to diversify earning assets (see "Funds Deployed" section of this management's discussion and analysis) and to increase the amount of relationship core deposits (see "Funds Provided" section of this management's discussion and analysis). These strategies include a focus on commercial lending and the ancillary business products and services supporting our commercial customers' needs as well as residential lending strategies and an array of consumer products. We focus on developing a full banking relationship with existing, as well as new business prospects. The Bank has a personal and corporate trust department and also provides alternative financial and insurance products with asset management services. In addition, we explore opportunities to selectively expand and optimize our franchise footprint, consisting presently of our 21-branch network.

We are impacted by national, regional and market area economic factors, with commercial, commercial real estate and residential mortgage loans concentrated in Northeastern Pennsylvania, Lackawanna and Luzerne counties, and Eastern Pennsylvania, Northampton county. In the third quarter of 2024, the Federal Open Market Committee (FOMC) decreased interest rates by 50 basis points. According to the U.S. Bureau of Labor Statistics, the national unemployment rate for September 2024 was 4.1%, up 0.4 percentage points from December 2023. However, the unemployment rates in the Scranton - Wilkes-Barre – Hazleton (market area north) and the Allentown – Bethlehem – Easton (market area south) Metropolitan Statistical Areas (local) decreased as the national unemployment increased. The local unemployment rates at September 30, 2024 were 3.4% in market area north and 3.1% in market area south, respectively, a decrease of 0.1 percentage point and 0.1 percentage point from the 3.5% and 3.2%, respectively, at December 31, 2023. The median home values in the Scranton-Wilkes-Barre-Hazleton metro and Allentown-Bethlehem-Easton metro each increased 7.0% and 5.8% from a year ago, according to Zillow, an online database advertising firm providing access to its real estate search engines to various media outlets, and values are expected to grow 1.0% and 2.0% in the next year. In light of these expectations, we believe the real estate values could continue to increase at these levels with the declining rate environment. Management will continue to monitor the economic climate in our region and scrutinize growth prospects with credit quality as a principal consideration.

For the nine months ended September 30, 2024, net income was $15.0 million, or $2.59 diluted earnings per share, compared to $17.7 million, or $3.11 diluted earnings per share, for the nine months ended September 30, 2023.

As of September 30, 2024 and September 30, 2023, tangible common book value per share (non-GAAP) was $32.55 and $25.37, respectively. See reconciliation on page 37. The increase in tangible book value was due primarily to an increase in retained earnings from net income and the increase in unrealized loss in AFS securities. These non-GAAP measures should be reviewed in connection with the reconciliation of these non-GAAP ratios. See “Non-GAAP Financial Measures” located below within this management’s discussion and analysis.

Branch managers, relationship bankers, mortgage originators and our business service partners are all focused on developing a mutually profitable full banking relationship with our clients. We understand our markets, offer products and services along with financial advice that is appropriate for our community, clients and prospects. The Company continues to focus on the trusted financial advisor model by utilizing the team approach of experienced bankers that are fully engaged and dedicated towards maintaining and growing profitable relationships.

In addition to the challenging economic environment in which we compete, the regulation and oversight of our business has changed significantly in recent years. As described more fully in Part II, Item 1A, “Risk Factors” below, as well as Part I, Item 1A, “Risk Factors,” and in the “Supervisory and Regulation” section of management’s discussion and analysis of financial condition and results of operations in our 2023 Annual Report filed on Form 10-K, certain aspects of the Dodd-Frank Wall Street Reform Act (Dodd-Frank Act) continue to have a significant impact on us.

Non-GAAP Financial Measures

The following are non-GAAP financial measures which provide useful insight to the reader of the consolidated financial statements but should be supplemental to GAAP used to prepare the Company’s financial statements and should not be read in isolation or relied upon as a substitute for GAAP measures. In addition, the Company’s non-GAAP measures may not be comparable to non-GAAP measures of other companies. The Company’s tax rate used to calculate the fully-taxable equivalent (FTE) adjustment was 21% at September 30, 2024 and 2023.

The following table reconciles the non-GAAP financial measures of FTE net interest income:

	Three months ended		Nine months ended	
(dollars in thousands)	**September 30, 2024**	September 30, 2023	**September 30, 2024**	September 30, 2023
Interest income (GAAP)	**$ 27,299**	$ 23,678	**$ 78,963**	$ 68,995
Adjustment to FTE	**775**	700	**2,272**	2,186
Interest income adjusted to FTE (non-GAAP)	**28,074**	24,378	**81,235**	71,181
Interest expense (GAAP)	**11,868**	9,039	**33,472**	21,849
Net interest income adjusted to FTE (non-GAAP)	**$ 16,206**	$ 15,339	**$ 47,763**	$ 49,332

The efficiency ratio is non-interest expenses as a percentage of FTE net interest income plus non-interest income. The following table reconciles the non-GAAP financial measures of the efficiency ratio to GAAP:

	Three months ended		Nine months ended	
(dollars in thousands)	**September 30, 2024**	September 30, 2023	**September 30, 2024**	September 30, 2023
Efficiency Ratio (non-GAAP)				
Non-interest expenses (GAAP)	**$ 13,840**	$ 12,784	**$ 41,146**	$ 39,066
Net interest income (GAAP)	**15,431**	14,639	**45,491**	47,146
Plus: taxable equivalent adjustment	**775**	700	**2,272**	2,186
Non-interest income (GAAP)	**4,979**	4,325	**14,167**	13,349
Net interest income (FTE) plus adjusted non-interest income (non-GAAP)	**$ 21,185**	$ 19,664	**$ 61,931**	$ 62,681
Efficiency ratio (non-GAAP)	**65.33%**	65.01%	**66.44%**	62.33%

The following table provides a reconciliation of tangible common equity (non-GAAP) and the calculations of tangible book value per share and tangible common equity ratio:

(dollars in thousands)		**September 30, 2024**		September 30, 2023
Tangible Book Value per Share (non-GAAP)				
Total assets (GAAP)	**$**	**2,615,933**	$	2,476,820
Less: Intangible assets		**(20,576)**		(20,897)
Tangible assets		**2,595,357**		2,455,923
Total shareholders' equity (GAAP)		**207,261**		165,432
Less: Intangible assets		**(20,576)**		(20,897)
Tangible common equity	**$**	**186,685**	$	144,535
Common shares outstanding, end of period		**5,736,025**		5,696,351
Tangible Common Book Value per Share (non-GAAP)	**$**	**32.55**	$	25.37
Tangible Common Equity Ratio (non-GAAP)		**7.19%**		5.89%
Unrealized losses on held-to-maturity securities, net of tax	**$**	**(17,499)**	$	(36,214)
Adjusted tangible common equity ratio (non-GAAP)		**6.52%**		4.41%

The following table provides a reconciliation of pre-provision net revenue (PPNR) to average assets (non-GAAP):

	Three months ended				Nine months ended			
(dollars in thousands)		**September 30, 2024**		September 30, 2023		**September 30, 2024**		September 30, 2023
Pre-Provision Net Revenue to Average Assets								
Income before taxes (GAAP)	**$**	**5,760**	$	5,930	**$**	**17,212**	$	20,149
Plus: Provision for credit losses		**810**		250		**1,300**		1,280
Total pre-provision net revenue (non-GAAP)	**$**	**6,570**	$	6,180	**$**	**18,512**	$	21,429
Total (annualized) (non-GAAP)	**$**	**26,138**	$	24,517	**$**	**24,728**	$	28,650
Average assets	**$**	**2,500,545**	$	2,408,336	**$**	**2,469,627**	$	2,405,100
Pre-Provision Net Revenue to Average Assets (non-GAAP)		**1.05%**		1.02%		**1.00%**		1.19%

General

The Company's earnings depend primarily on net interest income. Net interest income is the difference between interest income and interest expense. Interest income is generated from yields earned on interest-earning assets, which consist principally of loans and investment securities. Interest expense is incurred from rates paid on interest-bearing liabilities, which consist of deposits and borrowings. Net interest income is determined by the Company's interest rate spread (the difference between the yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. Interest rate spread is significantly impacted by: changes in interest rates and market yield curves and their related impact on cash flows; the composition and characteristics of interest-earning assets and interest-bearing liabilities; differences in the maturity and re-pricing characteristics of assets compared to the maturity and re-pricing characteristics of the liabilities that fund them and by the competition in the marketplace.

The Company's earnings are also affected by the level of its non-interest income and expenses and by the provisions for credit losses and income taxes. Non-interest income mainly consists of: service charges on the Company's loan and deposit products; interchange fees; trust and asset management service fees; increases in the cash surrender value of the bank owned life insurance and from net gains or losses from sales of loans and securities. Non-interest expense consists of: compensation and related employee benefit costs; occupancy; equipment; data processing; advertising and marketing; FDIC insurance premiums; professional fees; loan collection; net other real estate owned (ORE) expenses; supplies and other operating overhead.

Net interest income, net interest rate margin, net interest rate spread and the efficiency ratio are presented in the Management's Discussion & Analysis on a fully-taxable equivalent (FTE) basis. The Company believes this presentation to be the preferred industry measurement of net interest income as it provides a relevant comparison between taxable and non-taxable amounts.

Comparison of the results of operations
three and nine months ended September 30, 2024 and 2023

Overview

Net income for the quarter ended September 30, 2024 was $5.0 million, or $0.86 diluted earnings per share, compared to $5.3 million, or $0.93 diluted earnings per share, for the quarter ended September 30, 2023. The $0.3 million decline in net income resulted primarily from the $1.0 million increase in non-interest expenses coupled with a $0.4 million increase in the provision for credit losses on unfunded loan commitments and $0.2 million increase in the provision for credit losses on loans. This was partially offset by a $0.8 million increase in net interest income and a $0.7 million increase in non-interest income. For the nine months ended September 30, 2024, net income was $15.0 million, or $2.59 diluted earnings per share, compared to $17.7 million, or $3.11 diluted earnings per share, for the nine months ended September 30, 2023. The $2.7 million, or 15%, decline in net income stemmed from the $2.0 million higher non-interest expenses and $1.6 million reduction in net interest income partially offset by the increase of $0.8 million in non-interest income.

Return on average assets (ROA) was 0.79% and 0.88% for the third quarters of 2024 and 2023, respectively, and 0.81% and 0.99% for the nine months ended September 30, 2024 and 2023, respectively. During the same time periods, return on average shareholders' equity (ROE) was 9.89% and 11.96%, respectively, and 10.34% and 13.64%, respectively. The decreases in ROA and ROE were primarily the result of the decline in net income as average assets and equity increased during the third quarter of 2024 and year-to-date 2024, compared to the same periods of 2023. Pre-provision net revenue to average assets (non-GAAP) was 1.05% and 1.02% for the three months ended September 30, 2024 and 2023, respectively, and 1.00% and 1.19% for the nine months ended September 30, 2024 and 2023, respectively. The increase quarter-over-quarter was due to an increase in pre-provision net revenue in the third quarter of 2024. The year-over-year decrease is due to a decline in income before taxes.

Net interest income and interest sensitive assets / liabilities

Net interest income was $15.4 million for the third quarter of 2024, a 5% increase over the $14.6 million earned for the third quarter of 2023. The $0.8 million increase in net interest income resulted from the increase of $3.6 million in interest income primarily due to a $71.0 million increase in the average balance of interest-earning assets and a 50 basis point increase in fully-taxable equivalent ("FTE") yield. The loan portfolio had the biggest impact, producing a $3.7 million increase in FTE interest income from $122.8 million in higher quarterly average balances and an increase of 49 basis points in FTE loan yield. Slightly offsetting the higher interest income, a $2.8 million increase in interest expense was due to a 55 basis point increase in the rates paid on interest-bearing deposits coupled with a $94.4 million quarter-over-quarter increase in average deposit balances.

Net interest income was $45.5 million for the nine months ended September 30, 2024 compared to $47.1 million for the nine months ended September 30, 2023. The $1.6 million, or 3%, decrease was the result of interest expense growing faster than interest income. On the asset side, the loan portfolio caused interest income growth by producing $9.5 million more in interest income primarily from an increase of 47 basis points in FTE loan yields on $97.4 million in higher average balances. On the funding side, total interest expense increased by $11.6 million primarily due to an increase in interest expense paid on deposits of $12.0 million from an 86 basis point higher rate paid on a $97.1 million larger average balance of interest-bearing deposits, partially offset by a decrease in interest expense on borrowings of $0.4 million for the nine months ended September 30, 2024 compared to the same period in 2023.

The overall cost of interest-bearing liabilities was 2.70% for the third quarter of 2024, an increase of 53 basis points from the 2.17% for the third quarter of 2023. The cost of funds increased 45 basis points to 2.08% for the third quarter of 2024 from 1.63% for the third quarter of 2023. The FTE yield on interest-earning assets was 4.68% for the third quarter of 2024, an increase of 50 basis points from the 4.18% for the third quarter of 2023. The Company's FTE (non-GAAP measurement) net interest spread was 1.98% for the third quarter of 2024, a decrease of 3 basis points from the 2.01% recorded for the third quarter of 2023. FTE net interest margin increased to 2.70% for the three months ended September 30, 2024 from 2.63% for the same 2023 period due to allocation of better performing interest earning assets, which led to a 7 basis point margin improvement. In the third quarter of 2024, management continued to re-invest cash flow into more effective interest earning assets, such as the commercial loan portfolio. As a result, the Company experienced an increase in FTE adjusted net interest income of $0.9 million from $15.3 million to $16.2 million, or 6%, for the three months ended September 30, 2023 and 2024, respectively.

The overall cost of interest-bearing liabilities was 2.60% for the nine months ended September 30, 2024 compared to 1.79% for the nine months ended September 30, 2023. The cost of funds increased 66 basis points to 1.99% for the nine months ended September 30, 2024 from 1.33% for the same period of 2023. The FTE yield on interest-earning assets was 4.59% for the nine months ended September 30, 2024, an increase of 47 basis points from the 4.12% for year-to-date September 30, 2023. The Company's FTE (non-GAAP measurement) net interest spread was 1.99% for the nine months ended September 30, 2024, a decrease of 34 basis points from the 2.33% recorded for the same period of 2023. FTE net interest margin decreased by 16 basis points to 2.70% for the nine months ended September 30, 2024 from 2.86% for the same 2023 period due to the increase in rates paid on interest-bearing liabilities growing at a faster pace than the yields on interest-earning assets.

The table that follows presents the quarterly ratios for yield on interest-earning assets, net interest margin and net interest spread for the periods indicated:

	Sep. 30, 2024	Jun. 30, 2024	Mar. 31, 2024	Dec. 31, 2023	Sep. 30, 2023
Yield on interest-earning assets (FTE) (non-GAAP)	**4.68%**	4.58%	4.52%	4.36%	4.18%
Net interest spread (FTE) (non-GAAP)	**1.98%**	2.00%	2.01%	2.00%	2.01%
Net interest margin (FTE) (non-GAAP)	**2.70%**	2.71%	2.69%	2.66%	2.63%

For the remainder of 2024, the Company currently expects to operate in a moderately declining interest rate environment that is expected to continue into the fourth quarter and into fiscal year 2025. Management is primarily reliant on the Federal Open Market Committee's statements and forecast. For the nine months ended September 30, 2024 compared to September 30, 2023, the Company's net interest income performance has been reduced due to asset yields being outpaced by higher cost of funds, compressing net interest spread. For the three months ended September 30, 2024 compared to September 30, 2023, the Company experienced an increase in net interest income due to redeployment of assets into more effective interest earning assets, partially offset by the continued increase in cost of funds. In September 2024, the FOMC decreased the federal funds rate by 50 basis points, which did not have much of an impact on improving net interest margin as of quarter end. In November 2024, the FOMC decreased the fed funds rate another 25 basis points. Consensus economic forecasts are expecting small declines between 25 to 50 basis points through the end of 2024, with at least another 100 basis points during 2025. The Company does not expect to see improvement in net interest margin in the immediate effect, as rates on interest bearing deposits will take time to match the decreasing rate environment. For the remainder of 2024 and into fiscal year 2025, the Company currently maintains a loan pipeline which is expected to grow the loan portfolio funded by utilizing excess cash holdings and will plan to borrow in the event cash is depleted and there is not enough deposit growth to fund loan growth. The focus remains to manage margin compression by restructuring the balance sheet, being proactive with loan pricing and managing deposit costs to maintain a reasonable spread.

The Company's cost of interest-bearing liabilities was 2.70% and 2.60% for the three and nine months ended September 30, 2024, respectively, compared to 2.17% and 1.79% for the same 2023 periods. The increase in interest paid on deposits contributed to the higher cost of interest-bearing liabilities. The FOMC is expected to decrease the federal funds rate throughout the remainder of 2024, but the Company may continue to experience pressure to maintain higher rates on interest-bearing deposits due to the competitive nature of deposits in our market area. To help mitigate any impact of the imminent change to the economic landscape, the Company has successfully developed and will continue to strengthen its association with existing customers, develop new business relationships and generate new loan volumes.

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The Company’s Asset Liability Management (ALM) team meets regularly to discuss among other things, interest rate risk and when deemed necessary adjusts interest rates. ALM is actively addressing the Company's sensitivity to a changing rate environment to ensure interest rate risks are contained within acceptable levels. ALM also discusses revenue enhancing strategies to help combat the potential for a decline in net interest income. The Company’s marketing department, together with ALM, and service-driven branch and relationship managers, continue to develop prudent strategies that will grow the loan portfolio and accumulate relationship driven deposits at costs lower than borrowing costs to improve net interest income performance.

The table that follows sets forth a comparison of average balances of assets and liabilities and their related net tax equivalent yields and rates for the periods indicated. Within the table, interest income was FTE adjusted, using the corporate federal tax rate of 21% for September 30, 2024 and 2023 to recognize the income from tax-exempt interest-earning assets as if the interest was taxable. See “Non-GAAP Financial Measures” within this management’s discussion and analysis for the FTE adjustments. This treatment allows a uniform comparison among yields on interest-earning assets. Loans include loans held-for-sale (HFS) and non-accrual loans but exclude the allowance for credit losses. Home equity lines of credit (HELOC) are included in the residential real estate category since they are secured by real estate. Net deferred loan cost amortization of $0.2 million and $0.3 million during the third quarters of 2024 and 2023, respectively, and $0.7 million and $0.7 million for the nine months ended September 30, 2024 and 2023, respectively, are included in interest income from loans. Merchants Bank of Bangor and Landmark Community Bank loan fair value purchase accounting adjustments of $0.3 million and $0.5 million are included in interest income from loans and $1 thousand and $7 thousand reduced interest expense on deposits and borrowings for the three months ended September 30, 2024 and 2023. Merchants Bank of Bangor and Landmark Community Bank loan fair value purchase accounting adjustments of $1.2 million and $2.0 million are included in interest income from loans and $6 thousand and $27 thousand reduced interest expense on deposits and borrowings for the nine months ended September 30, 2024 and 2023. Average balances are based on amortized cost and do not reflect net unrealized gains or losses. Residual values for direct finance leases are included in the average balances for consumer loans.

	Three months ended					
(dollars in thousands)	**September 30, 2024**			September 30, 2023		
Assets	Average balance	Interest	Yield / rate	Average balance	Interest	Yield / rate
Interest-earning assets						
Interest-bearing deposits	**$ 15,975**	**$ 216**	**5.38%**	$ 9,278	$ 60	2.57%
Restricted investments in bank stock	**3,965**	**88**	**8.82**	3,763	59	6.24
Investments:						
Agency - GSE	**113,276**	**408**	**1.43**	112,089	407	1.44
MBS - GSE residential	**212,094**	**1,014**	**1.91**	234,792	1,054	1.78
State and municipal (nontaxable)	**192,716**	**1,519**	**3.14**	230,129	1,658	2.86
State and municipal (taxable)	**86,184**	**443**	**2.04**	86,029	444	2.05
Total investments	**604,270**	**3,384**	**2.23**	663,039	3,563	2.13
Loans and leases:						
C&I and CRE (taxable)	**852,980**	**13,574**	**6.33**	779,406	11,575	5.89
C&I and CRE (nontaxable)	**128,392**	**1,666**	**5.16**	89,290	930	4.13
Consumer	**204,849**	**2,672**	**5.19**	235,411	2,617	4.41
Residential real estate	**577,033**	**6,474**	**4.46**	536,304	5,574	4.12
Total loans and leases	**1,763,254**	**24,386**	**5.50**	1,640,411	20,696	5.01
Total interest-earning assets	**2,387,464**	**28,074**	**4.68%**	2,316,490	24,378	4.18%
Non-interest earning assets	**113,081**			91,845		
Total assets	**$ 2,500,545**			$ 2,408,336		
Liabilities and shareholders' equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing checking	**$ 652,583**	**$ 3,858**	**2.35%**	$ 664,391	$ 3,269	1.95%
Savings and clubs	**193,550**	**149**	**0.31**	214,078	166	0.31
MMDA	**567,695**	**4,317**	**3.03**	537,334	3,609	2.66
Certificates of deposit	**288,359**	**2,973**	**4.10**	191,990	1,444	2.98
Total interest-bearing deposits	**1,702,187**	**11,297**	**2.64**	1,607,793	8,488	2.09
Secured borrowings	**6,429**	**101**	**6.24**	7,470	123	6.53
Short-term borrowings	**37,220**	**470**	**5.02**	37,595	428	4.51
Total interest-bearing liabilities	**1,745,836**	**11,868**	**2.70%**	1,652,858	9,039	2.17%
Non-interest bearing deposits	**522,826**			548,682		
Non-interest bearing liabilities	**33,089**			29,638		
Total liabilities	**2,301,751**			2,231,178		
Shareholders' equity	**198,794**			177,158		
Total liabilities and shareholders' equity	**$ 2,500,545**			$ 2,408,336		
Net interest income - FTE		**$ 16,206**			$ 15,339	
Net interest spread			**1.98%**			2.01%
Net interest margin			**2.70%**			2.63%
Cost of funds			**2.08%**			1.63%

	Nine months ended					
(dollars in thousands)	**September 30, 2024**			September 30, 2023		
Assets	Average balance	Interest	Yield / rate	Average balance	Interest	Yield / rate
Interest-earning assets						
Interest-bearing deposits	**$ 25,434**	**$ 1,032**	**5.42%**	$ 7,548	$ 212	3.76%
Restricted investments in bank stock	**3,961**	**244**	**8.24**	4,332	240	7.41
Investments:						
Agency - GSE	**112,977**	**1,222**	**1.44**	112,267	1,224	1.46
MBS - GSE residential	**217,795**	**3,150**	**1.93**	241,628	3,232	1.79
State and municipal (nontaxable)	**193,249**	**4,581**	**3.17**	233,105	5,066	2.91
State and municipal (taxable)	**86,144**	**1,329**	**2.06**	86,032	1,335	2.08
Total investments	**610,165**	**10,282**	**2.25**	673,032	10,857	2.16
Loans and leases:						
C&I and CRE (taxable)	**818,244**	**38,201**	**6.24**	766,197	33,146	5.78
C&I and CRE (nontaxable)	**125,047**	**4,737**	**5.06**	100,873	3,112	4.13
Consumer	**213,206**	**7,931**	**4.97**	236,984	7,630	4.30
Residential real estate	**566,159**	**18,808**	**4.44**	521,251	15,984	4.10
Total loans and leases	**1,722,656**	**69,677**	**5.40**	1,625,305	59,872	4.93
Total interest-earning assets	**2,362,216**	**81,235**	**4.59%**	2,310,217	71,181	4.12%
Non-interest earning assets	**107,411**			94,883		
Total assets	**$ 2,469,627**			$ 2,405,100		
Liabilities and shareholders' equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing checking	**$ 658,609**	**$ 11,416**	**2.32%**	$ 652,409	$ 7,013	1.44%
Savings and clubs	**197,953**	**458**	**0.31**	223,750	506	0.30
MMDA	**546,330**	**11,829**	**2.89**	532,786	9,138	2.29
Certificates of deposit	**270,551**	**7,994**	**3.95**	167,371	3,056	2.44
Total interest-bearing deposits	**1,673,443**	**31,697**	**2.53**	1,576,316	19,713	1.67
Secured borrowings	**7,009**	**342**	**6.51**	7,515	352	6.26
Short-term borrowings	**39,873**	**1,433**	**4.80**	50,322	1,784	4.74
Total interest-bearing liabilities	**1,720,325**	**33,472**	**2.60%**	1,634,153	21,849	1.79%
Non-interest bearing deposits	**524,238**			567,487		
Non-interest bearing liabilities	**32,089**			29,590		
Total liabilities	**2,276,652**			2,231,230		
Shareholders' equity	**192,975**			173,870		
Total liabilities and shareholders' equity	**$ 2,469,627**			$ 2,405,100		
Net interest income - FTE		**$ 47,763**			$ 49,332	
Net interest spread			**1.99%**			2.33%
Net interest margin			**2.70%**			2.86%
Cost of funds			**1.99%**			1.33%

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Changes in net interest income are a function of both changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities. The following table presents the extent to which changes in interest rates and changes in volumes of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (1) the changes attributable to changes in volume (changes in volume multiplied by the prior period rate), (2) the changes attributable to changes in interest rates (changes in rates multiplied by prior period volume) and (3) the net change. The combined effect of changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate. Tax-exempt income was not converted to a tax-equivalent basis on the rate/volume analysis:

	Nine months ended September 30,					
(dollars in thousands)	**2024 compared to 2023**			2023 compared to 2022		
	Increase (decrease) due to					
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Interest-bearing deposits	**$ 691**	**$ 129**	**$ 820**	$ (655)	$ 403	$ (252)
Restricted investments in bank stock	**(21)**	**25**	**4**	35	85	120
Investments:						
Agency - GSE	**8**	**(11)**	**(3)**	(63)	(21)	(84)
MBS - GSE residential	**(331)**	**250**	**(81)**	(353)	168	(185)
State and municipal	**(635)**	**401**	**(234)**	(464)	(146)	(610)
Total investments	**(958)**	**640**	**(317)**	(880)	1	(879)
Loans and leases:						
Residential real estate	**1,444**	**1,379**	**2,823**	1,957	2,248	4,205
C&I and CRE	**3,283**	**3,055**	**6,338**	1,550	5,313	6,863
Consumer	**(810)**	**1,111**	**301**	792	768	1,560
Total loans and leases	**3,917**	**5,545**	**9,462**	4,299	8,329	12,628
Total interest income	**3,628**	**6,339**	**9,965**	2,799	8,818	11,617
Interest expense:						
Deposits:						
Interest-bearing checking	**67**	**4,336**	**4,403**	(142)	5,626	5,484
Savings and clubs	**(59)**	**11**	**(48)**	(11)	405	394
Money market	**239**	**2,452**	**2,691**	70	7,722	7,792
Certificates of deposit	**2,468**	**2,470**	**4,938**	128	2,594	2,722
Total deposits	**2,715**	**9,269**	**11,984**	45	16,347	16,392
Secured borrowings	**(24)**	**14**	**(10)**	(25)	268	243
Overnight borrowings	**(374)**	**23**	**(351)**	1,781	2	1,783
Total interest expense	**2,317**	**9,306**	**11,623**	1,801	16,617	18,418
Net interest income	**$ 1,311**	**$ (2,967)**	**$ (1,656)**	$ 998	$ (7,799)	$ (6,801)

Provision for credit losses

The provision for credit losses represents the necessary amount to charge against current earnings, the purpose of which is to adjust the allowance for credit losses to a level that represents management's best estimate of expected credit losses in the Company's loan portfolio. Loans determined to be uncollectible are charged off against the allowance. The required amount of the provision for credit losses, based upon the adequate level of the allowance, is subject to the ongoing analysis of the loan portfolio. The Company's Special Assets Committee meets periodically to review problem loans. The committee is comprised of management, including credit administration officers, loan officers, loan workout officers and collection personnel.

Management continuously reviews the risks inherent in the loan portfolio. The determination of the amounts of the allowance for credit losses and the provision for credit losses is based on management's current judgments about the credit quality of the Company's financial assets and known and expected relevant internal and external factors that significantly affect collectability such as historical loss information, current conditions, and reasonable and supportable forecasts, including significant qualitative factors.

For the three months ended September 30, 2024, the provision for credit losses on loans was $0.7 million and provision for credit losses on unfunded loan commitments was $0.1 million. For the three months ended September 30, 2024, the provision for credit losses on loans increased $0.2 million compared to the three months ended September 30, 2023 due to growth in the loan portfolio of $67.0 million in the third quarter of 2024 compared to growth of $16.1 million in the same quarter of 2023, specifically in the commercial loan portfolio. For the three months ended September 30, 2024, the provision for credit losses on unfunded loan commitments increased $0.4 million compared to the three months ended September 30, 2023 due to a higher growth in unfunded loan commitments, specifically commercial construction commitments.

For the nine months ended September 30, 2024, the provision for credit losses on loans was $1.1 million and the provision for credit losses on unfunded loan commitments was $0.2 million. For the nine months ended September 30, 2024, the provision for credit losses on loans decreased $0.3 million compared to the nine months ended September 30, 2023 due to a reduction in net charge-offs. For the nine months ended September 30, 2024, the provision for credit losses on unfunded loan commitments increased $0.3 million compared to the nine months ended September 30, 2023 due to a higher growth in unfunded loan commitments, specifically commercial construction commitments.

The provision for credit losses derives from the reserve required from the allowance for credit losses calculation. The Company continued provisioning for nine months ended September 30, 2024 to maintain an allowance level that management deemed adequate.

For a discussion on the allowance for credit losses, see “Allowance for credit losses,” located in the comparison of financial condition section of management’s discussion and analysis contained herein.

Other income

Total non-interest income increased $0.7 million, or 15%, to $5.0 million for the third quarter of 2024 compared to $4.3 million for the third quarter of 2023. The increase in non-interest income was primarily attributable to an additional $0.1 in million service charges on commercial loans, $0.1 million in higher fees from trust fiduciary activities, $0.1 million more in financial services revenue, and fees from commercial loans with interest rate hedges which increased $0.1 million.

Total non-interest income for the nine months ended September 30, 2024 was $14.2 million, an increase of $0.8 million, or 7%, from $13.4 million for the nine months ended September 30, 2023. The increase was primarily due to $0.5 million in additional trust fiduciary fees and $0.2 million higher fees from financial services. During the first nine months of 2023, the Company recorded a $0.1 million write-down associated with a branch closure reducing non-interest income. In the third quarter of 2023, the Company received $0.3 million in recoveries from acquired charged-off loans, offsetting the increase in other income. Additionally, the Company experienced a decrease of $0.2 million in fees from commercial loans with interest rate hedges compared to the first nine months of 2023.

Operating expenses

Non-interest expenses increased $1.0 million, or 8%, for the third quarter of 2024 to $13.8 million from $12.8 million for the same quarter of 2023. The increase in non-interest expenses was primarily due to $0.9 million higher salaries and benefits expense from higher salaries related to new hires and banker incentives. There were also increases in professional services of $0.1 million and PA shares tax of $0.1 million.

Non-interest expenses increased to $41.1 million for the nine months ended September 30, 2024, an increase of $2.0 million, or 5%, from $39.1 million for the nine months ended September 30, 2023. The increase in non-interest expenses was primarily due to the $2.0 million increase in salaries and benefits expense coupled with increases in professional fees of $0.3 million and PA shares tax of $0.3 million for the nine months ended September 30, 2024 compared to the same period in 2023. The increases were partially offset by $0.4 million less in fraud losses and $0.2 million less advertising and marketing expenses.

The ratios of non-interest expense less non-interest income to average assets, known as the expense ratio, were 1.46% and 1.43% for the nine months ended September 30, 2024 and 2023. The expense ratio increased because of higher non-interest expenses. The efficiency ratio (non-GAAP) increased from 62.33% at September 30, 2023 to 66.44% at September 30, 2024 due to non-interest expenses increasing as net interest income declined. For more information on the calculation of the efficiency ratio, see “Non-GAAP Financial Measures” located within this management’s discussion and analysis.

Provision for income taxes

The provision for income taxes decreased $0.2 million during the nine months ended September 30, 2024 compared to the same period in 2023 primarily due to lower income before taxes. The Company's effective tax rate was 13.1% at September 30, 2024 compared to 11.9% at September 30, 2023. The difference between the effective rate and the enacted statutory corporate rate of 21% is due mostly to the effect of tax-exempt income in relation to the level of pre-tax income. The increase in the effective tax rate was primarily due to less in tax credits during 2024.

Comparison of financial condition at September 30, 2024 and December 31, 2023

Overview

The Company’s total assets had a balance of $2.6 billion as of September 30, 2024, an increase of $0.1 billion, from $2.5 billion as of December 31, 2023. The increase primarily resulted from $107.9 million in growth in the loans and leases portfolio during the nine months ended September 30, 2024. Cash and cash equivalents increased $8.2 million and the investment portfolio decreased by $8.5 million. The decline in the investment portfolio was primarily due to $16.7 million in paydowns partially offset by an $8.4 million increase in market value of available-for-sale securities. As of September 30, 2024, the market value of held-to-maturity securities also increased by $6.0 million compared to December 31, 2023, with $22.2 million in unrealized losses. During the same time period, total liabilities increased $95.0 million, or 4%. Deposit growth of $184.1 million was utilized to pay down $92.0 million in short-term borrowings and fund growth in the loan portfolio.

Funds Deployed:

Investment securities

At the time of purchase, management classifies investment securities into one of three categories: trading, available-for-sale (AFS) or held-to-maturity (HTM). To date, management has not purchased any securities for trading purposes. Some of the securities the Company purchases are classified as AFS even though there is no immediate intent to sell them. The AFS designation affords management the flexibility to sell securities and position the balance sheet in response to capital levels, liquidity needs or changes in market conditions. Debt securities AFS are carried at fair value on the consolidated balance sheets with unrealized gains and losses, net of deferred income taxes, reported separately within shareholders’ equity as a component of accumulated other comprehensive income (AOCI). Securities designated as HTM are carried at amortized cost and represent debt securities that the Company has the ability and intent to hold until maturity. For the nine months ended September 30, 2024, AOCI increased by $8.0 million primarily due to the change in fair value of the Company's investment securities.

As of September 30, 2024, the carrying value of held-to-maturity securities was $225.4 million, net of $14.3 million in remaining transferred discount.

The Company utilized a fair value hedge to designate and swap a portion of the fixed rate AFS portfolio. The Company has an approved Derivative Policy that requires Board pre-approval on such balance sheet hedging activities as well as ongoing reporting to its ALCO Committee. The Board has approved up to $200 million in notional amount of pay-fixed interest rate swap and the Company has executed on $100 million to date.

During September 2023, the Company entered into a $100 million interest rate swap with a third-party financial institution to limit the risk to the investment portfolio of rising interest rates. The interest rate swap was designated as a fair value hedge and utilized a pay fixed interest rate swap to hedge the change in fair value attributable to the movement in the Secured Overnight Financing Rate ("SOFR"). The Company designated $50 million of the swap's notional balance as a hedge against the closed portfolio of 20-year mortgage-backed securities and $50 million as a hedge against the closed portfolio of tax-free municipal bonds. As of September 30, 2024, the Company recorded the fair value of the swap of $2.3 million in accrued interest payable and other liabilities on the consolidated balance sheet offset by a $2.3 million increase to the carrying value of designated investment securities.

As of September 30, 2024, the carrying value of investment securities amounted to $559.8 million, or 21% of total assets, compared to $568.3 million, or 23% of total assets, as of December 31, 2023. On September 30, 2024, 33% of the carrying value of the investment portfolio was comprised of U.S. Government Sponsored Enterprise residential mortgage-backed securities (MBS – GSE residential or mortgage-backed securities) that amortize and provide monthly cash flow that the Company can use for reinvestment, loan demand, unexpected deposit outflow, facility expansion or operations. The mortgage-backed securities portfolio includes only pass-through bonds issued by Fannie Mae, Freddie Mac and the Government National Mortgage Association (GNMA).

The Company’s municipal (obligations of states and political subdivisions) portfolio is comprised of tax-free municipal bonds with a carrying value of $189.2 million ($168.5 million including the remaining net unrealized loss transferred on HTM securities) and taxable municipal bonds with a carrying value of $89.4 million ($97.5 million including the remaining net unrealized loss transferred on HTM securities). The overall credit ratings of these municipal bonds were as follows: 37% AAA, 61% AA, and 1% A. For municipal securities HTM, the Company utilized a third-party model to analyze whether a credit loss reserve is needed for these bonds. The amount of the credit loss reserve calculated was immaterial because of the underlying strong credit quality of the municipal portfolio.

During the first nine months of 2024, the carrying value of total investments decreased $8.5 million, or 1%. The decline was primarily due to principal reductions totaling $17.5 million, partially offset by an increase in the unrealized loss position of $8.4 million in the AFS portfolio. The Company attempts to maintain a well-diversified and proportionate investment portfolio that is structured to complement the strategic direction of the Company. Its growth typically supplements the lending activities but also considers the current and forecasted economic conditions, the Company’s liquidity needs and interest rate risk profile, to the extent possible.

A comparison of investment securities at September 30, 2024 and December 31, 2023 is as follows:

	September 30, 2024				December 31, 2023			
(dollars in thousands)	Amount	%	Book yield	Reprice term (years)	Amount	%	Book yield	Reprice term (years)
HTM securities:								
Obligations of states & political subdivisions - tax exempt	**$ 83,528**	**14.9%**	**2.1%**	**20.1**	$ 83,483	14.8%	2.1%	20.8
Obligations of states & political subdivisions - taxable	**59,640**	**10.7**	**2.1**	**10.6**	59,368	10.4	2.1	11.3
Agency - GSE	**82,205**	**14.7**	**1.4**	**5.7**	81,382	14.3	1.4	6.4
Total HTM securities	**$ 225,373**	**40.3%**	**1.8%**	**12.3**	$ 224,233	39.5%	1.8%	13.1
AFS debt securities:								
MBS - GSE residential	**$ 183,093**	**32.7%**	**1.8%**	**5.6**	$ 193,698	34.1%	1.8%	6.0
Obligations of states & political subdivisions - tax exempt	**98,507**	**17.6**	**2.4**	**12.3**	99,323	17.5	2.4	11.7
Obligations of states & political subdivisions - taxable	**24,275**	**4.3**	**1.6**	**4.9**	23,474	4.1	1.6	5.6
Agency - GSE	**28,571**	**5.1**	**1.2**	**3.5**	27,545	4.8	1.2	4.3
Total AFS debt securities	**$ 334,446**	**59.7%**	**1.9%**	**7.3**	$ 344,040	60.5%	1.9%	7.4
Total securities	**$ 559,819**	**100.0%**	**1.9%**	**9.3**	$ 568,273	100.0%	1.9%	9.6

The investment securities portfolio contained no private label mortgage-backed securities, collateralized mortgage obligations, collateralized debt obligations, or trust preferred securities. The portfolio had no adjustable-rate instruments as of September 30, 2024 and December 31, 2023.

Investment securities were comprised of AFS and HTM securities as of September 30, 2024 and December 31, 2023. The AFS securities were recorded with a net unrealized loss of $43.2 million and a net unrealized loss of $51.6 million as of September 30, 2024 and December 31, 2023, respectively. Of the $8.4 million net increase; $5.5 million was attributable to mortgage-backed securities, $2.0 million was attributable to municipal securities, and $1.0 million was attributable to agency securities. The direction and magnitude of the change in value of the Company's investment portfolio is attributable to the direction and magnitude of the change in interest rates along the treasury yield curve. Generally, the values of debt securities move in the opposite direction of the changes in interest rates. As interest rates along the treasury yield curve rise, especially at the intermediate and long end, the values of debt securities tend to decline. Whether or not the value of the Company's investment portfolio will change above or below its amortized cost will be largely dependent on the direction and magnitude of interest rate movements and the duration of the debt securities within the Company's investment portfolio. Management does not consider the reduction in value attributable to changes in credit quality. Correspondingly, when interest rates decline, the market values of the Company's debt securities portfolio could be subject to market value increases.

As of September 30, 2024, the Company had $294.5 million in public deposits, or 13% of total deposits. Pennsylvania state law requires the Company to maintain pledged securities on public and trust deposits or otherwise obtain a FHLB letter of credit or FDIC insurance for these customers. The Company also pledges securities for derivative instruments and certain borrowed funds. As of September 30, 2024, the balance of pledged securities required was $362.2 million, or 65% of total securities.

Quarterly, management performs a review of the investment portfolio to determine the causes of declines in the fair value of each security. The Company uses inputs provided by independent third parties to determine the fair value of its investment securities portfolio. Inputs provided by the third parties are reviewed and corroborated by management. Evaluations of the causes of the unrealized losses are performed to determine whether credit losses on debt securities exist. Considerations such as the Company's intent and ability to hold the securities until or sell prior to maturity, recoverability of the invested amounts over the intended holding period, the length of time and the severity in pricing decline below cost, the interest rate environment, the receipt of amounts contractually due and whether or not there is an active market for the securities, for example, are applied, along with an analysis of the financial condition of the issuer for management to make a realistic judgment of the probability that the Company will be unable to collect all amounts (principal and interest) due in determining whether a security has credit losses. If a decline in value is deemed to be a credit loss, a contra-asset is recorded on both HTM and AFS securities, limited by the amount that the fair value is less than the amortized cost basis. During the nine months ended September 30, 2024, the Company did not incur any credit losses on debt securities from its investment securities portfolio.

During January 2023 with the 10-year U.S. Treasury yield declining, $31.2 million of securities were able to be sold yielding 3.62% (FTE yield of 4.33%) at a breakeven level. These proceeds were used to pay down FHLB overnight borrowings costing 4.80% at that time. Due to volatility in the levels of borrowings during October 2023 and the increasing expected dependency on borrowing capacity from experiencing deposit fluctuations while funding loan growth, the Company evaluated a liquidity strategy to deleverage the reliance on short-term borrowings. As a result of this evaluation, in November 2023, the Company sold longer term available-for-sale general market tax-free municipal securities with a carrying value of $35.6 million with a weighted average yield of 1.28% with a 13.5 year weighted average maturity as part of a liquidity and net interest margin enhancement strategy for a $6.5 million loss recognized in gain (loss) on sale of available-for-sale debt securities. The $29.1 million in proceeds received were used to retire short-term borrowings with a cost of approximately 5.50%. While the Company has ample funding sources available, management felt it prudent to create additional capacity for the borrowings over the near term should the banking industry again experience funding pressures as it did in March of 2023. In addition, since the municipal securities sold were purchased in a much lower rate environment, there is an immediate improvement in net interest margin (NIM) of over 5 bps as a result of paying down the borrowing with the sale proceeds. The sale removed a 422 basis point negative spread and will contribute towards incrementally improving net interest income, earnings per share and NIM every year starting in 2024. The cost savings from paying down the advances with the sale of low yielding bonds will also allow the pre-tax loss of $6.5 million realized on the sale to be fully recouped prior to the term of the bonds sold.

Restricted investments in bank stock

Investment in Federal Home Loan Bank (FHLB) stock is required for membership in the organization and is carried at cost since there is no market value available. The amount the Company is required to invest is dependent upon the relative size of outstanding borrowings the Company has with the FHLB of Pittsburgh. Excess stock is repurchased from the Company at par if the amount of borrowings decline to a predetermined level. In addition, the Company earns a return or dividend based on the amount invested. Atlantic Community Bankers Bank (ACBB) stock totaled $82 thousand as of September 30, 2024 and December 31, 2023. The balance in FHLB stock was $3.9 million and $3.8 million as of September 30, 2024 and December 31, 2023, respectively. The dividends received from the FHLB totaled $227 thousand and $229 thousand for the nine months ended September 30, 2024 and 2023, respectively.

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Loans held-for-sale (HFS)

Upon origination, most residential mortgages and certain Small Business Administration (SBA) guaranteed loans may be classified as held-for-sale (HFS). In the event of market rate increases, fixed-rate loans and loans not immediately scheduled to re-price would no longer produce yields consistent with the current market. In declining interest rate environments, the Company would be exposed to prepayment risk as rates on fixed-rate loans decrease, and customers look to refinance loans. Consideration is given to the Company's current liquidity position and projected future liquidity needs. To better manage prepayment and interest rate risk, loans that meet these conditions may be classified as HFS. Occasionally, residential mortgage and/or business loans may be transferred from the loan portfolio to HFS. The carrying value of loans HFS is based on the lower of cost or estimated fair value. If the fair values of these loans decline below their original cost, the difference is written down and charged to current earnings. Subsequent appreciation in the portfolio is credited to current earnings but only to the extent of previous write-downs.

As of September 30, 2024 and December 31, 2023, loans HFS consisted of residential mortgages with carrying amounts of $1.8 million and $1.5 million, respectively, which approximated their fair values. During the nine months ended September 30, 2024, residential mortgage loans with principal balances of $44.7 million were sold into the secondary market and the Company recognized net gains of $0.8 million, compared to $37.9 million and $0.7 million, respectively, during the nine months ended September 30, 2023.

The Company retains mortgage servicing rights (MSRs) on loans sold into the secondary market. MSRs are retained so that the Company can foster relationships. At September 30, 2024 and December 31, 2023, the servicing portfolio balance of sold residential mortgage loans was $490.9 million and $477.7 million, respectively, with mortgage servicing rights of $1.4 million and $1.5 million for the same periods, respectively.

Loans and leases

As of September 30, 2024, the Company had gross loans and leases totaling $1.8 billion, an increase of $108.6 million, or 6%, compared to $1.7 billion at December 31, 2023.

During the nine months ended September 30, 2024, the growth in the portfolio was primarily attributed to a $113.4 million increase in the commercial portfolio due to the origination of two commercial & industrial loans to two unrelated borrowers totaling $11 million; an origination to a single municipal borrower totaling $15 million; the origination of five commercial real estate non-owner occupied loans to five different borrowers totaling $39 million; the origination of two commercial real estate owner occupied loans to two different borrowers totaling $19 million; the origination of four commercial construction loans to three different borrowers totaling $10 million; and general portfolio growth. The Company also experienced a $18.1 million increase in the residential portfolio, the result of a higher percentage of adjustable-rate mortgages recorded as held-for-investment during this period. This growth was offset by the $22.9 million reduction in the consumer portfolio attributed to a strategic reduction in the auto portfolio.

As management continues to identify ways to optimize the Company's balance sheet, the focus is to lend in areas that provide better risk-adjusted returns and improved opportunities to deepen relationships with our customers. This could result in a change in the composition of the loan portfolio in future periods.

The composition of the loan portfolio at September 30, 2024 and December 31, 2023 is summarized as follows:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Amount	%	Amount	%
Commercial and industrial:				
Commercial	**$ 168,633**	**9.4%**	$ 152,640	9.0%
Municipal	**113,362**	**6.3**	94,724	5.6
Commercial real estate:				
Non-owner occupied	**382,097**	**21.3**	337,671	20.0
Owner occupied	**296,201**	**16.6**	278,293	16.5
Construction	**56,273**	**3.1**	39,823	2.4
Consumer:				
Home equity installment	**54,618**	**3.0**	56,640	3.4
Home equity line of credit	**57,387**	**3.2**	52,348	3.1
Auto loans - Recourse	**11,485**	**0.6**	10,756	0.6
Auto loans - Non-recourse	**83,905**	**4.7**	112,595	6.7
Direct finance leases	**28,591**	**1.6**	33,601	2.0
Other	**23,524**	**1.3**	16,500	1.0
Residential:				
Real estate	**490,442**	**27.3**	465,010	27.5
Construction	**29,208**	**1.6**	36,536	2.2
Gross loans	**1,795,726**	**100.0%**	1,687,137	100.0%
Less:				
Allowance for credit losses	**(19,630)**		(18,806)	
Unearned lease revenue	**(1,940)**		(2,039)	
Net loans	**$ 1,774,156**		$ 1,666,292	
Loans held-for-sale	**$ 1,762**		$ 1,457	

During the second quarter of 2024, the Company reviewed its commercial real estate loan portfolios to ensure the loans in those portfolios reflect proper purpose and collateral. Based on this analysis, loans with a net balance of $25.4 million were reclassified between commercial real estate owner-occupied and commercial real estate non-owner-occupied categories. This adjustment was applied to December 31, 2023, for purposes of comparison. As of December 31, 2023, the non-owner-occupied portfolio increased and the owner-occupied portfolio decreased by $26.1 million.

Commercial & industrial (C&I) and commercial real estate (CRE)

As of September 30, 2024, the commercial portfolio increased by $113 million, or 13%, to $1.0 billion compared to the December 31, 2023 balance of $0.9 billion. The increase was due to growth of $35 million in commercial and industrial loans and growth of $78 million in commercial real estate loans.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Company and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, independent collateral appraisals, etc.

For the nine months ended September 30, 2024, commercial and industrial (non-municipal) loans increased $16.0 million, or 10%, from $152.6 million at December 31, 2023 to $168.6 million at September 30, 2024, which was due to the origination of two commercial & industrial loans to two unrelated borrowers totaling $11 million along with originations and advances outpacing scheduled payments and curtailments.

Municipal loans are secured by the full faith and credit of respective local government units located in the Commonwealth of Pennsylvania authorized in accordance with the Local Government Unit Debt Act. These loans have a long history of performance within contractual terms with no defaults noted.

For the nine months ended September 30, 2024, municipal loans increased $18.6 million, or 20%, from $94.7 million on December 31, 2023, to $113.3 million at September 30, 2024 which was attributed to the origination of a Tax Anticipation Note to a single municipal borrower totaling $15 million and general portfolio growth.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral whose values tend to move inversely with interest rates. These loans are secured with mortgages, or commercial real estate mortgages (CREM) against the subject property. In underwriting commercial real estate construction loans, the Company performs a robust analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers consistent with Uniform Standards of Professional Appraisal Practice (USPAP) standards and compliant with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA).

For the nine months ended September 30, 2024, owner occupied commercial real estate loans increased $17.9 million, or 6%, from $278.3 million on December 31, 2023, to $296.2 million at September 30, 2024, which was attributed to the origination of two commercial real estate owner occupied loans to two different borrowers totaling $19 million.

Owner occupied commercial real estate loans rely on income generated from the respective owners' businesses. Therefore, underwriting on owner occupied CRE loans emphasizes the owner's cash flow and financial conditions while the real estate typically represents the owners' primary business location. Since cash flows from operations are the primary source of repayment for owner-occupied commercial real estate loans, this segment has a different risk profile than non-owner occupied lending.

The Company maintains a well-diversified non-owner occupied commercial real estate portfolio with no material concentration to any property type. The chart below describes the purpose for the types of exposure contained within the loan portfolio for non-owner-occupied commercial real estate loans at September 30, 2024:

	September 30, 2024		
(dollars in thousands)		Amount	%
Commercial real estate non-owner occupied:			
1-4 Family	$	**45,481**	**11.90%**
Multifamily		**46,299**	**12.12%**
Industrial		**53,561**	**14.02%**
Mixed Use		**43,182**	**11.30%**
Retail		**64,836**	**16.97%**
Land		**17,543**	**4.59%**
Special Purpose		**29,219**	**7.65%**
Hotel		**29,757**	**7.79%**
Office		**52,219**	**13.66%**
Total	$	**382,097**	**100.00%**

For the nine months ended September 30, 2024, non-owner occupied commercial real estate loans increased $44.4 million, or 13%, from $337.7 million on December 31, 2023, to $382.1 million on September 30, 2024. The largest contributor to the increase was five loans to unrelated borrowers originated totaling $39 million, all with loan-to-value limits within adherence of the Company's policy.

Non-owner occupied CRE loans are commercial loans not occupied by their owners and thus rely on income from third parties, including multi-family residential tenants and commercial tenants representing various industries. Underwriting on non-owner occupied CRE loans evaluates cash flow derived from the respective tenants and the industries they occupy. As such, management considers non-owner occupied CRE loans as having a higher risk profile than owner occupied CRE loans. In keeping with its risk appetite and relationship management strategy, the Company avoids speculative commercial office space and prefers loans for projects with the following characteristics: sufficient equity, or loan to value, and have either S&P rated tenants with long term leases, loans structured with personal guarantees of owners whose personal financial strength provides meaningful cash flow support to supplement rental income volatility, residential projects with stable rents in desirable locations, or projects with sufficient diversity and industries proven to provide lower risk over the long term.

In the table above, office space comprised $52.2 million and special purpose comprised $29.2 million in potential exposure, respectively. The office segment mainly has suburban medical and suburban professional third-party tenants. The special purpose segment included self-storage facilities, assisted living facilities, nursing homes, and parking garages.

Construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans. Management prefers lending to well-established developers with a proven track record and strong business and guaranteed with owners' personal financial conditions. As of September 30, 2024, the commercial construction portfolio of $56.3 million consisted of $46.9 million, or 83%, of non-owner-occupied loans and $9.4 million, or 17%, of owner-occupied loans.

For the nine months ended September 30, 2024, commercial construction loans increased $16.5 million, or 41%, from $39.8 million on December 31, 2023 to $56.3 million at September 30, 2024. This increase was attributed to $14.1 million in commercial construction commitments originated during the year and $13.9 million in advances during the year on commercial construction loan availability booked prior to December 31, 2023. These advances were partially offset by $0.4 million of paydowns/payoffs and $11.1 million in projects that stabilized and were converted to owner and non-owner commercial real estate loans during the nine months ended September 30, 2024.

Consumer

The consumer loan portfolio consisted of home equity installment, home equity line of credit, non-recourse auto loans, recourse auto loans, direct finance leases and other consumer loans.

As of September 30, 2024, the total consumer loan portfolio decreased by $22.9 million, or 8%, to $259.5 million compared to the December 31, 2023 balance of $282.4 million, primarily due to a management strategic determination to reduce the indirect auto portfolio totaling $28 million resulting from payoffs/paydowns with minimal originations. Offsetting the reduction in the indirect auto portfolio was growth of $5 million in the HELOC portfolio due to a sales campaign done during the year and growth of $7 million in the other consumer portfolio due to $6 million in personal loans purchased from Banker Healthcare Group (BHG) during the year along with general portfolio growth. For the remainder of 2024, the Company expects maturities of approximately $6.7 million in the dealer portfolio with minimal originations.

Residential

As of September 30, 2024, the residential loan portfolio increased by $18.1 million, or 4%, to $519.6 million compared to the December 31, 2023 balance of $501.5 million. The increase was due to a shift from mortgage loans sold in the secondary market to loans held-for-investment, primarily jumbo mortgages with rates fixed for 5, 7 or 10 years with adjustable rates thereafter.

The residential loan portfolio consisted primarily of held-for-investment residential loans for primary residences, including approximately $393 million in fixed-rate and $97 million in adjustable-rate mortgages as of September 30, 2024.

The Company considers its portfolio segmentation, including the real estate secured portfolio, to be reasonably diversified. The banking industry is affected by general economic conditions including, among other things, the effects of real estate values. The Company ensures that its mortgage lending adheres to standards of secondary market compliance. Furthermore, the Company's credit function strives to mitigate the negative impact of economic conditions by maintaining strict underwriting principles for all loan types.

Allowance for credit losses

Management continually evaluates the credit quality of the Company's loan portfolio and performs a formal review of the adequacy of the allowance for credit losses (ACL) on a quarterly basis. The allowance reflects management's best estimate of the amount of expected credit losses in the loan portfolio. When estimating the net amount expected to be collected, management considers the effects of past events, current conditions, and reasonable and supportable forecasts of the collectability of the Company's financial assets. Those estimates may be susceptible to significant change. Loan losses are charged directly against the allowance when loans are deemed to be uncollectible. Recoveries from previously charged-off loans are added to the allowance when received.

The methodology to analyze the adequacy of the ACL is based on seven primary components:

- **Data:** The quality of the Company's data is critically important as a foundation on which the ACL estimate is generated. For its estimate, the Company uses both internal and external data with a preference toward internal data where possible. Data is complete, accurate, and relevant, and subjected to appropriate governance and controls.
- **Segmentation:** Financial assets are segmented based on similar risk characteristics.
- **Estimated term of financial assets:** The estimated term of financial assets is a significant driver of ACL estimates. Financial assets or pools of financial assets with shorter estimated maturities typically result in a lower reserve than those with longer estimated maturities. As the average life of a financial asset or pool of assets increases, there generally is a corresponding increase to the ACL estimate because the likelihood of default is considered over a longer time frame. As such, pool-based assumptions for a pool's estimated term (i.e., average life) are based on the contractual maturity of the financial assets within the pool and adjusted in accordance with GAAP, if appropriate. Key assumptions for the estimated term of financial assets are prepayment rates for amortizing financial assets and curtailment rates for non-amortizing financial assets.
- **Credit loss measurement method:** Multiple measurement methods for estimating ACLs are allowable per Accounting Standards Codification (ASC) Topic 326. The Company applies different estimation methods to different groups of financial assets. The discounted cash flow method is used for the commercial & industrial, commercial real estate non-owner occupied, commercial real estate owner occupied, commercial construction, home equity installment loan, home equity line of credit, residential real estate, and residential construction pools. The weighted average remaining maturity (WARM) method is used for the municipal, non-recourse auto, recourse auto, direct finance lease, and consumer other pools.
- **Reasonable and supportable forecasts:** ASC Topic 326 requires management to consider reasonable and supportable forecasts that affect expected collectability of financial assets. As such, the Company's forecasts incorporate anticipated changes in the economic environment that may affect credit loss estimates over a time horizon when management can reasonably support and document expectations. Forward-looking information may reflect positive or negative expectations relative to the current environment. As of the reporting date, management is using the median Federal Open Market Committee (FOMC) National Gross Domestic Product (GDP) and unemployment rate forecasts as well as the Federal Housing Finance Agency (FHFA) House Price Index (HPI) for its reasonable and supportable forecasts. The Company currently uses a 12-month (4 quarter) reasonable and supportable forecast period.

- **Reversion period:** ASC Topic 326 does not require management to estimate a reasonable and supportable forecast for the entire contractual life of financial assets. Management may apply reversion techniques for the contractual life remaining after considering the reasonable and supportable forecast period, which allows management to apply a historical loss rate to latter periods of the financial asset's life. The Company currently uses a 12 month (4 quarter) straight-line reversion period.
- **Qualitative factor adjustments:** The Company's ACL estimate considers all significant factors relevant to the expected collectability of its financial assets as of the reporting date; Qualitative factors reflect the impact of conditions not captured elsewhere, such as the historical loss data or within the economic forecast. The qualitative considerations can be captured directly within measurement models or as additional components in the overall ACL methodologies. Currently, the Company uses the following qualitative factors:

  - levels of and trends in delinquencies and non-accrual loans;
  - levels of and trends in charge-offs and recoveries;
  - trends in volume and terms of loans;
  - changes in risk selection and underwriting standards;
  - changes in lending policies and legal and regulatory requirements;
  - experience, ability and depth of lending management;
  - national and local economic trends and conditions;
  - changes in credit concentrations; and
  - changes in underlying collateral.

A control related to the allowance is the Company's Special Assets Committee. This committee meets quarterly, and the applicable lenders discuss each relationship under review and reach a consensus on the appropriate estimated loss amount, if applicable, based on current accounting guidance. The Special Assets Committee's focus is on ensuring the pertinent facts are considered regarding not only loans considered for specific reserves, but also the collectability of loans that may be past due in payment. The assessment process also includes the review of all loans on a non-accruing basis as well as a review of certain loans to which the lenders or the Company's Credit Administration function have assigned a criticized or classified risk rating.

The following tables set forth the activity in the allowance for credit losses and certain key ratios for the period indicated:

(dollars in thousands)	**As of and for the nine months ended September 30, 2024**	As of and for the twelve months ended December 31, 2023	As of and for the nine months ended September 30, 2023
Balance at beginning of period	**$ 18,806**	$ 17,149	$ 17,149
Charge-offs:			
Commercial and industrial	**(253)**	(320)	(320)
Commercial real estate	**(132)**	(91)	(92)
Consumer	**(312)**	(463)	(349)
Residential	**-**	-	-
Total	**(697)**	(874)	(761)
Recoveries:			
Commercial and industrial	**7**	57	23
Commercial real estate	**335**	44	44
Consumer	**59**	165	148
Residential	**45**	30	30
Total	**446**	296	245
Net charge-offs	**(251)**	(578)	(516)
Impact of adopting ASC 326	**-**	618	618
Initial allowance on loans purchased with credit deterioration	**-**	126	126
Provision for credit losses on loans	**1,075**	1,491	1,380
Balance at end of period	**$ 19,630**	$ 18,806	$ 18,757
Allowance for credit losses to total loans	**1.09%**	1.12%	1.14%
Net charge-offs to average total loans outstanding (annualized)	**0.02%**	0.04%	0.04%
Average total loans	**$ 1,722,655**	$ 1,635,286	$ 1,625,305
Loans 30 - 89 days past due and accruing	**$ 3,948**	$ 4,487	$ 2,044
Loans 90 days or more past due and accruing	**$ 66**	$ 14	$ 275
Non-accrual loans	**$ 7,078**	$ 3,308	$ 3,005
Allowance for credit losses to non-accrual loans	**2.77x**	5.69x	6.24x
Allowance for credit losses to non-performing loans	**2.75x**	5.66x	5.72x

For the nine months ended September 30, 2024, the allowance increased $0.8 million, or 4%, to $19.6 million from $18.8 million on December 31, 2023. The increase in the allowance was based on the provisioning of $1.1 million partially offset by net charge-offs of $0.3 million.

Management believes that the current balance in the allowance for credit losses is sufficient to meet the identified potential credit quality issues that may arise and other issues unidentified but inherent to the portfolio. Potential problem loans are those where there is known information that leads management to believe repayment of principal and/or interest is in jeopardy and the loans are currently neither on non-accrual status nor past due 90 days or more.

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Key loss driver assumptions used in the allowance estimate included the median Federal Open Market Committee (FOMC) National Gross Domestic Product (GDP) and unemployment rate forecasts, the Federal Housing Finance Agency (FHFA) House Price Index (HPI), prepayment and curtailment rates, and estimated remaining loan lives. Although key loss driver assumptions used in the ACL estimate remained largely stable from the estimate as of December 31, 2023 to the estimate as of September 30, 2024, the ACL on absolute terms increased based on growth in the loan and lease portfolio and changes in the composition of the portfolio along with slower prepayment and curtailment rates offset by more favorable economic forecasts.

Qualitative factors for the ACL estimate as of September 30, 2024 saw a general decrease compared to the prior quarter based on reduction in the qualitative factor for the effect of other external factors on estimated credit losses for all pools based on strong third party assessments of the Company's asset quality.

The allocation of net charge-offs among major categories of loans are as follows for the periods indicated:

(dollars in thousands)		**For the nine months ended September 30, 2024**	**% of Total Net Charge-offs**		For the nine months ended September 30, 2023	% of Total Net Charge-offs
Net charge-offs						
Commercial and industrial	**$**	**(246)**	**98%**	$	(297)	58%
Commercial real estate		**203**	**(81)**		(48)	9
Consumer		**(253)**	**101**		(201)	39
Residential		**45**	**(18)**		30	(6)
Total net charge-offs	**$**	**(251)**	**100%**	$	(516)	100%

For the nine months ended September 30, 2024, net charge-offs against the allowance totaled $251 thousand compared with net charge-offs of $516 thousand for the nine months ended September 30, 2023, representing a $265 thousand, or 51%, decrease due to two recoveries from two commercial real estate borrowers totaling $304 thousand and a $40 thousand recovery from a single residential borrower. Net charge-offs declined as a percentage of the total loan portfolio at 0.02% for the nine months ended September 30, 2024 compared to 0.04% for the nine months ended September 30, 2023.

For a discussion on the provision for credit losses, see the "Provision for credit losses," located in the results of operations section of management's discussion and analysis contained herein.

The allowance for credit losses can generally absorb losses throughout the loan portfolio. However, in some instances an allocation is made for specific loans or groups of loans. Allocation of the allowance for credit losses for different categories of loans is based on the methodology used by the Company, as previously explained. The changes in the allocations from period-to-period are based upon quarter-end reviews of the loan portfolio.

Allocation of the allowance among major categories of loans for the periods indicated, as well as the percentage of loans in each category to total loans, is summarized in the following table. This table should not be interpreted as an indication that charge-offs in future periods will occur in these amounts or proportions, or that the allocation indicates future charge-off trends. When present, the portion of the allowance designated as unallocated is within the Company's guidelines:

	September 30, 2024				December 31, 2023				September 30, 2023			
(dollars in thousands)		**Allowance**	**% of Total Allowance**	**Category % of Loans**		Allowance	% of Total Allowance	Category % of Loans		Allowance	% of Total Allowance	Category % of Loans
Category												
Commercial real estate	**$**	**9,069**	**46%**	**41%**	$	8,835	47%	39%	$	8,799	47%	39%
Commercial and industrial		**2,544**	**13**	**16**		1,850	10	15		1,866	10	14
Consumer		**2,346**	**12**	**14**		2,391	13	16		2,135	11	17
Residential real estate		**5,639**	**29**	**29**		5,694	30	30		5,933	32	30
Unallocated		**32**	**-**	**-**		36	-	-		24	-	-
Total	**$**	**19,630**	**100%**	**100%**	$	18,806	100%	100%	$	18,757	100%	100%

As of September 30, 2024, the commercial real estate loan portfolio comprised 46% of the total allowance for credit losses, down 1 percentage point from December 31, 2023. As of September 30, 2024, the commercial real estate loan portfolio was 41% of the total loan and lease portfolio indicative of a higher relative reserve, which is attributed to the longer average duration and inherent risk of the portfolio.

As of September 30, 2024, the commercial and industrial portfolio, comprised 13% of the total allowance for credit losses, up 3 percentage point from December 31, 2023. As of September 30, 2024, the commercial and industrial portfolio was 16% of the total loan and lease portfolio indicative of a lower relative reserve, which is attributed to the shorter average duration of this portfolio and lower relative risk, specifically from the municipal portfolio.

As of September 30, 2024, the consumer portfolio, comprised 12% of the total allowance for credit losses, down 1 percentage point from December 31, 2023. As of September 30, 2024, the consumer portfolio is 14% of the total loan and lease portfolio indicative of a lower relative reserve, which is attributed to the shorter average duration of this portfolio and lower relative risk, specifically from the indirect recourse and direct finance lease portfolios.

As of September 30, 2024, the residential portfolio comprised 29% of the total allowance for credit losses, down 1 percentage point from December 31, 2023. As of September 30, 2024, the residential portfolio is 29% of the total loan and lease portfolio indicative of a reserve that is proportionally representative of the loan portfolio.

As of September 30, 2024, the unallocated reserve, representing the portion of the allowance not specifically identified with a loan or groups of loans, was less than 1% of the total allowance for credit losses, unchanged from December 31, 2023.

Non-performing assets

The Company defines non-performing assets as accruing loans past due 90 days or more, non-accrual loans, other real estate owned (ORE) and repossessed assets.

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The following table sets forth non-performing assets data as of the period indicated:

(dollars in thousands)	September 30, 2024	December 31, 2023	September 30, 2023
Loans past due 90 days or more and accruing	**$ 66**	$ 14	$ 275
Non-accrual loans	**7,078**	3,308	3,005
Total non-performing loans	**7,144**	3,322	3,280
Other real estate owned and repossessed assets	**440**	1	87
Total non-performing assets	**$ 7,584**	$ 3,323	$ 3,367
Total loans, including loans held-for-sale	**$ 1,795,548**	$ 1,686,555	$ 1,647,553
Total assets	**$ 2,615,933**	$ 2,503,159	$ 2,476,820
Non-accrual loans to total loans	**0.39%**	0.20%	0.18%
Non-performing loans to total loans	**0.40%**	0.20%	0.20%
Non-performing assets to total assets	**0.29%**	0.13%	0.14%

Management continually monitors the loan portfolio to identify loans that are either delinquent or are otherwise deemed by management unable to repay in accordance with contractual terms. Generally, loans of all types are placed on non-accrual status if a loan of any type is past due 90 or more days or if collection of principal and interest is in doubt. Further, unsecured consumer loans are charged-off when the principal and/or interest is 90 days or more past due. Uncollected interest income accrued on all loans placed on non-accrual is reversed and charged to interest income.

Non-performing assets represented 0.29% of total assets at September 30, 2024 compared with 0.13% at December 31, 2023. The increase resulted from a $4.3 million, or 128%, increase in non-performing assets, specifically non-accrual loans, which increased due to $2.9 million in loans to a single commercial borrower added to non-accrual, a $0.4 million commercial real estate non-owner-occupied loan added to non-accrual, and a $0.3 million residential real estate loan added to non-accrual during the year.

On September 30, 2024, there were a total of 35 non-accrual loans to 29 unrelated borrowers with balances that ranged from less than $1 thousand to $2.6 million, or $7.1 million in the aggregate. On December 31, 2023, there were a total of 32 non-accrual loans to 26 unrelated borrowers with balances that ranged from less than $1 thousand to $1.3 million, or $3.3 million in the aggregate.

Loans past due 90 days or more accruing totaled $66 thousand, which was comprised of three direct finance leases and one recourse auto loan as of September 30, 2024, compared to one direct finance lease totaling $14 thousand as of December 31, 2023. All loans were well secured and in the process of collection.

The Company seeks payments from all past due customers through an aggressive customer communication process. Unless well-secured and in the process of collection, past due loans will be placed on non-accrual at the 90-day point when it is deemed that a customer is non-responsive and uncooperative to collection efforts.

The composition of non-performing loans as of September 30, 2024 is as follows:

(dollars in thousands)	Gross loan balances	Past due 90 days or more and still accruing	Non-accrual loans	Total non-performing loans	% of gross loans
Commercial and industrial:					
Commercial	**$ 168,633**	**$ -**	**$ 2,843**	**$ 2,843**	**1.69%**
Municipal	**113,362**	**-**	**-**	**-**	**-**
Commercial real estate:					
Non-owner occupied	**382,097**	**-**	**426**	**426**	**0.11%**
Owner occupied	**296,201**	**-**	**2,615**	**2,615**	**0.88%**
Construction	**56,273**	**-**	**-**	**-**	**-**
Consumer:					
Home equity installment	**54,618**	**-**	**51**	**51**	**0.09%**
Home equity line of credit	**57,387**	**-**	**500**	**500**	**0.87%**
Auto loans-Recourse	**11,485**	**8**	**-**	**8**	**0.07%**
Auto loans-Non Recourse	**83,905**	**-**	**4**	**4**	**0.00%**
Direct finance leases *	**26,651**	**58**	**-**	**58**	**0.22%**
Other	**23,524**	**-**	**20**	**20**	**0.09%**
Residential:					
Real estate	**490,442**	**-**	**619**	**619**	**0.13%**
Construction	**29,208**	**-**	**-**	**-**	**-**
Loans held-for-sale	**1,762**	**-**	**-**	**-**	**-**
Total	**$ 1,795,548**	**$ 66**	**$ 7,078**	**$ 7,144**	**0.40%**

*Net of unearned lease revenue of $1.9 million.

Payments received from non-accrual loans are recognized on a cost recovery method. Payments are first applied to the outstanding principal balance, then to the recovery of any charged-off loan amounts. Any excess is treated as a recovery of interest income. If the non-accrual loans that were outstanding as of September 30, 2024 had been performing in accordance with their original terms, the Company would have recognized interest income with respect to such loans of $265 thousand.

Foreclosedassets held-for-sale

From December 31, 2023 to September 30, 2024, foreclosed assets held-for-sale (ORE) increased from $1 thousand to $430 thousand, a $429 thousand increase, which was attributed to the addition of four properties to two borrowers totaling $649 thousand, which were added to ORE during 2024. These additions were offset by the sale of one commercial property totaling $1 thousand and addition and subsequent sale of one commercial property totaling $219 thousand.

The following table sets forth the activity in the ORE component of foreclosed assets held-for-sale:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Amount	#	Amount	#
Balance at beginning of period	**$ 1**	**1**	$ 168	2
Additions	**649**	**4**	86	1
Pay downs	-	-	-	-
Write downs	-	-	-	-
Transfers	-	-	(253)	(2)
Sold	**(220)**	**(2)**	-	-
Balance at end of period	**$ 430**	**3**	$ 1	1

As of September 30, 2024, the Company had three properties totaling $430 thousand, which were all under agreement of sale.

As of September 30, 2024, the Company had one other repossessed asset totaling $10 thousand which was a vehicle that is to be sold. As of December 31, 2023, the Company had no other repossessed assets.

Cash surrender value of bank owned life insurance

The Company maintains bank owned life insurance (BOLI) for a chosen group of employees at the time of purchase, namely its officers, where the Company is the owner and sole beneficiary of the policies. BOLI is classified as a non-interest earning asset. Increases or decreases in the cash surrender value are recorded as components of non-interest income. The BOLI is profitable from the appreciation of the cash surrender values of the pool of insurance and its tax-free advantage to the Company. This profitability is used to offset a portion of current and future employee benefit costs. The BOLI cash surrender value build-up can be liquidated if necessary, with associated tax costs. However, the Company intends to hold this pool of insurance, because it provides income that supports employee benefit cost increases which enhances the Company's capital position. Therefore, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Premises and equipment

Net of depreciation, premises and equipment increased $1.8 million during the first nine months of 2024. The Company purchased $1.2 million in fixed assets and added $2.9 million in construction in process during the first nine months of 2024. These increases were offset by $1.8 million in depreciation expense and assets totaling $0.5 million that were transferred to other assets. The Company opened a new branch in Wilkes-Barre in 2023. The Company opened a new Easton Branch in July 2024. The Company has substantially completed the remodeling of the Main Branch located in Dunmore, PA. The Company is in process of corporate headquarters construction which may continue to increase construction in process and is evaluating its branch network looking for consolidation that makes sense for more efficient operations.

As of September 30, 2024, the Company incurred $5.7 million in costs for the corporate headquarters building in downtown Scranton and currently estimates, based on available information, that remaining costs could range from $19 million to $22 million. This range estimate may expand because it is subject to supply chain issues, commodities and labor pricing, results of final planning, and because of the renovation of the historic building requiring upgrades to meet current codes and system enhancements. On December 23, 2020, the Commonwealth of Pennsylvania authorized the release of $2.0 million in Redevelopment Assistance Capital Program (RACP) funding for the Company's headquarters project in Lackawanna County. On December 2, 2021, the Company announced it would be receiving an additional $2.0 million in RACP funding in support of the project. On November 1, 2024, the Company announced it would be receiving an additional $5.0 million in RACP funding in support of the project. The $9.0 million in total RACP grant funds will be allocated to the renovation and rehabilitation of the historic Scranton electric building. The historic nature of this building has qualified the Company for an estimated $4.1 million in state and federal historic tax credits. The project is expected to be completed in the middle of 2026.

Other assets

During the first nine months of 2024, the $2.0 million decrease in other assets was due mostly to a $1.4 million decrease in deferred tax assets.

Funds Provided:

Deposits

The Company is a community based commercial depository financial institution, member FDIC, which offers a variety of deposit products with varying ranges of interest rates and terms. Generally, deposits are obtained from consumers, businesses and public entities within the communities that surround the Company's 21 branch offices and all deposits are insured by the FDIC up to the full extent permitted by law. Deposit products consist of transaction accounts including: savings; clubs; interest-bearing checking; money market and non-interest bearing checking (DDA). The Company also offers short- and long-term time deposits or certificates of deposit (CDs). CDs are deposits with stated maturities which can range from seven days to ten years. Cash flow from deposits is influenced by economic conditions, changes in the interest rate environment, pricing and competition. To determine interest rates on its deposit products, the Company considers local competition, spreads to earning-asset yields, liquidity position and rates charged for alternative sources of funding such as short-term borrowings and FHLB advances.

The following table represents the components of deposits as of the date indicated:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	Amount	%	Amount	%
Interest-bearing checking	**$ 698,392**	**29.8%**	$ 710,094	32.9%
Savings and clubs	**190,802**	**8.1**	203,446	9.4
Money market	**594,486**	**25.4**	495,773	23.0
Certificates of deposit	**309,116**	**13.2**	212,969	9.9
Total interest-bearing	**1,792,796**	**76.5**	1,622,282	75.2
Non-interest bearing	**549,710**	**23.5**	536,143	24.8
Total deposits	**$ 2,342,506**	**100.0%**	$ 2,158,425	100.0%

Total deposits increased $184.1 million, or 9%, to $2.3 billion at September 30, 2024 from $2.2 billion at December 31, 2023. Money market accounts increased $98.7 million primarily due to an increase in business and personal account balances and transfers of funds from checking and savings accounts. During the first nine months of 2024, two accounts to one public customer with a balance of $12.2 million at the end of 2023 were transferred from non-interest bearing to interest-bearing checking accounts. Excluding the transfer, non-interest bearing checking accounts would have increased $25.8 million due to an increase in business checking balances. Savings decreased $12.6 million during the first nine months of 2024. This decline is due to increased spending and shifts to higher rate CDs and money market accounts. Interest-bearing checking accounts decreased $11.7 million despite the purchase of $30 million in Insured Cash Sweep (ICS) one-way buy deposits at the end of the third quarter of 2024 primarily due to one relationship that transferred approximately $45 million from interest-bearing checking accounts to CDs. The Company focuses on obtaining a full-banking relationship with existing core operating checking account customers as well as forming new customer relationships. The Company will continue to execute on its relationship development strategy, explore the demographics within its marketplace and develop targeted programs for its customers to maintain and grow core deposits. For 2023 and 2024, the Company experienced deposit balance declines as clients transferred their deposits to investments to earn higher interest and pay down debts along with increased consumer spending. We currently expect this trend of cash usage, due to the impact of inflation on consumer and business spending and deposit mix shifts caused by the highly competitive interest rate environment, to continue throughout the remainder of 2024. This will begin to be offset by the decreasing rate environment which began in the third quarter of 2024 and is expected to continue through 2025 as noted in the general section above. Seasonal public deposit fluctuations are expected to remain volatile and at times may partially offset future deposit growth.

Offsetting these non-maturing deposit decreases, CDs increased $96.1 million, or 45%, as of September 30, 2024. One relationship transferred approximately $45 million from interest-bearing checking accounts to Company uses the Certificate of Deposit Account Registry Service (CDARS). The Company expects the highly competitive deposit environment to continue with a need for promotional money market and CDs to attract new funds. For the remainder of 2024, the Company expects the majority of deposit growth to be in the money market and CD portfolio.

The CDARS reciprocal program and ICS reciprocal program to obtain FDIC insurance protection for customers who have large deposits that at times may exceed the FDIC maximum insured amount of $250,000. The Company had $46.6 million and $1.4 million in CDARS as of September 30, 2024 and December 31, 2023. As of September 30, 2024 and December 31, 2023, ICS reciprocal deposits represented $123.2 million and $151.4 million, or 5% and 7%, of total deposits which are included in interest-bearing checking accounts in the table above. As of September 30, 2024, the Company also purchased $30.0 million from the ICS one-way buy program which is included in interest-bearing checking accounts.

As of September 30, 2024, total uninsured deposits were estimated to be $926.8 million, or 40% of total deposits. The estimate of uninsured deposits is based on the same methodologies and assumptions used for regulatory reporting requirements. The Company aggregates deposit products by taxpayer identification number and classifies into ownership categories to estimate amounts over the FDIC insurance limit. As of September 30, 2024, the ratio of uninsured and non-collateralized deposits to total deposits was $592.0 million, or 25%. Collateralized deposits totaled $334.8 million, or 14%, of total deposits as of September 30, 2024.

The maturity distribution of certificates of deposit that meet or exceed the FDIC limit, by account, at September 30, 2024 is as follows:

(dollars in thousands)	
Three months or less	$ 18,970
More than three months to six months	37,639
More than six months to twelve months	41,880
More than twelve months	1,144
Total	$ 99,633

Approximately 17% of the CDs, with a weighted-average interest rate of 3.91%, are scheduled to mature in 2024 and an additional 80%, with a weighted-average interest rate of 4.41%, are scheduled to mature in 2025. Renewing CDs are currently expected to re-price to lower market rates depending on the rate on the maturing CD, the pace and direction of interest rate movements, the shape of the yield curve, competition, the rate profile of the maturing accounts and depositor preference for alternative, non-term products. The Company continues to address maturing CDs on a relationship pricing basis, with both CD retention and promotional programs and a rate match when prudent to maintain relationships. Current CD retention is over 80%. The Company will continue to develop CD retention and promotional programs when the Company deems that it is economically feasible to do so or when demand exists. The Company will consider the needs of the customers and simultaneously be mindful of the liquidity levels, borrowing rates and the interest rate sensitivity exposure of the Company.

Short-term borrowings

Borrowings are used as a complement to deposit generation as an alternative funding source whereby the Company will borrow under advances from the FHLB of Pittsburgh, Federal Reserve Bank discount window, and other correspondent banks for asset growth and liquidity needs.

Short-term borrowings may include overnight balances with FHLB's line of credit and/or correspondent bank's federal funds lines which the Company may require to fund daily liquidity needs such as deposit outflow, loan demand and operations. The Company used $25.0 million in short-term borrowings to fund loan growth as of September 30, 2024. As of September 30, 2024, the short-term borrowings were comprised of $25.0 million borrowed through the Federal Reserve Bank Term Funding Program (BTFP) up to one year with a rate of 4.76% by pledging $26.5 million in securities. During the fourth quarter of 2024, the Compaid used excess cash to pay off the BTFP. As of September 30, 2024, the Company had the ability to borrow an additional $150.7 million from the Federal Reserve borrower-in-custody program, full availability of $150.0 million in overnight borrowings with the FHLB open-repo line of credit and $20.0 million from lines of credit with correspondent banks.

Secured borrowings

As of September 30, 2024, the Company had 5 secured borrowing agreements with third parties with a carrying value of $6.3 million compared to 8 secured borrowing agreements with third parties with a carrying value of $7.4 million, related to certain sold loan participations that did not qualify for sales treatment acquired from Landmark Community Bank. Secured borrowings are expected to decrease throughout 2024 from scheduled amortization and, when possible, early pay-offs.

FHLB advances

The Company had no FHLB advances as of September 30, 2024 and December 31, 2023. As of September 30, 2024, the Company had the ability to borrow up to $704.4 million from the FHLB, net of any overnight borrowings utilized. The Company does not expect to have any FHLB advances for the remainder of 2024.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management of interest rate risk and market risk analysis.

The adequacy and effectiveness of an institution's interest rate risk management process and the level of its exposures are critical factors in the regulatory evaluation of an institution's sensitivity to changes in interest rates and capital adequacy. Management believes the Company's interest rate risk measurement framework is sound and provides an effective means to measure, monitor, analyze, identify and control interest rate risk in the balance sheet.

The Company is subject to the interest rate risks inherent in its lending, investing and financing activities. Fluctuations of interest rates will impact interest income and interest expense along with affecting market values of all interest-earning assets and interest-bearing liabilities, except for those assets or liabilities with a short-term remaining to maturity. Interest rate risk management is an integral part of the asset/liability management process. The Company has instituted certain procedures and policy guidelines to manage the interest rate risk position. Those internal policies enable the Company to react to changes in market rates to protect net interest income from significant fluctuations. The primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on net interest income along with creating an asset/liability structure that maximizes earnings.

Asset/Liability Management. One major objective of the Company when managing the rate sensitivity of its assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of the Company's Asset/Liability Committee (ALCO), which is comprised of senior management and members of the board of directors. ALCO meets quarterly to monitor the relationship of interest sensitive assets to interest sensitive liabilities. The process to review interest rate risk is a regular part of managing the Company. Consistent policies and practices of measuring and reporting interest rate risk exposure, particularly regarding the treatment of non-contractual assets and liabilities, are in effect. In addition, there is an annual process to review the interest rate risk policy with the board of directors which includes limits on the impact to earnings from shifts in interest rates.

Interest Rate Risk Measurement. Interest rate risk is monitored through the use of three complementary measures: static gap analysis, earnings at risk simulation and economic value at risk simulation. While each of the interest rate risk measurements has limitations, collectively, they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company and the distribution of risk along the yield curve, the level of risk through time and the amount of exposure to changes in certain interest rate relationships.

Static Gap. The ratio between assets and liabilities re-pricing in specific time intervals is referred to as an interest rate sensitivity gap. Interest rate sensitivity gaps can be managed to take advantage of the slope of the yield curve as well as forecasted changes in the level of interest rate changes.

To manage this interest rate sensitivity gap position, an asset/liability model commonly known as cumulative gap analysis is used to monitor the difference in the volume of the Company's interest sensitive assets and liabilities that mature or re-price within given time intervals. A positive gap (asset sensitive) indicates that more assets will re-price during a given period compared to liabilities, while a negative gap (liability sensitive) indicates the opposite effect. The Company employs computerized net interest income simulation modeling to assist in quantifying interest rate risk exposure. This process measures and quantifies the impact on net interest income through varying interest rate changes and balance sheet compositions. The use of this model assists the ALCO in gauging the effects of interest rate changes on interest-sensitive assets and liabilities in order to determine what impact these rate changes will have upon the net interest spread. At September 30, 2024, the Company maintained a one-year cumulative gap of positive (asset sensitive) $21.8 million, or 0.8%, of total assets. The effect of this positive gap position provided a mismatch of assets and liabilities which may expose the Company to interest rate risk during periods of falling interest rates. Conversely, in an increasing interest rate environment, net interest income could be positively impacted because more assets than liabilities will re-price upward during the one-year period.

Certain shortcomings are inherent in the method of analysis discussed above and presented in the next table. Although certain assets and liabilities may have similar maturities or periods of re-pricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table amounts. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The following table reflects the re-pricing of the balance sheet or "gap" position at September 30, 2024:

(dollars in thousands)	Three months or less	More than three months to twelve months	More than one year to three years	More than three years	Total
Cash and cash equivalents	$ 83,867	$ -	$ -	$ 36,302	$ 120,169
Investment securities (1)(2)	6,378	21,228	64,041	472,116	563,763
Loans and leases (2)	447,546	231,868	449,096	647,408	1,775,918
Fixed and other assets	-	57,672	-	98,411	156,083
Total assets	$ 537,791	$ 310,768	$ 513,137	$ 1,254,237	$ 2,615,933
Total cumulative assets	$ 537,791	$ 848,559	$ 1,361,696	$ 2,615,933	
Non-interest-bearing transaction deposits (3)	$ 12,426	37,279	99,412	400,593	$ 549,710
Interest-bearing transaction deposits (3)	491,141	64,752	170,095	757,692	1,483,680
Certificates of deposit	52,149	243,332	10,321	3,314	309,116
Secured borrowings	44	-	-	6,279	6,323
Short-term borrowings	25,000	-	-	-	25,000
Other liabilities	-	-	-	34,843	34,843
Total liabilities	$ 580,760	$ 345,363	$ 279,828	$ 1,202,721	$ 2,408,672
Total cumulative liabilities	$ 580,760	$ 926,123	$ 1,205,951	$ 2,408,672	
Interest sensitivity gap	$ (42,969)	$ (34,595)	$ 233,309	$ 51,516	
Cumulative gap	$ (42,969)	$ (77,564)	$ 155,745	$ 207,261	
Off-balance sheet:					
Swap - portfolio hedge	$ 100,000	$ -	$ (100,000)	$ -	
Cumulative gap	$ 57,031	$ 22,436	$ 155,745	$ 207,261	
Cumulative gap to total assets	2.2%	0.9%	6.0%	7.9%	

(1) Includes restricted investments in bank stock and the net unrealized gains/losses on available-for-sale securities.

(2) Investments and loans are included in the earlier of the period in which interest rates were next scheduled to adjust or the period in which they are due. In addition, loans were included in the periods in which they are scheduled to be repaid based on scheduled amortization. For amortizing loans and MBS – GSE residential, annual prepayment rates are assumed reflecting historical experience as well as management's knowledge and experience of its loan products.

(3) The Company's demand and savings accounts were generally subject to immediate withdrawal. However, management considers a certain amount of such accounts to be core accounts having significantly longer effective maturities based on the retention experiences of such deposits in changing interest rate environments. The effective maturities presented are the recommended maturity distribution limits for non-maturing deposits based on historical deposit studies.

Earnings at Risk and Economic Value at Risk Simulations . The Company recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet that extend beyond static re-pricing gap analysis. Although it will continue to measure its re-pricing gap position, the Company utilizes additional modeling for identifying and measuring the interest rate risk in the overall balance sheet. The ALCO is responsible for focusing on "earnings at risk" and "economic value at risk", and how both relate to the risk-based capital position when analyzing the interest rate risk.

Earnings at Risk. An earnings at risk simulation measures the change in net interest income and net income should interest rates rise and fall. The simulation recognizes that not all assets and liabilities re-price one-for-one with market rates (e.g., savings rate). The ALCO looks at "earnings at risk" to determine income changes from a base case scenario under an increase and decrease of 200 basis points in interest rate simulation models.

Economic Value at Risk. An earnings at risk simulation measures the short-term risk in the balance sheet. Economic value (or portfolio equity) at risk measures the long-term risk by finding the net present value of the future cash flows from the Company's existing assets and liabilities. The ALCO examines this ratio quarterly utilizing an increase and decrease of 200 basis points in interest rate simulation models. The ALCO recognizes that, in some instances, this ratio may contradict the "earnings at risk" ratio.

The following table illustrates the simulated impact of an immediate 200 basis points upward or downward movement in interest rates on net interest income, net income and the change in the economic value (portfolio equity). This analysis assumed that the adjusted interest-earning asset and interest-bearing liability levels at September 30, 2024 remained constant. The impact of the rate movements was developed by simulating the effect of the rate change over a twelve-month period from the September 30, 2024 levels:

	% change	
	Rates +200	Rates -200
Earnings at risk:		
Net interest income	(0.9)%	(6.2)%
Net income	(1.2)	(15.5)
Economic value at risk:		
Economic value of equity	(8.4)	(5.5)
Economic value of equity as a percent of total assets	(0.7)	(0.5)

In the scenarios in the above table, the Board-approved policy has the following guidelines: net interest income within +/- 10%, net income within +/- 25%, economic value of equity within +/- 25%, economic value of equity as a percent of total assets within +/-5%.

Economic value has the most meaning when viewed within the context of risk-based capital. Therefore, the economic value may normally change beyond the Company's policy guideline for a short period of time as long as the risk-based capital ratio (after adjusting for the excess equity exposure) is greater than 10%. At September 30, 2024, the Company's risk-based capital ratio was 14.56%.

Given the existing economic and interest rate conditions along with the recent increase in earnings at risk exposure to rising rates, management is evaluating to pursue balance sheet hedging opportunities on both sides of balance sheet with an independent third-party vendor with derivative expertise in response to mitigate these interest rate risks on net interest income. The Company has a derivative policy in place and any balance sheet hedges require Board pre-approval along with quarterly monitoring requirements by the Company's ALCO Committee.

The table below summarizes estimated changes in net interest income over a twelve-month period beginning October 1, 2024, under alternate interest rate scenarios using the income simulation model described above:

(dollars in thousands)	Net interest income	$ variance	% variance
Simulated change in interest rates			
+300 basis points	$ 72,703	$ (2,037)	(2.7)%
+200 basis points	74,101	(639)	(0.9)%
+100 basis points	75,395	655	0.9%
Flat rate	74,740	-	-%
-100 basis points	72,312	(2,428)	(3.2)%
-200 basis points	70,132	(4,608)	(6.2)%
-300 basis points	68,172	(6,568)	(8.8)%

Simulation models require assumptions about certain categories of assets and liabilities. The models schedule existing assets and liabilities by their contractual maturity, estimated likely call date or earliest re-pricing opportunity. MBS – GSE residential securities and amortizing loans are scheduled based on their anticipated cash flow including estimated prepayments. For investment securities, the Company uses a third-party service to provide cash flow estimates in the various rate environments. Savings, money market and interest-bearing checking accounts do not have stated maturities or re-pricing terms and can be withdrawn or re-price at any time. This may impact the margin if more expensive alternative sources of deposits are required to fund loans or deposit runoff. Management projects the re-pricing characteristics of these accounts based on historical performance and assumptions that it believes reflect their rate sensitivity. The model reinvests all maturities, repayments and prepayments for each type of asset or liability into the same product for a new like term at current product interest rates. As a result, the mix of interest-earning assets and interest bearing-liabilities is held constant.

Liquidity

Liquidity management ensures that adequate funds will be available to meet customers' needs for borrowings, deposit withdrawals and maturities, facility expansion and normal operating expenses. Sources of liquidity are cash and cash equivalents, asset maturities and pay-downs within one year, loans HFS, investments AFS, growth of core deposits, utilization of borrowing capacities from the FHLB, correspondent banks, IntraFi's ICS and One-Way Buy program, the Discount Window of the Federal Reserve Bank of Philadelphia (FRB), Atlantic Community Bankers Bank (ACBB) and proceeds from the issuance of capital stock. Though regularly scheduled investment and loan payments are dependable sources of daily liquidity, sales of both loans HFS and investments AFS, deposit activity and investment and loan prepayments are significantly influenced by general economic conditions including the interest rate environment. During low and declining interest rate environments, prepayments from interest-sensitive assets tend to accelerate and provide significant liquidity that can be used to invest in other interest-earning assets but at lower market rates. Conversely, in periods of high or rising interest rates, prepayments from interest-sensitive assets tend to decelerate causing prepayment cash flows from mortgage loans and mortgage-backed securities to decrease. Rising interest rates may also cause deposit inflow but priced at higher market interest rates or could also cause deposit outflow due to higher rates offered by the Company's competition for similar products. The Company closely monitors activity in the capital markets and takes appropriate action to ensure that the liquidity levels are adequate for funding, investing and operating activities.

The Company's contingency funding plan (CFP) sets a framework for handling liquidity issues in the event circumstances arise which the Company deems to be less than normal. The Company established guidelines for identifying, measuring, monitoring and managing the resolution of potentially serious liquidity crises. The CFP outlines required monitoring tools, acceptable alternative funding sources and required actions during various liquidity scenarios. Thus, the Company has implemented a proactive means for the measurement and resolution for handling potentially significant adverse liquidity conditions. At least quarterly, the CFP monitoring tools, current liquidity position and monthly projected liquidity sources and uses are presented and reviewed by the Company's Asset/Liability Committee. As of September 30, 2024, the Company had not experienced any adverse issues that would give rise to its inability to raise liquidity in an emergency situation.

During the nine months ended September 30, 2024, the Company grew cash and cash equivalents by $8.2 million. During the period, the Company's operations provided approximately $23.1 million mostly from $47.9 million of net cash inflow from the components of net interest income partially offset by net non-interest expense/income related payments of $23.0 million and $3.1 million of tax payments. Cash inflow from interest-earning assets, deposit growth and loan payments were used to fund the loan portfolio, pay down short-term borrowings, invest in bank premises and equipment and make net dividend payments. The Company received a large amount of public deposits over the past few years. The seasonal nature of deposits from municipalities and other public funding sources requires the Company to be prepared for the inherent volatility and the unpredictable timing of cash outflow from this customer base, including maintaining the requirements to pledge investment securities. Accordingly, the use of short-term overnight borrowings could be used to fulfill funding gap needs. As of September 30, 2024, the Company had $170.0 million in unpledged securities.

During the fourth quarter of 2024, the Company paid off $25 million borrowed from the Federal Reserve Bank Term Funding Program using excess cash balances. The payoff freed up $26.5 million in pledged securities.

During 2021 and 2022, the Company also experienced deposit inflow resulting from businesses and municipalities that received relief from the CARES Act, American Rescue Plan Act ("ARPA") and other government stimulus. There is uncertainty about the length of time that these deposits will remain which could require the Company to maintain elevated cash balances. During the first nine months of 2024, the Company experienced an outflow of $18.3 million in ARPA funds, or approximately 59% of the balance of these funds from the end of 2023. As of September 30, 2024, the Company has approximately $12.5 million in remaining ARPA balances. The Company will continue to monitor deposit fluctuations for other significant changes.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and in connection with the overall interest rate management strategy. These instruments involve, to a varying degree, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments.

Lending commitments include commitments to originate loans and commitments to fund unused lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Unfunded commitments of existing loan facilities totaled $463.8 million, standby letters of credit totaled $29.7 million and the level of uninsured and non-collateralized deposits was $592.0 million at September 30, 2024. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

As of September 30, 2024, the Company maintained $120.2 million in cash and cash equivalents and $336.2 million of investments AFS and loans HFS. Also as of September 30, 2024, the Company had approximately $704.4 million available borrowing capacity from the FHLB, $20.0 million from correspondent banks, $150.7 million from the FRB, and $345.1 million from the IntraFi Network One-Way Buy program. The combined total of $1.7 billion represented 64% of total assets at September 30, 2024. Management believes this level of liquidity to be strong and adequate to support current operations.

Capital

During the nine months ended September 30, 2024, total shareholders' equity increased $17.8 million, or 9%, due principally to $15.0 million in net income added into retained earnings and a $8.0 million after tax decrease in the net unrealized loss position in the Company's investment portfolio. Capital was further enhanced by $0.1 million from the issuance of common stock through the DRP, $0.3 million from investments in the Company's common stock via the Employee Stock Purchase Plan (ESPP) and $1.1 million from stock-based compensation expense from the ESPP and restricted stock. Partially offsetting these increases, there were $6.6 million of cash dividends declared on the Company's common stock. The Company's dividend payout ratio, defined as the rate at which current earnings are paid to shareholders, was 44.2% for the nine months ended September 30, 2024. The balance of earnings is retained to further strengthen the Company's capital position.

As of September 30, 2024, the Company reported a net unrealized loss position of $48.5 million, net of tax, from the securities portfolio compared to a net unrealized loss of $56.5 million as of December 31, 2023. The $8.0 million increase to accumulated other comprehensive income during first nine months of 2024 was primarily from the $6.6 million decrease in net unrealized losses on AFS securities. Management believes that changes in fair value of the Company's securities are due to changes in interest rates and market conditions, and not in the creditworthiness of the issuers.

Generally, when U.S. Treasury rates rise, investment securities' pricing declines and fair values of investment securities also decline. While volatility has existed in the yield curve within the past twelve months, a declining rate environment has begun in the third quarter of 2024 into fiscal year 2025, the Company expects pricing in the bond portfolio to improve. There is no assurance that future realized and unrealized losses will not be recognized from the Company's portfolio of investment securities.

The tangible common equity (TCE) ratio (non-GAAP) was 7.19% and 5.89% for the nine months ended September 30, 2024 and 2023, respectively. At September 30, 2024 and 2023, the held-to-maturity securities portfolio had $17.5 million and $36.2 million in unrealized losses, net of deferred taxes. If the TCE ratio was adjusted to include the unrealized losses on held-to-maturity securities, the adjusted TCE ratio (non-GAAP) would have been 6.52% and 4.41% at September 30, 2024 and 2023, respectively. See reconciliation on page 37.

To help maintain a healthy capital position, the Company can issue stock to participants in the DRP and ESPP plans. The DRP affords the Company the option to acquire shares in open market purchases and/or issue shares directly from the Company to plan participants. During the first nine months of 2024, the Company re-issued treasury shares to fulfill the needs of the DRP. Both the DRP and the ESPP plans have been a consistent source of capital from the Company's loyal employees and shareholders and their participation in these plans will continue to help strengthen the Company's balance sheet.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Since the Company (on a consolidated basis) is currently considered a small bank holding company, it is not subject to regulatory capital requirements.

Under these guidelines, assets and certain off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets. The guidelines require all banks and bank holding companies to maintain a minimum ratio of total risk-based capital to total risk-weighted assets (Total Risk Adjusted Capital) of 8%, including Tier I common equity to total risk-weighted assets (Tier I Common Equity) of 4.5%, Tier I capital to total risk-weighted assets (Tier I Capital) of 6% and Tier I capital to average total assets (Leverage Ratio) of at least 4%. A capital conservation buffer, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements of 2.50%. As of September 30, 2024 and December 31, 2023, the Bank exceeded all capital adequacy requirements to which it was subject.

The following table depicts the actual and required capital and related capital ratios of the Company, on a consolidated basis, and the Bank as of September 30, 2024 and December 31, 2023. No amounts were deducted from capital for interest-rate risk in either 2024 or 2023.

	Actual		Minimum for capital adequacy purposes		Minimum for capital adequacy purposes with capital conservation buffer*		Minimum to be well capitalized under prompt corrective action provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2024								
Total capital (to risk-weighted assets)								
Consolidated	**$ 255,936**	**14.6%**	**≥$ 140,618**	**8.0%**	**≥$ 184,561**	**10.5%**	**N/A**	**N/A**
Bank	**$ 254,457**	**14.5%**	**≥$ 140,601**	**8.0%**	**≥$ 184,539**	**10.5%**	**≥$ 175,751**	**10.0%**
Tier 1 common equity (to risk-weighted assets)								
Consolidated	**$ 235,137**	**13.4%**	**≥$ 79,097**	**4.5%**	**≥$ 123,040**	**7.0%**	**N/A**	**N/A**
Bank	**$ 233,657**	**13.3%**	**≥$ 79,088**	**4.5%**	**≥$ 123,026**	**7.0%**	**≥$ 114,238**	**6.5%**
Tier I capital (to risk-weighted assets)								
Consolidated	**$ 235,137**	**13.4%**	**≥$ 105,463**	**6.0%**	**≥$ 149,406**	**8.5%**	**N/A**	**N/A**
Bank	**$ 233,657**	**13.3%**	**≥$ 105,451**	**6.0%**	**≥$ 149,389**	**8.5%**	**≥$ 140,601**	**8.0%**
Tier I capital (to average assets)								
Consolidated	**$ 235,137**	**9.3%**	**≥$ 101,186**	**4.0%**	**≥$ 101,186**	**4.0%**	**N/A**	**N/A**
Bank	**$ 233,657**	**9.2%**	**≥$ 101,179**	**4.0%**	**≥$ 101,179**	**4.0%**	**≥$ 126,474**	**5.0%**

	Actual		For capital adequacy purposes		For capital adequacy purposes with capital conservation buffer		To be well capitalized under prompt corrective action provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023								
Total capital (to risk-weighted assets)								
Consolidated	$ 246,120	14.7%	≥$ 134,255	8.0%	≥$ 176,209	10.5%	N/A	N/A
Bank	$ 244,562	14.6%	≥$ 134,238	8.0%	≥$ 176,187	10.5%	≥$ 167,797	10.0%
Tier 1 common equity (to risk-weighted assets)								
Consolidated	$ 225,135	13.4%	≥$ 75,518	4.5%	≥$ 117,473	7.0%	N/A	N/A
Bank	$ 223,576	13.3%	≥$ 75,509	4.5%	≥$ 117,458	7.0%	≥$ 109,068	6.5%
Tier I capital (to risk-weighted assets)								
Consolidated	$ 225,135	13.4%	≥$ 100,691	6.0%	≥$ 142,646	8.5%	N/A	N/A
Bank	$ 223,576	13.3%	≥$ 100,678	6.0%	≥$ 142,628	8.5%	≥$ 134,268	8.0%
Tier I capital (to average assets)								
Consolidated	$ 225,135	9.2%	≥$ 98,465	4.0%	≥$ 98,465	4.0%	N/A	N/A
Bank	$ 223,576	9.1%	≥$ 98,457	4.0%	≥$ 98,457	4.0%	≥$ 123,071	5.0%

The Company advises readers to refer to the Supervision and Regulation section of Management's Discussion and Analysis of Financial Condition and Results of Operation, of its 2023 Form 10-K for a discussion on the regulatory environment and recent legislation and rulemaking.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by the Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on such evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and are effective. The Company made no changes in its internal controls over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, these controls during the last fiscal quarter ended September 30, 2024.

PART II - Other Information

Item 1. Legal Proceedings

The nature of the Company's business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in the opinion of the Company after consultation with legal counsel, no legal proceedings are pending, which, if determined adversely to the Company or the Bank, would have a material adverse effect on the Company's retained earnings or financial condition, operations or the results of such operations. No legal proceedings are pending other than ordinary routine litigation incidental to the business of the Company and the Bank. In addition, to management's knowledge, no governmental authorities have initiated or contemplated any material legal or regulatory actions against the Company or the Bank.

Item 1A. Risk Factors

Management of the Company does not believe there have been any material changes to the risk factors that were disclosed in the 2023 Form 10-K filed with the Securities and Exchange Commission on March 20, 2024.

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

None

Item 3. Default Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated by reference as a part of this Form 10-Q:

3(i) Amended and Restated Articles of Incorporation of Registrant. Incorporated by reference to Annex B of the Proxy Statement/Prospectus included in Registrant's Amendment 4 to its Registration Statement No. 333-90273 on Form S-4, filed with the SEC on April 6, 2000.

3(ii) Amended and Restated Bylaws of Registrant. Incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed with the SEC on April 16, 2020.

2.1 Agreement and Plan of Reorganization by and among Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank, MNB Corporation and Merchants Bank of Bangor dated as of December 9, 2019. Incorporated by reference to Annex A of the Registrant's Registration Statement No. 333-236453 on Form S-4, filed with the Commission on February 14, 2020. (Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Registrant agrees to furnish supplementally to the SEC a copy of any omitted schedule upon request.)

2.2 Agreement and Plan of Reorganization by and among Fidelity D & D Bancorp, Inc., NEPA Acquisition Subsidiary, LLC, The Fidelity Deposit and Discount Bank, Landmark Bancorp, Inc. and Landmark Community Bank dated as of February 25, 2021. Incorporated by reference to Annex A of the Registrant's Registration No. 333-255479 on Form S-4, filed with the Commission on April 23, 2021. (Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Registrant agrees to furnish supplementally to the SEC a copy of any omitted schedule upon request.)

****10.1 Registrant's 2012 Dividend Reinvestment and Stock Repurchase Plan***. Incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement No. 333-183216 on Form S-3 filed with the SEC on August 10, 2012 as amended February 3, 2014.

****10.2 Registrant's 2002 Employee Stock Purchase Plan.*** Incorporated by reference to Appendix A to Definitive proxy Statement filed with the SEC on March 28, 2002.

****10.3 Amended and Restated Executive Employment Agreement between Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank and Daniel J. Santaniello, dated March 23, 2011.*** Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2011.

****10.4 2012 Omnibus Stock Incentive Plan.*** Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement filed with the SEC on March 30, 2012.

****10.5 2012 Director Stock Incentive Plan.*** Incorporated by reference to Appendix B to Registrant's Definitive Proxy Statement filed with the SEC on March 30, 2012.

****10.6 Employment Agreement between Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank and Salvatore R. DeFrancesco, Jr. dated as of March 17, 2016.*** Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on March 18, 2016.

****10.7 Employment Agreement between Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank and Eugene J. Walsh dated as of March 29, 2017.*** Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on April 4, 2017.

****10.8 Form of Supplemental Executive Retirement Plan*** – Applicable to Daniel J. Santaniello and Salvatore R. DeFrancesco, Jr. Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on April 4, 2017.

****10.9 Form of Supplemental Executive Retirement Plan*** – Applicable to Eugene J. Walsh. Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed with the SEC on April 4, 2017.

***10.10 Form of Split Dollar Life Insurance Agreement** – Applicable to Daniel J. Santaniello, Salvatore R. DeFrancesco, Jr. and Eugene J. Walsh. Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed with the SEC on April 4, 2017.*

10.11 Employment Agreement between Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank and Michael J. Pacyna dated as of March 20, 2019. Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on March 21, 2019.

10.12 Form of Supplemental Executive Retirement Plan for Michael J. Pacyna. Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed with the SEC on March 21, 2019.

10.13 Form of Split Dollar Life Insurance Agreement for Michael J. Pacyna. Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed with the SEC on March 21, 2019.

10.14 2022 Omnibus Stock Incentive Plan. Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement filed with the SEC on March 23, 2022.

10.15 Employment Agreement between Fidelity D & D Bancorp, Inc., The Fidelity Deposit and Discount Bank and Ruth Turkington dated as of April 20, 2023. Incorporated by reference to Exhibit 10.15 to Registrant's Annual Report on Form 10-K filed with the SEC on March 20, 2024.

10.14 Form of Supplemental Executive Retirement Plan for Ruth Turkington. Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed with the SEC on July 2, 2024.

10.15 Form of Split Dollar Life Insurance Agreement for Ruth Turkington. Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed with the SEC on July 2, 2024.

31.1 Rule 13a-14(a) Certification of Principal Executive Officer, filed herewith.

31.2 Rule 13a-14(a) Certification of Principal Financial Officer, filed herewith.

32.1 Certification of Principal Executive Officer *pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.*

32.2 Certification of Principal Financial Officer *pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.*

101 Interactive data files: The following, from Fidelity D&D Bancorp, Inc.'s. Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, is formatted in Inline XBRL (eXtensible Business Reporting Language): Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023; Consolidated Statements of Income for the three and nine months ended September 30, 2024 and 2023; Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2024 and 2023; Consolidated Statements of Changes in Shareholders' Equity for the three and nine months ended September 30, 2024 and 2023; Consolidated Statements of Cash Flows for the nine months ended September 30, 2024 and 2023 and the Notes to the Consolidated Financial Statements. **

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

***** Management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, the interactive data files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Signatures

FIDELITY D & D BANCORP, INC.

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

	Fidelity D & D Bancorp, Inc.
Date: November 12, 2024	/s/ Daniel J. Santaniello Daniel J. Santaniello, President and Chief Executive Officer
	Fidelity D & D Bancorp, Inc.
Date: November 12, 2024	/s/ Salvatore R. DeFrancesco, Jr. Salvatore R. DeFrancesco, Jr., Treasurer and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Daniel J. Santaniello, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fidelity D & D Bancorp, Inc.;

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

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

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

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

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

Date: November 12, 2024

/s/ Daniel J. Santaniello
Daniel J. Santaniello,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Salvatore R. DeFrancesco, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fidelity D & D Bancorp, Inc.;

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

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

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

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

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

Date: November 12, 2024

/s/ Salvatore R. DeFrancesco, Jr.
Salvatore R. DeFrancesco, Jr.,
Treasurer and Chief Financial 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 Quarterly Report on Form 10-Q of Fidelity D & D Bancorp, Inc. (the “Company”) for the period ended September 30, 2024, as filed with the Securities and Exchange Commission (the “Report”), I, Daniel J. Santaniello, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §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. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: November 12, 2024

By: /s/ Daniel J. Santaniello
Daniel J. Santaniello
President and Chief Executive Officer

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 Quarterly Report on Form 10-Q of Fidelity D & D Bancorp, Inc. (the “Company”) for the period ended September 30, 2024, as filed with the Securities and Exchange Commission (the “Report”), I, Salvatore R. DeFrancesco, Jr., Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §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. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: November 12, 2024

By: /s/ Salvatore R. DeFrancesco, Jr.
Salvatore R. DeFrancesco, Jr.,
Treasurer and Chief Financial Officer