

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from _____ to _____
Commission file number 0-28364

Norwood Financial Corp

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-2828306 (I.R.S. employer identification no.)
717 Main Street, Honesdale, Pennsylvania (Address of principal executive offices)	18431 (Zip Code)
Registrant's telephone number, including area code (570) 253-1455	
N/A	
Former name, former address and former fiscal year, if changed since last report.	

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	NWFL	The Nasdaq Stock Market LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 1, 2024
Common stock, par value \$0.10 per share	8,098,466

**NORWOOD FINANCIAL CORP
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2024**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NORWOOD FINANCIAL CORP
 Consolidated Balance Sheets (unaudited)
 (dollars in thousands, except share and per share data)

	March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	\$ 19,519	\$ 28,533
Interest-bearing deposits with banks	92,444	37,587
Cash and cash equivalents	111,963	66,120
Securities available for sale, at fair value (net of allowance for credit losses of \$0)	398,374	406,259
Loans receivable (net of allowance for credit losses of \$18,020 and \$18,968)	1,603,428	1,584,650
Regulatory stock, at cost	6,545	7,318
Bank premises and equipment, net	18,057	17,838
Bank owned life insurance	45,869	46,439
Accrued interest receivable	8,135	8,123
Foreclosed real estate owned	97	97
Deferred tax assets, net	21,642	21,353
Goodwill	29,266	29,266
Other intangibles	202	221
Other assets	16,845	13,395
TOTAL ASSETS	\$ 2,260,423	\$ 2,201,079
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 383,362	\$ 399,545
Interest-bearing	1,455,636	1,395,614
Total deposits	1,838,998	1,795,159
Short-term borrowings	60,055	74,076
Other borrowings	151,179	124,236
Accrued interest payable	11,737	10,510
Other liabilities	17,241	16,028
TOTAL LIABILITIES	2,079,210	2,020,009
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share, authorized: 5,000,000 shares; issued: none	—	—
Common stock, \$0.10 par value per share, authorized: 20,000,000 shares, issued: 2024: 8,310,847 shares, 2023: 8,310,847 shares	831	831
Surplus	97,893	97,700
Retained earnings	137,285	135,284
Treasury stock at cost: 2024: 200,690 shares; 2023: 200,690 shares	(5,397)	(5,397)
Accumulated other comprehensive loss	(49,399)	(47,348)
TOTAL STOCKHOLDERS' EQUITY	181,213	181,070
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,260,423	\$ 2,201,079

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP
 Consolidated Statements of Income (unaudited)
 (dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2024	2023
INTEREST INCOME		
Loans receivable, including fees	\$ 23,681	\$ 19,158
Securities	2,526	2,505
Other	731	48
Total interest income	<u>26,938</u>	<u>21,711</u>
INTEREST EXPENSE		
Deposits	10,110	4,362
Short-term borrowings	336	779
Other borrowings	1,782	477
Total interest expense	<u>12,228</u>	<u>5,618</u>
NET INTEREST INCOME	<u>14,710</u>	<u>16,093</u>
PROVISION FOR (RELEASE OF) CREDIT LOSS EXPENSE	<u>(624)</u>	<u>300</u>
NET INTEREST INCOME AFTER		
PROVISION FOR (RELEASE OF) CREDIT LOSSES	<u>15,334</u>	<u>15,793</u>
OTHER INCOME		
Service charges and fees	1,343	1,313
Income from fiduciary activities	238	212
Net realized gains on sales of securities	—	2
Gains on sales of loans, net	6	—
Earnings and proceeds on bank owned life insurance	268	213
Other	151	172
Total other income	<u>2,006</u>	<u>1,912</u>
OTHER EXPENSES		
Salaries and employee benefits	6,135	5,969
Occupancy, furniture & equipment, net	1,261	1,262
Data processing and related operations	1,022	768
Taxes, other than income	93	161
Professional fees	585	285
Federal Deposit Insurance Corporation insurance	361	200
Foreclosed real estate	21	29
Amortization of intangibles	19	23
Other	2,235	1,739
Total other expenses	<u>11,732</u>	<u>10,436</u>
INCOME BEFORE INCOME TAXES	<u>5,608</u>	<u>7,269</u>
INCOME TAX EXPENSE	<u>1,175</u>	<u>1,487</u>
NET INCOME	<u>\$ 4,433</u>	<u>\$ 5,782</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.55</u>	<u>\$ 0.71</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.55</u>	<u>\$ 0.71</u>

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP
 Consolidated Statements of Comprehensive Income (unaudited)
 (dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 4,433	\$ 5,782
Other comprehensive income (loss)		
Investment securities available for sale:		
Unrealized holding (losses) gains	(2,596)	9,355
Tax effect	545	(1,963)
Reclassification of investment securities losses recognized in net income	—	(2)
Tax effect	—	—
Other comprehensive (loss) income	<u>(2,051)</u>	<u>7,390</u>
Comprehensive Income	<u>\$ 2,382</u>	<u>\$ 13,172</u>

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP
 Consolidated Statements of Changes in Stockholders' Equity (unaudited)
 Three Months Ended March 31, 2024 and 2023
 (dollars in thousands, except share and per share data)

	Common Stock			Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Total
	Shares	Amount	Surplus		Shares	Amount		
Balance, December 31, 2023	8,310,847	\$ 831	\$ 97,700	\$ 135,284	200,690	\$ (5,397)	\$ (47,348)	\$ 181,070
Net Income	-	-	-	4,433	-	-	-	4,433
Other comprehensive loss	-	-	-	-	-	-	(2,051)	(2,051)
Cash dividends declared (\$0.30 per share)	-	-	-	(2,432)	-	-	-	(2,432)
Compensation expense related to restricted stock	-	-	104	-	-	-	-	104
Compensation expense related to stock options	-	-	89	-	-	-	-	89
Balance, March 31, 2024	<u>8,310,847</u>	<u>\$ 831</u>	<u>\$ 97,893</u>	<u>\$ 137,285</u>	<u>200,690</u>	<u>\$ (5,397)</u>	<u>\$ (49,399)</u>	<u>\$ 181,213</u>

	Common Stock			Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Total
	Shares	Amount	Surplus		Shares	Amount		
Balance, December 31, 2022	8,291,401	\$ 829	\$ 96,897	\$ 130,020	124,650	\$ (3,308)	\$ (57,353)	\$ 167,085
Net Income	-	-	-	5,782	-	-	-	5,782
Other comprehensive income	-	-	-	-	-	-	7,390	7,390
Cash dividends declared (\$0.29 per share)	-	-	-	(2,375)	-	-	-	(2,375)
Cumulative effect of adoption of ASU 2016-13	-	-	-	(2,011)	-	-	-	(2,011)
Compensation expense related to restricted stock	-	-	114	-	-	-	-	114
Stock options exercised	-	-	(44)	-	(14,250)	378	-	334
Compensation expense related to stock options	-	-	96	-	-	-	-	96
Balance, March 31, 2023	<u>8,291,401</u>	<u>\$ 829</u>	<u>\$ 97,063</u>	<u>\$ 131,416</u>	<u>110,400</u>	<u>\$ (2,930)</u>	<u>\$ (49,963)</u>	<u>\$ 176,415</u>

NORWOOD FINANCIAL CORP
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 4,433	\$ 5,782
Adjustments to reconcile net income to net cash provided by operating activities:		
(Release of) Provision for credit losses	(624)	300
Depreciation	335	355
Amortization of intangible assets	19	23
Deferred income taxes	256	(579)
Net amortization of securities premiums and discounts	71	233
Net realized gain on sales of securities	—	(2)
Earnings and proceeds on life insurance policies	(268)	(213)
Net amortization of loan fees	143	129
Net gain on sale of loans	(6)	—
Mortgage loans originated for sale	(160)	—
Proceeds from sale of loans originated for sale	166	—
Compensation expense related to stock options	89	96
Compensation expense related to restricted stock	104	114
(Increase) Decrease in accrued interest receivable	(12)	284
Increase in accrued interest payable	1,227	2,050
Other, net	(1,522)	1,533
Net cash provided by operating activities	<u>4,251</u>	<u>10,105</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	—	1,982
Proceeds from maturities and principal reductions on mortgage-backed securities	15,213	7,824
Purchases	(9,996)	—
Purchase of regulatory stock	(1,510)	(3,685)
Redemption of regulatory stock	2,283	3,140
Net increase in loans	(18,172)	(61,828)
Purchase of bank-owned life insurance	—	(2,000)
Purchase of premises and equipment	(554)	(91)
Net cash used in investing activities	<u>(12,736)</u>	<u>(54,658)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	43,839	28,208
Net (decrease) increase in short-term borrowings	(14,021)	15,340
Repayments of other borrowings	(33,057)	(9,811)
Proceeds from other borrowings	60,000	10,000
Stock options exercised	—	334
Cash dividends paid	(2,433)	(2,369)
Net cash provided by financing activities	<u>54,328</u>	<u>41,702</u>
Increase (decrease) in cash and cash equivalents	45,843	(2,851)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	66,120	31,866
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 111,963</u>	<u>\$ 29,015</u>

NORWOOD FINANCIAL CORP
 Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	\$ 11,001	\$ 3,568
Income taxes paid, net of refunds	\$ 257	\$ 189
Supplemental Schedule of Noncash Investing Activities:		
Transfers of loans to foreclosed real estate and repossession of other assets	\$ 473	\$ 454
Dividends payable	\$ 2,432	\$ 2,372

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp (the "Company") and its wholly-owned subsidiary, Wayne Bank (the "Bank") and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., and WTRQ Properties, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the consolidated financial position and results of operations of the Company. The operating results for the three-months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or any other future interim period.

2. Revenue Recognition

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans sold and earnings on bank-owned life insurance are not within the scope of this Topic.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31:

	Three months ended March 31,	
	2024	2023
(dollars in thousands)		
Noninterest Income		
<i>In-scope of Topic 606:</i>		
Service charges on deposit accounts	\$ 112	\$ 103
ATM fees	106	106
Overdraft fees	355	320
Safe deposit box rental	24	26
Loan related service fees	131	153
Debit card fees	526	559
Fiduciary activities	238	212
Commissions on mutual funds and annuities	68	26
Other income	151	172
Noninterest Income (<i>in-scope of Topic 606</i>)	<u>1,711</u>	<u>1,677</u>
<i>Out-of-scope of Topic 606:</i>		
Net realized gains (losses) on sales of securities	—	2
Loan servicing fees	21	20
Gains on sales of loans	6	—
Earnings on and proceeds from bank-owned life insurance	268	213
Noninterest Income (<i>out-of-scope of Topic 606</i>)	<u>295</u>	<u>235</u>
Total Noninterest Income	\$ 2,006	\$ 1,912

3. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the

assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and restricted stock, and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)

	Three Months Ended March 31,	
	2024	2023
Weighted average shares outstanding	8,110	8,176
Less: Unvested restricted shares	(46)	(45)
Basic EPS weighted average shares outstanding	8,064	8,131
Basic EPS weighted average shares outstanding	8,064	8,131
Add: Dilutive effect of stock options and restricted shares	6	17
Diluted EPS weighted average shares outstanding	8,070	8,148

For the three month period ended March 31, 2024, there were 139,850 stock options that were anti-dilutive and thereby excluded from the earnings per share calculations based upon the closing price of the Company's common stock of \$27.21 per share as of March 31, 2024.

For the three month period ended March 31, 2023, there were 110,350 stock options that were anti-dilutive and thereby excluded from the earnings per share calculations based upon the closing price of the Company's common stock of \$29.42 per share as of March 31, 2023.

4. Stock-Based Compensation

During the three-month period ended March 31, 2024, no stock options were granted. As of March 31, 2024, there was \$257,000 of total unrecognized compensation cost related to non-vested options granted in 2023 and 2024 under the 2014 Equity Incentive Plan, which will be fully amortized by December 31, 2023. Compensation costs related to stock options amounted to \$89,000 and \$96,000 during the three-month periods ended March 31, 2024 and 2023, respectively.

A summary of the Company's stock option activity for the three-month period ended March 31, 2024 is as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2023	215,725	\$ 29.81	6.9 Yrs.	\$ 759
Granted	—	-	-	-
Exercised	—	-	-	-
Forfeited	(1,500)	36.02	5.7	-
Outstanding at March 31, 2024	214,225	\$ 29.77	6.6 Yrs.	\$ 188
Exercisable at March 31, 2024	175,725	\$ 29.79	5.8 Yrs.	\$ 188

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The market price was \$27.21 per share as of March 31, 2024 and \$32.91 per share as of December 31, 2023.

A summary of the Company's restricted stock activity for the three-month periods ended March 31, 2024 and 2023 is as follows:

	2024		2023	
	Number of Restricted Stock	Weighted-Average Grant Date Fair Value	Number of Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested, January 1,	45,966	\$ 29.90	44,460	\$ 30.12
Granted	—	—	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Non-vested, March 31,	<u>45,966</u>	<u>\$ 29.90</u>	<u>44,460</u>	<u>\$ 30.12</u>

The expected future compensation expense relating to the 45,966 shares of non-vested restricted stock outstanding as of March 31, 2024 is \$1,253,000. This cost will be recognized over the remaining vesting period of 4.75 years. Compensation costs related to restricted stock amounted to \$104,000 and \$114,000 during the three-month periods ended March 31, 2024 and 2023, respectively.

5. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) (in thousands) by component net of tax for the three months ended March 31, 2024 and 2023:

	Unrealized gains (losses) on available for sale securities (a)
Balance as of December 31, 2023	\$ (47,348)
Other comprehensive loss before reclassification	(2,051)
Amount reclassified from accumulated other comprehensive loss	—
Total other comprehensive loss	(2,051)
Balance as of March 31, 2024	<u>\$ (49,399)</u>

	Unrealized gains (losses) on available for sale securities (a)
Balance as of December 31, 2022	\$ (57,353)
Other comprehensive income before reclassification	7,392
Amount reclassified from accumulated other comprehensive income	(2)
Total other comprehensive income	7,390
Balance as of March 31, 2023	<u>\$ (49,963)</u>

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the three months ended March 31, 2024 and 2023:

Details about other comprehensive income	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) (a) Three months ended March 31,		Affected Line Item in Consolidated Statements of Income
	2024	2023	
Unrealized losses on available for sale securities	\$ —	\$ 2	Net realized (losses) gains on sales of securities
Tax effect	—	—	Income tax expense
	<u>\$ —</u>	<u>\$ 2</u>	

(a) Amounts in parentheses indicate debits to net income

6. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	March 31,	
	2024	2023
Commitments to grant loans	\$ 82,423	\$ 92,602
Unfunded commitments under lines of credit	152,505	166,507
Standby letters of credit	7,126	15,538
	<u>\$ 242,054</u>	<u>\$ 274,647</u>

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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees.

7. **Securities**

The amortized cost, gross unrealized gains and losses, approximate fair value, and allowance for credit losses of securities available for sale were as follows:

	March 31, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(In Thousands)				
Available for Sale:					
U.S. Treasury securities	\$ 47,152	\$ 1	\$ (2,477)	\$ -	\$ 44,676
U.S. Government agencies	22,523	-	(2,695)	-	19,828
States and political subdivisions	151,575	-	(23,308)	-	128,267
Mortgage-backed securities-government sponsored entities	240,280	-	(34,677)	-	205,603
Total debt securities	\$ 461,530	\$ -	\$ (63,157)	\$ -	\$ 398,374

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(In Thousands)				
Available for Sale:					
U.S. Treasury securities	\$ 55,968	\$ 14	\$ (2,382)	\$ -	\$ 53,600
U.S. Government agencies	18,486	-	(2,490)	-	15,996
States and political subdivisions	151,764	-	(22,285)	-	129,479
Mortgage-backed securities-government sponsored entities	240,600	-	(33,416)	-	207,184
Total debt securities	\$ 466,818	\$ 14	\$ (60,573)	\$ -	\$ 406,259

The following tables summarize debt securities available for sale in a loss position for which an allowance for credit losses has not been recorded, aggregated by security type and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	March 31, 2024					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ -	\$ -	\$ 36,770	\$ (2,477)	\$ 36,770	\$ (2,477)
U.S. Government agencies	3,985	(21)	15,843	(2,674)	19,828	(2,695)
States and political subdivisions	1,483	(17)	125,899	(23,291)	127,382	(23,308)
Mortgage-backed securities-government sponsored entities	5,882	(52)	199,721	(34,625)	205,603	(34,677)
Total	\$ 11,350	\$ (90)	\$ 378,233	\$ (63,067)	\$ 389,583	\$ (63,157)

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ -	\$ -	\$ 40,833	\$ (2,382)	\$ 40,833	\$ (2,382)
U.S. Government agencies	-	-	15,996	(2,490)	15,996	(2,490)
States and political subdivisions	2,261	(12)	125,452	(22,273)	127,713	(22,285)
Mortgage-backed securities-government sponsored entities	-	-	207,184	(33,416)	207,184	(33,416)
Total	\$ 2,261	\$ (12)	\$ 389,465	\$ (60,561)	\$ 391,726	\$ (60,573)

At March 31, 2024, the Company had 8 debt securities in an unrealized loss position in the less than twelve months category and 331 debt securities in the twelve months or more category. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. The Company concluded that the decline in the value of these securities was not indicative of a credit loss. The Company did not recognize any credit losses on these available for sale debt securities for the three months ended March 31, 2024 and 2023. The Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

The amortized cost and fair value of debt securities as of March 31, 2024 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost (In Thousands)	Fair Value (In Thousands)
Due in one year or less	\$ 27,123	\$ 26,851
Due after one year through five years	39,706	36,584
Due after five years through ten years	72,692	59,464
Due after ten years	81,729	69,872
	221,250	192,771
Mortgage-backed securities-government sponsored entities	240,280	205,603
	<u>\$ 461,530</u>	<u>\$ 398,374</u>

Gross realized gains and gross realized losses on sales of securities available for sale were as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Gross realized gains	\$ —	\$ 4
Gross realized losses	—	(2)
Net realized gains (losses)	\$ —	\$ 2
Proceeds from sales of securities	—	\$ 1,982

Securities with a carrying value of \$380,112,000 and \$344,204,000 at March 31, 2024 and December 31, 2023, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

8. Loans Receivable and Allowance for Credit Losses

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated (dollars in thousands):

	March 31, 2024		December 31, 2023	
Real Estate Loans:				
Residential	\$ 313,531	19.3 %	\$ 316,546	19.7 %
Commercial	691,755	42.7	675,156	42.1
Agricultural	62,309	3.9	63,859	4.0
Construction	47,409	2.9	51,453	3.2
Commercial loans	204,006	12.6	200,576	12.5
Other agricultural loans	31,439	1.9	31,966	2.0
Consumer loans to individuals	271,231	16.7	264,321	16.5
Total loans	1,621,680	100.0 %	1,603,877	100.0 %
Deferred fees, net	(232)		(259)	
Total loans receivable	1,621,448		1,603,618	
Allowance for credit losses	(18,020)		(18,968)	
Net loans receivable	<u>\$ 1,603,428</u>		<u>\$ 1,584,650</u>	

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in foreclosed real estate owned on the Consolidated Balance Sheets. As of March 31, 2024 and December 31, 2023, foreclosed real estate owned totaled \$97,000 and \$97,000, respectively. During the three months ended March 31, 2024, there were no additions to the foreclosed real estate category. As of March 31, 2024, the Company has initiated formal foreclosure proceedings on 6 properties classified as consumer residential mortgages with an aggregate carrying value of \$285,000.

The following table shows the amount of loans in each category that were individually and collectively evaluated for credit loss:

	Real Estate Loans				Commercial Loans (In thousands)	Other Agricultural	Consumer Loans	Total
	Residential	Commercial	Agricultural	Construction				
March 31, 2024								
Individually evaluated	\$ 487	\$ 2,200	\$ —	\$ —	\$ 111	\$ 185	\$ 752	\$ 3,735
Collectively evaluated	313,044	689,555	62,309	47,409	203,895	31,254	270,479	1,617,945
Total Loans	<u>\$ 313,531</u>	<u>\$ 691,755</u>	<u>\$ 62,309</u>	<u>\$ 47,409</u>	<u>\$ 204,006</u>	<u>\$ 31,439</u>	<u>\$ 271,231</u>	<u>\$ 1,621,680</u>

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Real Estate Loans				Commercial Loans (In thousands)	Other Agricultural	Consumer Loans	Total
	Residential	Commercial	Agricultural	Construction				
December 31, 2023								
Individually evaluated	\$ 432	\$ 2,211	\$ —	\$ —	\$ 4,264	\$ —	\$ 715	\$ 7,622
Collectively evaluated	316,114	672,945	63,859	51,453	196,312	31,966	263,606	1,596,255
Total Loans	<u>\$ 316,546</u>	<u>\$ 675,156</u>	<u>\$ 63,859</u>	<u>\$ 51,453</u>	<u>\$ 200,576</u>	<u>\$ 31,966</u>	<u>\$ 264,321</u>	<u>\$ 1,603,877</u>

Management uses an eight point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as nonperformance, repossession, or death occurs to raise awareness of a possible credit event. The Company's Loan Review Department is responsible for the timely and accurate risk rating of the loans on an ongoing basis. Every credit which must be approved by Loan Committee or the Board of Directors is assigned a risk rating at time of consideration. Loan Review, in conjunction with a third-party consultant, also annually reviews all criticized credits and relationships of \$1,500,000 and over to re-affirm risk ratings.

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of March 31, 2024 and December 31, 2023 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-accrual	Total Past Due and Non-Accrual	Total Loans
March 31, 2024							
Real Estate loans							
Residential	\$ 312,201	\$ 511	\$ 332	\$ -	\$ 487	\$ 1,330	\$ 313,531
Commercial	685,572	3,983	-	-	2,200	6,183	691,755
Agricultural	62,309	-	-	-	-	-	62,309
Construction	47,392	-	17	-	-	17	47,409
Commercial loans	202,679	1,194	22	-	111	1,327	204,006
Other agricultural loans	31,254	-	-	-	185	185	31,439
Consumer loans	269,579	589	311	8	744	1,652	271,231
Total	\$ 1,610,986	\$ 6,277	\$ 682	\$ 8	\$ 3,727	\$ 10,694	\$ 1,621,680

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-accrual	Total Past Due and Non-Accrual	Total Loans
December 31, 2023							
Real Estate loans							
Residential	\$ 315,224	\$ 877	\$ 13	\$ -	\$ 432	\$ 1,322	\$ 316,546
Commercial	666,768	6,177	-	-	2,211	8,388	675,156
Agricultural	63,732	127	-	-	-	127	63,859
Construction	51,435	-	18	-	-	18	51,453
Commercial loans	192,988	3,170	154	-	4,264	7,588	200,576
Other agricultural loans	31,959	7	-	-	-	7	31,966
Consumer loans	262,578	865	163	-	715	1,743	264,321
Total	\$ 1,584,684	\$ 11,223	\$ 348	\$ -	\$ 7,622	\$ 19,193	\$ 1,603,877

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

The following table presents the allowance for credit losses by the classes of the loan portfolio:

(In thousands)	Residential Real Estate	Commercial Real Estate	Agricultural	Construction	Commercial	Other Agricultural	Consumer	Total
Beginning balance, December 31, 2023	\$ 1,351	\$ 11,871	\$ 58	\$ 933	\$ 1,207	\$ 94	\$ 3,454	\$ 18,968
Charge Offs	—	—	—	—	(55)	—	(439)	(494)
Recoveries	42	102	—	—	—	—	27	171
(Release of) Provision for credit losses	(196)	(2,142)	26	(102)	835	74	880	(625)
Ending balance, March 31, 2024	<u>\$ 1,197</u>	<u>\$ 9,831</u>	<u>\$ 84</u>	<u>\$ 831</u>	<u>\$ 1,987</u>	<u>\$ 168</u>	<u>\$ 3,922</u>	<u>\$ 18,020</u>
Ending balance individually evaluated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69	\$ 69
Ending balance collectively evaluated	\$ 1,197	\$ 9,831	\$ 84	\$ 831	\$ 1,987	\$ 168	\$ 3,853	\$ 17,951
(In thousands)	Residential Real Estate	Commercial Real Estate	Agricultural	Construction	Commercial	Other Agricultural	Consumer	Total
Beginning balance, December 31, 2022	\$ 2,833	\$ 8,293	\$ 259	\$ 409	\$ 2,445	\$ 124	\$ 2,636	\$ 16,999
Impact of adopting ASC 326	(1,545)	5,527	(200)	388	(1,156)	3	(551)	2,466
Charge Offs	—	(112)	—	—	(50)	—	(202)	(364)
Recoveries	6	6	—	—	6	—	26	44
Provision for credit losses	65	11	62	(94)	(87)	(45)	388	300
Ending balance, March 31, 2023	<u>\$ 1,359</u>	<u>\$ 13,725</u>	<u>\$ 121</u>	<u>\$ 703</u>	<u>\$ 1,158</u>	<u>\$ 82</u>	<u>\$ 2,297</u>	<u>\$ 19,445</u>
Ending balance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
Ending balance collectively evaluated for impairment	\$ 1,359	\$ 13,725	\$ 121	\$ 703	\$ 1,157	\$ 82	\$ 2,297	\$ 19,444

During the three months ended March 31, 2024, the Company recorded a release of provision for credit losses totaling \$625,000. Factors impacting the release include changes in the cumulative loss rates applied to the respective loan pools due to loss activity being added or subtracted with the passage of time, and variances in Qualitative Factors and Economic Factors.

The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Company's historical loss experience. The Company chose to apply qualitative factors based on "quantitative metrics" which link the quantifiable metrics to historical changes in the qualitative factor categories. The Company also chose to apply economic projections to the model. A select group of economic indicators was utilized which was then correlated to the historical loss experience of the Company and its peers. Based on the correlation results, the economic adjustments are then weighted for relevancy and applied to the individual loan pools.

The following table presents the carrying value of loans on nonaccrual status and loans past due over 90 days still accruing interest (in thousands):

	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
March 31, 2024					
Real Estate loans					
Residential	\$ 487	\$ -	\$ 487	\$ -	\$ 487
Commercial	2,200	-	2,200	-	2,200
Agricultural	-	-	-	-	-
Construction	-	-	-	-	-
Commercial loans	111	-	111	-	111
Other agricultural loans	185	-	185	-	185
Consumer loans	675	69	744	8	752
Total	\$ 3,658	\$ 69	\$ 3,727	\$ 8	\$ 3,735
December 31, 2023					
Real Estate loans					
Residential	\$ 432	\$ -	\$ 432	\$ -	\$ 432
Commercial	2,211	-	2,211	-	2,211
Agricultural	-	-	-	-	-
Construction	-	-	-	-	-
Commercial loans	4,264	-	4,264	-	4,264
Other agricultural loans	-	-	-	-	-
Consumer loans	162	553	715	-	715
Total	\$ 7,069	\$ 553	\$ 7,622	\$ -	\$ 7,622

Based on the most recent analysis performed, the following table presents the recorded investment in non-homogenous pools by internal risk rating systems (in thousands):

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
March 31, 2024									
Commercial real estate									
Risk Rating									
Pass	\$ 11,173	\$ 80,240	\$ 130,611	\$ 114,116	\$ 66,212	\$ 253,363	\$ 13,664	\$ -	\$ 669,379
Special Mention	-	1,300	624	76	1,321	6,134	2,722	-	12,177
Substandard	-	-	2,944	3,141	1,435	2,679	-	-	10,199
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 11,173	\$ 81,540	\$ 134,179	\$ 117,333	\$ 68,968	\$ 262,176	\$ 16,386	\$ -	\$ 691,755
Commercial real estate									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate - Agriculture									
Risk Rating									

Pass	\$ 1,154	\$ 2,628	\$ 12,369	\$ 5,391	\$ 7,502	\$ 31,805	\$ 515	\$ -	\$ 61,364
Special Mention	-	-	-	-	-	795	150	-	945
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 1,154	\$ 2,628	\$ 12,369	\$ 5,391	\$ 7,502	\$ 32,600	\$ 665	\$ -	\$ 62,309

Real Estate - Agriculture

Current period gross charge-offs

\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$
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Commercial loans

Risk Rating

Pass	\$ 16,042	\$ 42,669	\$ 37,276	\$ 23,691	\$ 12,591	\$ 23,602	\$ 39,648	\$ -	\$ 195,519
Special Mention	-	529	1,352	222	110	139	544	-	2,896
Substandard	-	-	2,970	610	47	49	1,915	-	5,591
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 16,042	\$ 43,198	\$ 41,598	\$ 24,523	\$ 12,748	\$ 23,790	\$ 42,107	\$ -	\$ 204,006

Commercial loans

Current period gross charge-offs

\$	- \$	- \$	- \$	- \$	4 \$	51 \$	- \$	- \$	55
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Other agricultural loans

Risk Rating

Pass	\$ 561	\$ 2,592	\$ 4,817	\$ 3,075	\$ 2,778	\$ 5,445	\$ 11,752	\$ -	\$ 31,020
Special Mention	-	-	-	1	-	153	80	-	234
Substandard	-	-	-	-	185	-	-	-	185
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 561	\$ 2,592	\$ 4,817	\$ 3,076	\$ 2,963	\$ 5,598	\$ 11,832	\$ -	\$ 31,439

Other agricultural loans

Current period gross charge-offs

\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$
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Total

Risk Rating

Pass	\$ 28,930	\$ 128,129	\$ 185,073	\$ 146,273	\$ 89,083	\$ 314,215	\$ 65,579	\$ -	\$ 957,282
Special Mention	-	1,829	1,976	299	1,431	7,221	3,496	-	16,252
Substandard	-	-	5,914	3,751	1,667	2,728	1,915	-	15,975
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 28,930	\$ 129,958	\$ 192,963	\$ 150,323	\$ 92,181	\$ 324,164	\$ 70,990	\$ -	\$ 989,509

December 31, 2023	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Commercial real estate									
Risk Rating									
Pass	\$ 78,496	\$ 131,948	\$ 112,102	\$ 65,949	\$ 72,480	\$ 186,116	\$ 13,332	- \$	\$ 660,423
Special Mention	1,300	411	243	1,331	-	6,157	1,579	-	11,021
Substandard	-	-	-	1,444	36	2,232	-	-	3,712
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 79,796	\$ 132,359	\$ 112,345	\$ 68,724	\$ 72,516	\$ 194,505	\$ 14,911	- \$	\$ 675,156
Commercial real estate									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ 112	\$ 42	\$ -	\$ -	\$ 154
Real Estate - Agriculture									
Risk Rating									
Pass	\$ 2,635	\$ 12,509	\$ 5,433	\$ 7,606	\$ 7,746	\$ 24,654	\$ 522	- \$	\$ 61,105
Special Mention	-	-	-	-	399	490	150	-	1,039
Substandard	-	508	-	1,018	-	189	-	-	1,715
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 2,635	\$ 13,017	\$ 5,433	\$ 8,624	\$ 8,145	\$ 25,333	\$ 672	- \$	\$ 63,859
Real Estate - Agriculture									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial loans									
Risk Rating									
Pass	\$ 48,571	\$ 41,863	\$ 24,443	\$ 13,752	\$ 9,914	\$ 15,384	\$ 38,644	- \$	\$ 192,571
Special Mention	553	1,412	257	134	20	188	768	-	3,332
Substandard	-	126	342	656	-	49	3,500	-	4,673
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 49,124	\$ 43,401	\$ 25,042	\$ 14,542	\$ 9,934	\$ 15,621	\$ 42,912	- \$	\$ 200,576
Commercial loans									
Current period gross charge-offs	\$ -	\$ 32	\$ 24	\$ 4,856	\$ -	\$ 41	\$ -	\$ -	\$ 4,953
Other agricultural loans									
Risk Rating									
Pass	\$ 2,670	\$ 5,286	\$ 3,251	\$ 2,912	\$ 2,373	\$ 3,836	\$ 11,091	- \$	\$ 31,419
Special Mention	-	-	2	185	86	-	155	-	428
Substandard	-	-	-	-	119	-	-	-	119
Doubtful	-	-	-	-	-	-	-	-	-
Total	\$ 2,670	\$ 5,286	\$ 3,253	\$ 3,097	\$ 2,578	\$ 3,836	\$ 11,246	- \$	\$ 31,966

**Other agricultural
loans**

Current period gross charge-offs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Total														
Risk Rating														
Pass	\$ 132,372	\$ 191,606	\$ 145,229	\$ 90,219	\$ 92,513	\$ 229,990	\$ 63,589	\$ -	\$ 945,518					
Special Mention	1,853	1,823	502	1,650	505	6,835	2,652	-	15,820					
Substandard	-	634	342	3,118	155	2,470	3,500	-	10,219					
Doubtful	-	-	-	-	-	-	-	-	-					
Total	\$ 134,225	\$ 194,063	\$ 146,073	\$ 94,987	\$ 93,173	\$ 239,295	\$ 69,741	\$ -	\$ 971,557					

The Company monitors the credit risk profile by payment activity for residential and consumer loan classes. Loans past due over 90 days and loans on nonaccrual status are considered nonperforming. Nonperforming loans are reviewed monthly. The following table presents the carrying value of residential and consumer loans based on payment activity (in thousands):

March 31, 2024	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Residential real estate									
Payment Performance									
Performing	\$ 1,177	\$ 28,172	\$ 62,759	\$ 56,633	\$ 34,427	\$ 100,804	\$ 29,072	\$ -	\$ 313,044
Nonperforming	-	-	-	-	-	468	19	-	487
Total	\$ 1,177	\$ 28,172	\$ 62,759	\$ 56,633	\$ 34,427	\$ 101,272	\$ 29,091	\$ -	\$ 313,531
Residential real estate									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction									
Payment Performance									
Performing	\$ 4,881	\$ 27,558	\$ 11,894	\$ 474	\$ -	\$ 292	\$ 2,310	\$ -	\$ 47,409
Nonperforming	-	-	-	-	-	-	-	-	-
Total	\$ 4,881	\$ 27,558	\$ 11,894	\$ 474	\$ -	\$ 292	\$ 2,310	\$ -	\$ 47,409
Construction									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans to individuals									
Payment Performance									
Performing	\$ 27,817	\$ 119,375	\$ 70,081	\$ 22,256	\$ 12,685	\$ 17,370	\$ 895	\$ -	\$ 270,479
Nonperforming	-	129	400	154	21	48	-	-	752
Total	\$ 27,817	\$ 119,504	\$ 70,481	\$ 22,410	\$ 12,706	\$ 17,418	\$ 895	\$ -	\$ 271,231
Consumer loans to individuals									
Current period gross charge-offs	\$ -	\$ 67	\$ 277	\$ 72	\$ 23	\$ -	\$ -	\$ -	\$ 439
Total									
Payment Performance									
Performing	\$ 33,875	\$ 175,105	\$ 144,734	\$ 79,363	\$ 47,112	\$ 118,466	\$ 32,277	\$ -	\$ 630,932
Nonperforming	-	129	400	154	21	516	19	-	1,239
Total	\$ 33,875	\$ 175,234	\$ 145,134	\$ 79,517	\$ 47,133	\$ 118,982	\$ 32,296	\$ -	\$ 632,171

December 31, 2023	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Residential real estate									
Payment Performance									
Performing	\$ 27,446	\$ 62,178	\$ 57,691	\$ 35,357	\$ 16,406	\$ 87,951	\$ 29,085	\$ -	\$ 316,114
Nonperforming	\$ -	\$ -	\$ -	\$ -	\$ 58	\$ 324	\$ 50	\$ -	\$ 432
Total	\$ 27,446	\$ 62,178	\$ 57,691	\$ 35,357	\$ 16,464	\$ 88,275	\$ 29,135	\$ -	\$ 316,546
Residential real estate									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34	\$ -	\$ 34
Construction									
Payment Performance									
Performing	\$ 23,500	\$ 14,906	\$ 6,791	\$ 1,599	\$ 1,829	\$ 624	\$ 2,204	\$ -	\$ 51,453
Nonperforming	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 23,500	\$ 14,906	\$ 6,791	\$ 1,599	\$ 1,829	\$ 624	\$ 2,204	\$ -	\$ 51,453
Construction									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans to individuals									
Payment Performance									
Performing	\$ 127,243	\$ 76,339	\$ 24,584	\$ 14,343	\$ 10,217	\$ 9,942	\$ 938	\$ -	\$ 263,606
Nonperforming	\$ 111	\$ 404	\$ 118	\$ 31	\$ 41	\$ 10	\$ -	\$ -	\$ 715
Total	\$ 127,354	\$ 76,743	\$ 24,702	\$ 14,374	\$ 10,258	\$ 9,952	\$ 938	\$ -	\$ 264,321
Consumer loans to individuals									
Current period gross charge-offs	\$ 45	\$ 710	\$ 200	\$ 35	\$ 45	\$ 28	\$ 4	\$ -	\$ 1,067
Total									
Payment Performance									
Performing	\$ 178,189	\$ 153,423	\$ 89,066	\$ 51,299	\$ 28,452	\$ 98,517	\$ 32,227	\$ -	\$ 631,173
Nonperforming	\$ 111	\$ 404	\$ 118	\$ 31	\$ 99	\$ 334	\$ 50	\$ -	\$ 1,147
Total	\$ 178,300	\$ 153,827	\$ 89,184	\$ 51,330	\$ 28,551	\$ 98,851	\$ 32,277	\$ -	\$ 632,320

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Bank 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 principal forgiveness, may be granted. During the three months ended March 31, 2024, there were 3 modifications made to borrowers experiencing financial difficulty. The following table presents modifications made to borrowers experiencing financial difficulty:

Principal Payment Deferral

	Amortized Cost Basis at March 31, 2024	% of Total Class of Financing Receivable	Financial Effect
Commercial real estate loans	\$ 6,509	0.94 %	Deferred Principal for 6 months
Commercial loans	3,243	1.59	Deferred Principal for 6 months
Consumer Loans	<u>30</u>	0.01	Deferred Principal for 6 months
Total	\$ <u>9,782</u>		

Principal Payment Adjustment

	Amortized Cost Basis at March 31, 2024	% of Total Class of Financing Receivable	Financial Effect
Commercial real estate loans	\$ 399	0.06 %	Reduced principal payment plus interest due monthly with balloon payment to be made in August 2024
Total	\$ <u>399</u>		

Combination - Term Extension and Interest Rate Adjustment

	Amortized Cost Basis at March 31, 2024	% of Total Class of Financing Receivable	Financial Effect
Residential real estate loans	\$ 42	0.01 %	New loan was granted which decreased term from 240 months to 180 months and rate was increased from 4.75% to 9.25%
Total	\$ <u>42</u>		

The Company's primary business activity as of March 31, 2024 was with customers located in northeastern Pennsylvania and the New York counties of Delaware, Sullivan, Ontario, Otsego and Yates. Accordingly, the Company has extended credit primarily to commercial entities and individuals in this area whose ability to repay their loans is influenced by the region's economy.

As of March 31, 2024, the Company considered its concentration of credit risk to be acceptable. The highest concentrations are in commercial rentals with \$148.9 million of loans outstanding, or 9.2% of total loans outstanding, and residential rentals with loans outstanding of \$113.5 million, or 7.0% of loans outstanding. For the three months ended March 31, 2024, the Company recognized charge offs of \$0 on commercial rentals and \$0 on residential rentals. The following table presents additional details regarding the company's largest loan concentrations by industry as of March 31, 2024 (in thousands):

Account Type	Outstanding as of March 31, 2024	Percent of Loans as of March 31, 2024
Commercial Rentals	\$ 148,899	9.18 %
Residential Rentals	113,474	7.00
Hotels/Motels	92,138	5.68
Builders/Contractors	39,878	2.46
Dairy Cattle/Milk Product	47,430	2.93
Fuel/Gas Stations	46,552	2.87
Government Support	26,914	1.66
Mobile Home Park	27,861	1.72
Wineries	23,863	1.47
Camps	25,647	1.58
Resorts	20,154	1.24

9. Operating Leases

The Company leases seven office locations and one back-office facility under operating leases. Several assumptions and judgments were made when applying the requirements of Topic 842 to the Company's existing lease commitments, including the allocation of consideration in the contracts between lease and nonlease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments.

The Company has elected to account for the variable nonlease components, such as common area maintenance charges, utilities, real estate taxes, and insurance, separately from the lease component. Such variable nonlease components are reported in net occupancy expense on the Consolidated Statements of Income when paid. These variable nonlease components were excluded from the calculation of the present value of the remaining lease payments, therefore, they are not included in other assets and other liabilities on the Consolidated Balance Sheets. The lease cost associated with the operating leases for the three-month periods ended March 31, 2024 and 2023, amounted to \$181,000 and \$176,000 respectively.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh ("Federal Home Loan Bank") advance rate corresponding to the remaining maturity of the lease. The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at March 31, 2024.

	Operating
Weighted-average remaining term	9.4
Weighted-average discount rate	2.58%

The following table presents the undiscounted cash flows due related to operating leases as of March 31, 2024, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets:

Undiscounted cash flows due (in thousands)	Operating
2024	\$ 500
2025	680
2026	524
2027	401
2028	401
2029 and thereafter	2,013
Total undiscounted cash flows	4,519
Discount on cash flows	637
Total lease liabilities	\$ 3,882

10. Fair Value of Assets and Liabilities

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with fair value accounting guidance, the Company measures, records, and reports various types of assets and liabilities at fair value on either a recurring or non-recurring basis in the Consolidated Financial Statements. Those assets and liabilities are presented in the sections entitled "Assets and Liabilities Required to be Measured and Reported at Fair Value on a Recurring Basis" and "Assets and Liabilities Required to be Measured and Reported at Fair Value on a Non-Recurring Basis". There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in Note 16 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Assets and Liabilities Required to be Measured and Reported at Fair Value on a Recurring Basis

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2024 and December 31, 2023 are as follows:

Description	Total	Fair Value Measurement Using Reporting Date				
		Level 1	(In thousands)		Level 2	Level 3
March 31, 2024						
ASSETS						
Available for Sale:						
U.S. Treasury securities	\$ 44,676	\$ -		\$ 44,676	\$ -	
U.S. Government agencies	19,828	-		19,828	-	
States and political subdivisions	128,267	-		128,267	-	
Mortgage-backed securities-government sponsored entities	205,603	-		205,603	-	
Interest rate derivatives	1,336	-		1,336	-	
LIABILITIES						
Interest rate derivatives	1,336	-		1,336	-	
December 31, 2023						
ASSETS						
Available for Sale:						
U.S. Treasury securities	\$ 53,600	\$ -		\$ 53,600	\$ -	
U.S. Government agencies	15,996	-		15,996	-	
States and political subdivisions	129,479	-		129,479	-	
Mortgage-backed securities-government sponsored entities	207,184	-		207,184	-	
Interest rate derivatives	1,225	-		1,225	-	
LIABILITIES						
Interest rate derivatives	1,225	-		1,225	-	

Securities:

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

Interest Rate Swaps:

The fair value of interest rate swaps is based upon the present value of the expected future cash flows using the Secured Overnight Financing Rate ("SOFR") swap curve, the basis for the underlying interest rate. To price interest rate swaps, cash flows are first projected for each payment date using the fixed rate for the fixed side of the swap and the forward rates for the floating side of the swap. These swap cash flows are then discounted to time zero using SOFR zero-coupon interest rates. The sum of the present value of both legs is the fair market value of the interest rate swap. These valuations have been derived from our third party vendor's proprietary models rather than actual market quotations. The proprietary models are based upon financial principles and assumptions that we believe to be reasonable.

Assets and Liabilities Required to be Measured and Reported at Fair Value on a Non-Recurring Basis

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2024 and December 31, 2023 are as follows:

(In thousands)	Fair Value Measurement Using Reporting Date				
	Total	Level 1	Level 2	Level 3	
March 31, 2024					
Individually analyzed loans held for investment	\$ 3,666	\$ -	\$ -	\$ 3,666	
Foreclosed Real Estate Owned	97	-	-		97
December 31, 2023					
Individually analyzed loans held for investment	\$ 7,487	\$ -	\$ -	\$ 7,487	
Foreclosed Real Estate Owned	97	-	-		97

Individually analyzed loans held for investment:

The Company measures impairment 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, or discounted cash flows based upon the lowest level of input that is significant to the fair value measurements.

As of March 31, 2024, the fair value investment in individually analyzed loans totaled \$3,666,000, which included 41 loan relationships with a carrying value of \$3,332,000 that did not require a specific allowance for credit loss since either the estimated realizable value of the collateral or the discounted cash flows exceeded the recorded investment in the loan. As of March 31, 2024, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of \$471,000. As of March 31, 2024, the fair value investment in individually analyzed loans included 17 loan relationships with a carrying value of \$403,000 that required a valuation allowance of \$69,000 since the estimated realizable value of the collateral did not support the recorded investment in the loan. As of March 31, 2024, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of \$0 over the life of the loan.

As of December 31, 2023, the fair value investment in individually analyzed loans totaled \$7,487,000, which included 33 loan relationships with a carrying value of \$7,069,000 that did not require a specific allowance for credit loss since either the estimated realizable value of the collateral or the discounted cash flows exceeded the recorded investment in the loan. As of December 31, 2023, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of \$5,277,000 over the life of the loans. As of December 31, 2023, the fair value investment in individually analyzed loans included 21 loan relationships with a carrying value of \$553,000 that required a valuation allowance of \$135,000 since the estimated realizable value of the collateral did not support the recorded investment in the loan. As of December 31, 2023, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of \$0 over the life of the loan.

Foreclosed real estate owned:

Real estate properties acquired through loan foreclosures, or by deed in lieu of loan foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

(dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
March 31, 2024				
Individually analyzed loans held for investment	\$ 3,666	Appraisal of collateral(1)	Appraisal adjustments(2)	10.0%-10.0% (10.0%)
Foreclosed real estate owned	\$ 97	Appraisal of collateral(1)	Liquidation Expenses(2)	10.0%-10.0% (10.0%)
December 31, 2023				
Individually analyzed loans held for investment	\$ 7,487	Appraisal of collateral(1)	Appraisal adjustments(2)	0%-10.0% (2.68%)
Foreclosed real estate owned	\$ 97	Appraisal of collateral(1)	Liquidation Expenses(2)	16.67%-37.20% (28.07%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less any associated allowance.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Assets and Liabilities Not Required to be Measured or Reported at Fair Value

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2024 and December 31, 2023.

Loans receivable (carried at cost):

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

Mortgage servicing rights (generally carried at cost)

The Company utilizes a third party provider to estimate the fair value of certain loan servicing rights. Fair value for the purpose of this measurement is defined as the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced liquidation.

Deposit liabilities (carried at cost):

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

Other borrowings (carried at cost):

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

The estimated fair values of the Bank's financial instruments not required to be measured or reported at fair value were as follows at March 31, 2024 and December 31, 2023. (In thousands)

	Fair Value Measurements at March 31, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents (1)	\$ 111,963	\$ 111,963	\$ 111,963	\$ -	\$ -
Loans receivable, net	1,603,428	1,535,585	-	-	1,535,585
Mortgage servicing rights	172	506	-	-	506
Regulatory stock (1)	6,545	6,545	6,545	-	-
Bank owned life insurance (1)	45,869	45,869	45,869	-	-
Accrued interest receivable (1)	8,135	8,135	8,135	-	-
Financial liabilities:					
Deposits	1,838,998	1,832,638	1,080,822	-	751,816
Short-term borrowings (1)	60,055	60,055	60,055	-	-
Other borrowings	151,179	150,963	-	-	150,963
Accrued interest payable (1)	11,737	11,737	11,737	-	-
Off-balance sheet financial instruments:					
Commitments to extend credit and outstanding letters of credit	-	-	-	-	-

	Fair Value Measurements at December 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents (1)	\$ 66,120	\$ 66,120	\$ 66,120	\$ -	\$ -
Loans receivable, net	1,584,650	1,521,667	-	-	1,521,667
Mortgage servicing rights	188	506	-	-	506
Regulatory stock (1)	7,318	7,318	7,318	-	-
Bank owned life insurance (1)	46,439	46,439	46,439	-	-
Accrued interest receivable (1)	8,123	8,123	8,123	-	-
Financial liabilities:					
Deposits	1,795,159	1,800,104	1,086,050	-	714,054
Short-term borrowings (1)	74,076	74,076	74,076	-	-
Other borrowings	124,236	124,058	-	-	124,058
Accrued interest payable (1)	10,510	10,510	10,510	-	-
Off-balance sheet financial instruments:					
Commitments to extend credit and outstanding letters of credit	-	-	-	-	-

(1) This financial instrument is carried at cost, which approximates the fair value of the instrument.

11. Interest Rate Swaps

The Company enters into interest rate swaps that allow our commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate into a fixed-rate. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are not marked to market through earnings. 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. At March 31, 2024 and December 31, 2023, based upon the swap contract values, the company pledged cash in the amount of \$350,000 as collateral for its interest rate swaps with a third-party financial institution. The fair value of the swaps as of March 31, 2024 and December 31, 2023 was \$1,336,000 and \$1,225,000, respectively.

Summary information regarding these derivatives is presented below

	(Amounts in thousands)				Fair Value	
	Notional Amount			Interest Rate Received	March 31, 2024	December 31, 2023
	March 31, 2024	December 31, 2023	Interest Rate Paid			
Customer interest rate swap						
Maturing November, 2030	\$ 6,051	\$ 6,145	Term SOFR + Margin	Fixed	\$ 814	\$ 746
Maturing December, 2030	<u>3,965</u>	<u>4,032</u>	Term SOFR + Margin	Fixed	<u>522</u>	<u>479</u>
Total	<u><u>\$ 10,016</u></u>	<u><u>\$ 10,177</u></u>			<u><u>\$ 1,336</u></u>	<u><u>\$ 1,225</u></u>
Third party interest rate swap						
Maturing November, 2030	\$ 6,051	\$ 6,145	Fixed	Term SOFR + Margin	\$ 814	\$ 746
Maturing December, 2030	<u>3,965</u>	<u>4,032</u>	Fixed	Term SOFR + Margin	<u>522</u>	<u>479</u>
Total	<u><u>\$ 10,016</u></u>	<u><u>\$ 10,177</u></u>			<u><u>\$ 1,336</u></u>	<u><u>\$ 1,225</u></u>

The following table presents the fair values of derivative instruments in the Consolidated Balance Sheet.

	(Amounts in thousands)							
	Assets		Liabilities					
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value				
March 31, 2024								
Interest rate derivatives	Other assets	\$ 1,336	Other liabilities	\$ 1,336				
December 31, 2023								
Interest rate derivatives	Other assets	1,225	Other liabilities	1,225				

12. New and Recently Adopted Accounting Pronouncements

In March 2023, the FASB issued ASU No. 2023-02, "*Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)*". The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in Accounting Standards Codification (ASC) 323-740-25-1. While the ASU does not significantly alter the existing eligibility criteria, it does provide clarifications to address existing interpretive issues. It also prescribes specific information reporting entities must disclose about tax credit investments each period. This ASU is effective for reporting periods beginning after December 15, 2023, for public business entities, or January 1, 2024 for the Company. The Company does not expect the adoption of this ASU to have a material impact on the Company's financial statements.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q may include certain forward-looking statements based on current management expectations. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may", "will", "believe", "expect", "estimate", "anticipate", "continue", or similar terms or variations on those terms, or the negative of those terms. The actual results of the Company could differ materially from those management expectations. This includes statements regarding general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities and failure to integrate or profitably operate acquired businesses. Additional potential factors include changes in interest rates, the rate of inflation, deposit flows, cost of funds, demand for loan products and financial services, competition and changes in the quality or composition of loan and investment portfolios of the Company. Other factors that could cause future results to vary from current management expectations include changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, instability in the banking system, and the potential for a recessionary economy. Further description of the risks and uncertainties to the business are included in the Company's other filings with the Securities and Exchange Commission.

The majority of the assets and liabilities of a financial institution are monetary in nature, and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an impact on the Company, particularly with respect to the growth of total assets and noninterest expenses, which tend to rise during periods of general inflation. Risks also exist due to supply and demand imbalances, employment shortages, the interest rate environment, and geopolitical tensions. It is reasonably foreseeable that estimates made in the financial statements could be materially and adversely impacted in the near term as a result of these conditions, including expected credit losses on loans and the fair value of financial instruments that are carried at fair value.

Our operations are subject to risks and uncertainties surrounding our exposure to changes in the interest rate environment. Earnings and liquidity depend to a great extent on our interest rates. Interest rates are highly sensitive to many factors beyond our control, including competition, general economic conditions, geopolitical tensions and monetary and fiscal policies of various governmental and regulatory authorities, including the Federal Reserve. Conditions such as inflation, deflation, recession, unemployment and other factors beyond our control may also affect interest rates. The nature and timing of any changes in interest rates or general economic conditions and their effect on us cannot be controlled and are difficult to predict. If the rate of interest we pay on our interest-bearing liabilities increases more than the rate of interest we receive on our interest-earning assets, our net interest income, and therefore our earnings, could contract and be materially adversely affected. Our earnings could also be materially adversely affected if the rates on interest-earning assets fall more quickly than those on our interest-bearing liabilities. Changes in interest rates could also create competitive pressures, which could impact our liquidity position.

Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

Note 2 to the Company's consolidated financial statements for the fiscal year ended December 31, 2023 (included in Item 8 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2023) lists significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company and its results of operations.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, and the determination of goodwill impairment. Please refer to the discussion of the allowance for credit losses calculation under "Changes in Financial Condition - Loans" below.

In connection with the acquisition of North Penn in 2011, we recorded goodwill in the amount of \$9.7 million, representing the excess of amounts paid over the fair value of the net assets of the institution acquired at the date of acquisition. In connection with the acquisition of Delaware in 2016, we recorded goodwill in the amount of \$1.6 million, representing the excess of amounts paid over the fair value of the net assets of the institution acquired at the date of acquisition. In connection with the acquisition of UpState New York Bancorp, Inc. in July 2020, we recorded goodwill in the amount of \$17.9 million, representing the excess of amounts paid over

the fair value of the net assets of the institution acquired at the date of acquisition. Goodwill is tested annually and deemed impaired when the carrying value of goodwill exceeds its implied fair value.

Changes in Financial Condition

General

Total assets as of March 31, 2024 were \$2.260 billion compared to \$2.201 billion as of December 31, 2023. The increase was due primarily to a \$45.8 million increase in cash and cash equivalents and an \$18.0 million increase in loans outstanding.

Securities

The fair value of securities available for sale as of March 31, 2024 was \$398.4 million compared to \$406.3 million as of December 31, 2023. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. The Company concluded that the decrease in the value of these securities was not indicative of a credit loss. The Company did not recognize any credit losses on these available for sale debt securities for the three months ended March 31, 2024, or the three months ended March 31, 2023. The Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

Loans

Loans receivable totaled \$1.603 billion at March 31, 2024 compared to \$1.585 billion as of December 31, 2023. The \$18.0 million increase in loans receivable during the three months ended March 31, 2024, was due primarily to a \$16.6 million increase in commercial real estate loans, a \$3.4 million increase in commercial loans and a \$6.9 million increase in consumer loans, partially offset by a \$9.1 million decrease in residential, agricultural and construction loans, net.

The allowance for credit losses totaled \$18,020,000 as of March 31, 2024, and represented 1.11% of total loans outstanding, compared to \$18,968,000, or 1.18% of total loans outstanding, at December 31, 2023. The Company had net charge-offs for the three months ended March 31, 2024 of \$323,000, compared to \$320,000 in the corresponding period in 2023. The Company's management assesses the adequacy of the allowance for credit losses on a quarterly basis. Based on management's best judgement, the qualitative factors are applied to the final adjusted loss rate each quarter. Management considers the allowance for credit losses adequate at March 31, 2024 based on the Company's criteria. However, there can be no assurance that the allowance for credit losses will be adequate to cover significant losses, if any, which might be incurred in the future.

As of March 31, 2024, non-performing loans totaled \$3,735,000 or 0.23% of total loans compared to \$7,622,000, or 0.48%, of total loans at December 31, 2023. The decrease in non-performing loans as of March 31, 2024, is due primarily to a \$4,153,000 decrease in commercial loans, which included the pay off of a \$4,150,000 commercial relationship. At March 31, 2024, non-performing assets totaled \$3,832,000, or 0.17%, of total assets, compared to \$7,719,000, or 0.35%, of total assets at December 31, 2023.

The following table sets forth information regarding non-performing loans and foreclosed real estate at the dates indicated:

(dollars in thousands)	March 31, 2024	December 31, 2023
Loans accounted for on a non-accrual basis:		
Real Estate		
Residential	\$ 487	\$ 432
Commercial	2,200	2,211
Agricultural	—	—
Construction	—	—
Commercial and financial loans	111	4,264
Other agricultural loans	185	—
Consumer loans to individuals	744	715
Total non-accrual loans	3,727	7,622
Accruing loans which are contractually past due 90 days or more	8	—
Total non-performing loans	3,735	7,622
Foreclosed real estate	97	97
Total non-performing assets	<u>\$ 3,832</u>	<u>\$ 7,719</u>
Allowance for credit losses	\$ 18,020	\$ 18,968
Coverage of non-performing loans	482%	249%
Non-performing loans to total loans	0.23%	0.48%
Non-performing loans to total assets	0.17%	0.35%
Non-performing assets to total assets	0.17%	0.35%

Deposits

During the three-months ended March 31, 2024, total deposits increased \$43.8 million due primarily to a \$49.0 million increase in certificates of deposit. The increase in certificates of deposit was due to a migration from lower yielding demand deposits into higher yielding time deposits, as well as growth from to deposit promotions. All other deposit categories decreased \$5.2 million, net.

The following table sets forth deposit balances as of the dates indicated:

(dollars in thousands)	March 31, 2024	December 31, 2023
Non-interest bearing demand	\$ 383,362	\$ 399,545
Interest-bearing demand	271,480	253,133
Money market deposit accounts	203,486	206,928
Savings	222,494	226,444
Time deposits <\$250,000	483,698	439,610
Time deposits >\$250,000	274,478	269,499
Total	<u>\$ 1,838,998</u>	<u>\$ 1,795,159</u>

Borrowings

Short-term borrowings decreased \$14.0 million to \$60.1 million at March 31, 2024, compared to \$74.1 million at December 31, 2023, due primarily to an decrease in overnight borrowings.

Other borrowings as of March 31, 2024, were \$151.2 million compared to \$124.2 million as of December 31, 2023. Federal Reserve Bank borrowings increased \$30.0 million during the three-months ended March 31, 2024, contributing to the increase. Federal Home Loan Bank borrowings decreased \$3.1 million during the period.

Other borrowings consisted of the following:

(dollars in thousands)	March 31, 2024	December 31, 2023
Notes with the FHLB:		
Fixed rate borrowing due April 2025 at 4.26%	\$ 20,000	\$ 20,000
Amortizing fixed rate borrowing due September 2025 at 5.67%	3,802	4,406
Fixed rate borrowing due April 2026 at 4.04%	20,000	20,000
Amortizing fixed rate borrowing due May 2027 at 4.37%	24,180	25,950
Amortizing fixed rate borrowing due July 2028 at 4.70%	13,197	13,880
Fixed rate borrowing due July 2028 at 4.49%	10,000	10,000
	<u>\$ 91,179</u>	<u>\$ 94,236</u>
Notes with the Federal Reserve Bank		
Fixed rate borrowing due March 2024 at 4.83%	\$ —	\$ 10,000
Fixed rate borrowing due September 2024 at 5.55%	—	20,000
Fixed rate borrowing due January 2025 at 4.81%	40,000	—
Fixed rate borrowing due January 2025 at 4.76%	20,000	—
	<u>\$ 60,000</u>	<u>\$ 30,000</u>

Stockholders' Equity and Capital Ratios

As of March 31, 2024, total stockholders' equity was \$181.2 million, compared to \$181.1 million as of December 31, 2023. Total stockholders' equity increased \$4.4 million due to net income, offset partially by \$2.4 million of dividends declared and a decrease of \$ 2.0 million in the fair value of securities in the available-for-sale portfolio, net of tax. The decrease in fair value of securities is the result of a change in interest rates and spreads, which may impact the value of the securities. Because of interest rate volatility, the Company's accumulated other comprehensive income could materially fluctuate for each interim and year-end period.

Regulatory Capital Requirements. The Federal Reserve has adopted regulatory capital rules pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act ("BHCA"). The Federal Reserve's capital rules are similar to those imposed on the Bank by the FDIC. The Federal Reserve's Small Bank Holding Company Policy Statement, however, exempts from the regulatory capital requirements bank holding companies with less than \$3.0 billion in consolidated assets that are not engaged in significant non-banking or off-balance sheet activities and that do not have a material amount of debt or equity securities registered with the SEC. As long as their bank subsidiaries are well capitalized, such bank holding companies need only maintain a pro forma debt to equity ratio of less than 1.0 in order to pay dividends and repurchase stock and to be eligible for expedited treatment on applications.

A comparison of the Company's consolidated regulatory capital ratios is as follows:

	March 31, 2024	December 31, 2023
Tier 1 Capital (To average assets)	8.95%	9.00%
Tier 1 Capital (To risk-weighted assets)	11.96%	11.99%
Common Equity Tier 1 Capital (To risk-weighted assets)	11.96%	11.99%
Total Capital (To risk-weighted assets)	12.99%	13.06%

The Bank is required to comply with applicable capital adequacy rules adopted by the FDIC and other federal bank regulatory agencies (the "Basel III Capital Rules"). The Basel III Capital Rules apply to all depository institutions as well as to all top-tier bank and savings and loan holding companies that are not subject to the Federal Reserve Small Bank Holding Company Policy Statement.

Under the Basel III Capital Rules, banks are required to meet four minimum capital standards: (1) a "Tier 1" or "core" capital leverage ratio equal to at least 4% of total adjusted assets; (2) a common equity Tier 1 capital ratio equal to 4.5% of risk-weighted assets; (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets; and (4) a total capital ratio equal to 8% of total risk-weighted assets. Common equity Tier 1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless the bank has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other

intangible assets. Tier 1 or core capital is defined as common equity Tier 1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. Risk weightings range from 0% for cash to 100% for property acquired through foreclosure, commercial loans, and certain other assets to 150% for exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

In addition to the above minimum requirements, the Basel III Capital Rules require banks and covered financial institution holding companies to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement effectively raises the minimum required risk-based capital ratios to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital on a fully phased-in basis. The Company and the Bank were in compliance with all applicable regulatory capital requirements as of March 31, 2024.

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

The Company adopted the transition guidance applied these effects to regulatory capital in the first quarter of 2023 upon adoption of CECL.

Liquidity

As of March 31, 2024, the Company had cash and cash equivalents of \$112.0 million in the form of cash, due from banks and short-term deposits with other institutions. In addition, the Company had total securities available for sale of \$398.4 million which could be used for liquidity needs. Total liquidity of \$510.3 million as of March 31, 2024, represents 22.6% of total assets, compared to \$472.4 million and 21.5% of total assets as of December 31, 2023. The Company also monitors other liquidity measures, all of which were within the Company's policy guidelines as of March 31, 2024 and December 31, 2023. Based upon these measures, the Company believes its liquidity is adequate.

Capital Resources

The Company has a line of credit commitment from Atlantic Community Bankers Bank for \$7,000,000 which expires June 30, 2024. There were no borrowings under this line as of March 31, 2024 and December 31, 2023.

The Company has a line of credit commitment available which has no stated expiration date from PNC Bank for \$10,000,000. There were no borrowings under this line as of March 31, 2024 and December 31, 2023.

The Bank's maximum borrowing capacity with the Federal Home Loan Bank was approximately \$675,110,000 as of March 31, 2024, of which \$91,179,000 was outstanding in the form of borrowings as of March 31, 2024. As of December 31, 2023, the maximum borrowing capacity was \$682,417,000, of which \$114,236,000 of borrowings was outstanding as of December 31, 2023. Additionally, as of March 31, 2024, the Bank had secured Letters of Credit from the Federal Home Loan Bank in the amount of \$171,075,000 as collateral for specific municipal deposits. These Letters of Credit reduce the availability under the maximum borrowing capacity. As of December 31, 2023, there was \$136,650,000 outstanding in the form of Letters of Credit. Advances and Letters of Credit from the Federal Home Loan Bank are secured by qualifying assets of the Bank.

Non-GAAP Financial Measures

This report contains or references fully taxable-equivalent (fte) interest income and net interest income, which are non-GAAP financial measures. Interest income (fte) and net interest income (fte) are derived from GAAP interest income and net interest income using an assumed tax rate of 21%. We believe the presentation of interest income (fte) and net interest income (fte) ensures comparability of interest income and net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income (fte) and Net interest income (fte) is reconciled to GAAP interest income and net interest income on

page 38. Fully taxable equivalent interest income and net interest income is also reflected in the table on page 39. Although the Company believes that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP measures.

Results of Operations

NORWOOD FINANCIAL CORP

Consolidated Average Balance Sheets with Resultant Interest and Rates

(Tax-Equivalent Basis,
dollars in thousands)

	Three Months Ended March 31,					
	2024			2023		
	Average Balance (2)	Interest (1)	Average Rate (3)	Average Balance (2)	Interest (1)	Average Rate (3)
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 53,930	\$ 730	5.41%	\$ 4,213	\$ 48	4.56%
Securities available for sale:						
Taxable	402,275	2,147	2.13	421,132	2,115	2.01
Tax-exempt (1)	69,880	481	2.75	71,719	494	2.76
Total securities available for sale (1)	472,155	2,628	2.23	492,851	2,609	2.12
Loans receivable (1) (4) (5)	1,612,106	23,775	5.90	1,507,095	19,236	5.11
Total interest-earning assets	2,138,191	27,133	5.08	2,004,159	21,893	4.37
Non-interest earning assets:						
Cash and due from banks	24,593			25,980		
Allowance for credit losses	(19,096)			(19,009)		
Other assets	73,692			64,601		
Total non-interest earning assets	79,189			71,572		
Total Assets	\$ 2,217,380			\$ 2,075,731		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand and money market	\$ 449,825	\$ 2,311	2.06	\$ 500,405	\$ 959	0.77
Savings	235,545	250	0.42	275,387	105	0.15
Time	725,199	7,549	4.16	545,804	3,298	2.42
Total interest-bearing deposits	1,410,569	10,110	2.87	1,321,596	4,362	1.32
Short-term borrowings	57,997	336	2.32	101,793	779	3.06
Other borrowings	155,498	1,782	4.58	37,542	477	5.08
Total interest-bearing liabilities	1,624,064	12,228	3.01	1,460,931	5,618	1.54
Non-interest bearing liabilities:						
Demand deposits	386,066			423,221		
Other liabilities	25,162			19,245		
Total non-interest bearing liabilities	411,228			442,466		
Stockholders' equity	182,088			172,334		
Total Liabilities and Stockholders' Equity	\$ 2,217,380			\$ 2,075,731		
Net interest income/spread (tax equivalent basis)		14,905	2.06%		16,275	2.83%
Tax-equivalent basis adjustment		(195)			(182)	
Net interest income		\$ 14,710			\$ 16,093	
Net interest margin (tax equivalent basis)			2.79%			3.25%

(1) Interest and yields are presented on a tax-equivalent basis using a marginal tax rate of 21%.

(2) Average balances have been calculated based on daily balances.

(3) Annualized

(4) Loan balances include non-accrual loans and are net of unearned income.

(5) Loan yields include the effect of amortization of deferred fees, net of costs.

Rate/Volume Analysis. The following table shows the fully taxable equivalent effect of changes in volumes and rates on interest income and interest expense.

	Increase/(Decrease) Three months ended March 31, 2024 Compared to Three months ended March 31, 2023			Variance due to	
	Volume	Rate		Net	
(dollars in thousands)					
Interest-earning assets:					
Interest-bearing deposits with banks	\$ 583	\$ 99		\$ 682	
Securities available for sale:					
Taxable	(96)	128		32	
Tax-exempt securities	(11)	(2)		(13)	
Total securities	(107)	126		19	
Loans receivable	1,486	3,053		4,539	
Total interest-earning assets	1,962	3,278		5,240	
Interest-bearing liabilities:					
Interest-bearing demand and money market	(235)	1,587		1,352	
Savings	(36)	181		145	
Time	1,580	2,671		4,251	
Total interest-bearing deposits	1,309	4,439		5,748	
Short-term borrowings	(312)	(131)		(443)	
Other borrowings	1,480	(175)		1,305	
Total interest-bearing liabilities	2,477	4,133		6,610	
Net interest income (tax-equivalent basis)	\$ (515)	\$ (855)		\$ (1,370)	

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

Comparison of Operating Results for the Three Months Ended March 31, 2024 to March 31, 2023

General

For the three months ended March 31, 2024, net income totaled \$4,433,000 compared to net income of \$5,782,000 in the three months ended March 31, 2023. The decrease in net income for the three months ended March 31, 2024 was due primarily to a \$1,383,000 decrease in net interest income and an increase of \$1,296,000 in operating expenses. Earnings per share for the three-months ended March 31, 2024 were \$0.55 per share for basic shares and fully diluted shares, compared to \$0.71 per share for basic shares and for fully diluted shares for the three months ended March 31, 2023. The resulting annualized return on average assets and annualized return on average equity for the three months ended March 31, 2024 were 0.80% and 9.79%, respectively, compared to 1.13% and 13.61%, respectively, for the same period in 2023.

The following table sets forth changes in net income:

(dollars in thousands)	Three months ended	
	March 31, 2024 to March 31, 2023	
Net income three months ended March 31, 2023	\$	5,782
Change due to:		
Net interest income		(1,383)
Provision for credit losses		924
Net gains on sales of securities and loans		4
Service charges and fees		30
Earnings and proceeds on bank-owned life insurance		55
Other income		5
Salaries and employee benefits		(166)
Occupancy, furniture and equipment		1
All other expenses		(1,131)
Income tax expense		312
Net income three months ended March 31, 2024	\$	4,433

Net Interest Income

Net interest income on a fully taxable equivalent basis (fte) for the three months ended March 31, 2024 totaled \$14,905,000 which was \$1,370,000 lower than the comparable period in 2023. The decrease in net interest income was due primarily to a \$6,610,000 increase in total interest expense, which was partially offset by a \$5,240,000 increase in total interest income (fte). The (fte) net interest spread and net interest margin were 2.06% and 2.79%, respectively, for the three months ended March 31, 2024 compared to 2.83% and 3.25%, respectively, for the same period in 2023. See "Non-GAAP Financial Measures" described above on page 36.

For the three-months ended March 31, 2024, interest income (fte) totaled \$27,133,000, with a yield on average earning assets of 5.08% compared to \$21,893,000 and 4.37% for the three months ended March 31, 2023. Average loans increased \$105.0 million during the three-months ended March 31, 2024, over the comparable period of 2023, while average securities decreased \$20.7 million compared to the three months ended March 31, 2023. Average earning assets totaled \$2.138 billion for the three months ended March 31, 2024, an increase of \$134.0 million, over average earning assets for the same period in 2023. See "Non-GAAP Financial Measures" described above on page 36.

Interest expense for the three months ended March 31, 2024 totaled \$12,228,000, at an average cost of 3.01%, compared to \$5,618,000, at an average cost of 1.54% for the same period in 2023. The increase in interest expense during the three-months ended March 31, 2024 reflects the overall higher level of market interest rates. During the three months ended March 31, 2024, the average cost of time deposits, which is the most significant component of funding costs, increased 1.74% compared to the same three-month period of last year, while short-term borrowing costs decreased 0.74% and other borrowing costs decreased 0.50% compared to the same three-month period of 2023.

Provision for Credit Losses

The Company had a release of credit losses of \$624,000 during the three months ended March 31, 2024, compared to a \$300,000 provision for credit losses for the three months ended March 31, 2023. The primary reason for the decreased provision for credit losses is a result of a decrease in qualitative factors applied due to a decrease in loan growth, and a decrease in the level of non-

performing loans. The Company makes provisions for or releases of credit losses in an amount necessary to maintain the allowance for credit losses at an acceptable level under the current expected credit loss methodology analysis. The Company recorded a net charge-off of \$323,000 for the quarter ended March 31, 2024, compared to a net charge-off of \$320,000 for the similar period in 2023. At March 31, 2024, the allowance for credit losses related to loans receivable was 1.11% of loans receivable. Additionally, at March 31, 2024, the allowance for credit losses related to loans receivable represented 482% of non-performing loans.

Other Income

Other income totaled \$2,006,000 for the three months ended March 31, 2024, compared to \$1,912,000 for the same period in 2023. The increase was due primarily to an increased level of service charges and fees, along with an increase in earnings and proceeds on bank-owned life insurance. All other categories of other income increased \$9,000, net, during the three months ended March 31, 2024.

Other Expense

Other expense for the three months ended March 31, 2024 totaled \$11,732,000, which was \$1,296,000, or 12.4%, higher than the same period of 2023, due primarily to a \$166,000 increase in salaries and employee benefits, a \$300,000 increase in professional fees, a \$161,000 increase in FDIC insurance, and a \$254,000 increase in data processing expenses during the three months ended March 31, 2024. All other categories of other expense increased \$415,000, net, during the three months ended March 31, 2024.

Income Tax Expense

Income tax expense totaled \$1,175,000 for an effective tax rate of 21.0% for the three months ended March 31, 2024 compared to \$1,487,000 for an effective tax rate of 20.5% for the three months ended March 31, 2023.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Interest rate sensitivity and the repricing characteristics of assets and liabilities are managed by the Asset and Liability Management Committee (ALCO). The principal objective of ALCO is to maximize net interest income within acceptable levels of risk, which are established by policy. Interest rate risk is monitored and managed by using financial modeling techniques to measure the impact of changes in interest rates.

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates and the relationship of different interest rates. To manage the impact of the rate changes, the balance sheet must be structured so that repricing opportunities exist for both assets and liabilities at approximately the same time intervals. The Company uses net interest simulation to assist in interest rate risk management. The process includes simulating various interest rate environments and their impact on net interest income. As of March 31, 2024, the level of net interest income at risk in a rising or declining 200 basis point change in interest rates was within the Company's policy limits. The Company's policy allows for a decrease of no more than 10% of net interest income for a ± 200 basis point shift in interest rates.

Imbalance in repricing opportunities at a given point in time reflects interest-sensitivity gaps measured as the difference between rate-sensitive assets (RSA) and rate-sensitive liabilities (RSL). These are static gap measurements that do not take into account any future activity, and as such are principally used as early indications of potential interest rate exposures over specific intervals.

As of March 31, 2024, the Company had a positive 90-day interest sensitivity gap of \$57.4 million or 2.5% of total assets, compared to a \$43.6 million negative interest sensitivity gap, or 1.98% of total assets, as of December 31, 2023. At March 31, 2024, rate-sensitive assets repricing within 90 days increased \$68.7 million since December 31, 2023 due to a \$54.9 million increase in interest-bearing deposits with banks, and a \$15.6 million increase in loans repricing. Rate-sensitive liabilities repricing within 90 days decreased \$32.3 million since year end due primarily to a \$44.0 million decrease in non-maturity deposits and \$26.5 million decrease in borrowings. A positive gap means that rate-sensitive assets are greater than rate-sensitive liabilities at the time interval. This would indicate that in a rising rate environment, the yield of interest-earning assets in the 90-day time frame could increase faster than the cost of interest-bearing liabilities. The repricing intervals are managed by ALCO strategies, including adjusting the average life of the investment portfolio, pricing of deposit liabilities to attract longer term time deposits, loan pricing to encourage variable rate products and evaluation of loan sales of long-term fixed rate mortgages.

Certain interest-bearing deposits with no stated maturity dates are included in the interest-sensitivity table below. The balances allocated to the respective time periods represent an estimate of the total outstanding balance that has the potential to migrate through withdrawal or transfer to time deposits, thereby impacting the interest-sensitivity position of the Company. The estimates were derived from an independently prepared non-maturity deposit study for the Bank which addressed the various deposit types and their pricing sensitivity to movements in market interest rates. The process involved analyzing correlations between product rates and market rates over a ten-year period. The Company believes the study provides pertinent data to support the assumptions used in modeling non-maturity deposits.

March 31, 2024
Rate Sensitivity Table
(dollars in thousands)

	3 Months	3-12 Months	1 to 3 Years	Over 3 Years	Total
Federal funds sold and interest-bearing deposits	\$ 92,444	\$ —	\$ —	\$ —	\$ 92,444
Securities	14,358	41,566	65,224	277,226	398,374
Loans Receivable	253,245	257,244	612,805	498,154	1,621,448
Total RSA	\$ 360,047	\$ 298,810	\$ 678,029	\$ 775,380	\$ 2,112,266
Non-maturity deposits	\$ 60,372	\$ 181,116	\$ 472,967	\$ 366,367	\$ 1,080,822
Time Deposits	224,197	428,859	99,392	5,728	758,176
Borrowings	18,104	114,543	62,880	15,707	211,234
Total RSL	\$ 302,673	\$ 724,518	\$ 635,239	\$ 387,802	\$ 2,050,232
Interest Sensitivity Gap	\$ 57,374	\$ (425,708)	\$ 42,790	\$ 387,578	\$ 62,034
Cumulative Gap	57,374	(368,334)	(325,544)	62,034	
RSA/RSL-cumulative	118.96%	64.14%	80.42%	103.03%	
<hr/>					
December 31, 2023					
Interest Sensitivity Gap	\$ (43,601)	\$ (255,745)	\$ 134,302	\$ 618,582	\$ 453,538
Cumulative Gap	(43,601)	(299,346)	(165,044)	453,538	
RSA/RSL-cumulative	86.9%	66.3%	88.1%	128.5%	

Item 4. Controls and Procedures

The Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the "Commission") rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 20, 2024, the Company was notified of a Complaint (the "Complaint") entitled Jan Werkmeister vs. Wayne Bank, filed on February 12, 2024 in the United States District Court for the Middle District of Pennsylvania seeking class action status. The Plaintiff is seeking monetary recovery and other relief on behalf of themselves and one or more putative classes of other individuals similarly situated. The Complaint arises out of a widely reported data security incident involving MOVEit, a file sharing software used globally by government agencies, enterprise corporations, and financial institutions. In October of 2023, Wayne Bank was notified by its third-party information service provider of a cyber-incident that involved unauthorized access to Wayne Bank customer information in one of the vendor's file transfer applications. The incident involved vulnerabilities discovered in MOVEit Transfer, a file transfer software used by the Bank's vendor to support services provided by the vendor to Wayne Bank and its related institutions. MOVEit is a commonly used secure Managed File Transfer software, which supports file transfer activities used by thousands of organizations around the world, including government agencies and major financial firms. The vulnerability discovered in MOVEit did not involve any of Wayne Bank's internal systems and did not impact the Bank's ability to service its customers.

In December 2023, in accordance with applicable laws and regulations, the Bank began notifying its affected customers of the cyber incident and arranged for its affected customers to receive free identity monitoring service for two years. The identity monitoring services included credit monitoring, fraud consultation, and identity theft restoration.

The Company believes it has meritorious defenses to the claims asserted in the Complaint and intends to vigorously defend itself against such Complaint. While we continue to measure the impact of this cyber-incident, including certain remediation expenses and other potential liabilities, we do not currently believe this incident will have a material adverse effect on our business, operations, or financial results.

Other than the foregoing, neither the Company nor its subsidiaries are involved in any other pending legal proceedings, other than routine legal matters occurring in the ordinary course of business, which in the aggregate involve amounts which are believed by management to be immaterial to the consolidated financial condition or results of operations of the Company.

Item 1A. Risk Factors

Not applicable.

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

- (a) Unregistered Sales of Equity Securities. Not Applicable.
- (b) Use of Proceeds. Not Applicable
- (c) Issuer Purchases of Equity Securities. Set forth below is information regarding the Company's stock repurchases during the quarter ended March 31, 2024.

Issuer Purchases of Equity Securities				
	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs *	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 – 31, 2024	-	\$ -	-	274,094
February 1 – 29, 2024	-	-	-	274,094
March 1 – 31, 2024	-	-	-	274,094
Total	-	\$ -	-	274,094

*On March 30, 2021, the Company announced a share repurchase program for up to approximately 5% of the Company's outstanding shares of common stock, or approximately 400,000 shares, in the open market, in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. On March 19, 2008,

the Company announced its intention to repurchase up to 5% of its outstanding common stock (approximately 226,050 split-adjusted shares) in the open market. On November 10, 2011, the Company announced that it had increased the number of shares which may be repurchased under its open-market program to 5% of its currently outstanding shares, or approximately 270,600 split-adjusted shares. Both share repurchase programs are currently in effect.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

No.	Description
3(i)	Amended and Restated Articles of Incorporation of Norwood Financial Corp ⁽¹⁾
3(ii)	Bylaws of Norwood Financial Corp ⁽²⁾
4.0	Specimen Stock Certificate of Norwood Financial Corp ⁽³⁾
10.1	Norwood Financial Corp 2024 Equity Incentive Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Sarbanes Oxley Act of 2002
101	The following materials from the Company's Form 10-Q for the quarter ended March 31, 2024, formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Incorporated by reference into this document from Exhibit 3(i) to the Company's Form 10-K filed with the Commission on March 13, 2020.

(2) Incorporated by reference from Exhibit 3(ii) to the Company's Annual Report on Form 10-K filed with the Commission on March 14, 2024.

(3) Incorporated herein by reference into this document from the identically numbered Exhibits to the Company's Form 10, Registration Statement initially filed in paper with the Commission on April 29, 1996, Registration No. 0-28364.

Signatures

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

NORWOOD FINANCIAL CORP

Date: May 9, 2024

By: /s/ James O. Donnelly
James O. Donnelly
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2024

/s/ William S. Lance
William S. Lance
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

**NORWOOD FINANCIAL CORP
2024 EQUITY INCENTIVE PLAN**

1. PURPOSE OF PLAN.

The purpose of this 2024 Equity Incentive Plan is to provide incentives and rewards to officers, employees and directors who contribute to the long-term success and growth of Norwood Financial Corp and its Affiliates, and to assist these entities in attracting and retaining directors, officers and other selected employees with the necessary experience and ability required to aid the Company in increasing the long-term value of the Company for the benefit of its shareholders.

2. DEFINITIONS.

“Affiliate” means any **“parent corporation”** or **“subsidiary corporation”** of the Company, as such terms are defined in Sections 424(e) and 424(f) of the Code, respectively. The term Affiliate shall include the Bank.

“Award” means any Restricted Stock Award and/or Stock Option, as set forth in Section 6 of the Plan.

“Bank” means Wayne Bank, Honesdale, Pennsylvania, and any successors thereto.

“Beneficiary” means the person or persons designated by the Participant to receive any benefits payable under the Plan in the event of such Participant’s death. Such person or persons shall be designated in writing by the Participant and addressed to the Company or the Committee on forms provided for this purpose by the Committee, and delivered to the Company or the Committee. Such Beneficiary designation may be changed from time to time by similar written notice to the Committee. A Participant’s last will and testament or any codicil thereto shall not constitute a subsequent written designation of a Beneficiary. In the absence of such written designation, the Beneficiary shall be the Participant’s surviving spouse, if any, or if none, the Participant’s estate.

“Board of Directors” or **“Board”** means the board of directors of the Company.

“Cause” means the personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profits, intentional failure to perform stated duties, willful violation of a material provision of any law, rule or regulation (other than traffic violations and similar offenses), or a material violation of a final cease-and-desist order or any other action which results in a substantial financial loss to the Company or its Affiliates.

“Change in Control” shall be deemed to occur on the earliest of any of the following events:

(i) Merger: The Bank or the Company merges into or consolidates with another corporation, or merges another corporation into the Company or the Bank, and as a result, less than a majority of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were stockholders of the Company or the Bank or is otherwise eligible to vote for the election of directors for the Company or the Bank immediately before the merger or consolidation;

(ii) Acquisition of Significant Share Ownership: There is filed or required to be filed a report on Schedule 13D or another form or schedule (other than Schedule 13G) required under Section 13(d) or 14(d) of the Securities Exchange Act of 1934, if the schedule discloses that the filing person or persons acting in concert has or have become the beneficial owner of 25% or more of a class of the Bank's or the Company's voting securities, but this clause (ii) shall not apply to beneficial ownership of such voting securities held in a fiduciary capacity by an entity of which the Company directly or indirectly beneficially owns fifty percent (50%) or more of its outstanding voting securities; The term "person" refers to an individual or a corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization or any other form of entity not specifically listed herein;

(iii) Change in Board Composition: Individuals who constitute the Company's or the Bank's Board of Directors on the Effective Date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Effective Date whose election was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board shall be considered, for purposes of this clause (iii), as though he or she was a member of the Incumbent Board; or

(iv) Sale of Assets: The Bank and/or the Company sells to a third party all or substantially all of its, or their, assets.

The definition of Change in Control shall be construed to be consistent with the requirements of Section 409A of the Code and Treasury Regulations promulgated thereunder.

"Code" means the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"Committee" means the Board of Directors of the Company or the administrative committee designated, pursuant to Section 3 of the Plan, to administer the Plan.

"Common Stock" or **"Shares"** means shares of common stock, par value 0.10, of the Company.

"Company" means Norwood Financial Corp and any successor entity or any future parent corporation of the Bank.

"Director" means a person serving as a member of the Board of Directors of the Company, or the board of directors of an Affiliate, or any successor thereto from time to time.

"Director Emeritus" means a person serving as a director emeritus, advisory director, consulting director or other similar position as may be appointed by the Board of Directors of the Company or the Bank from time to time.

"Director Retainer Shares" means Shares of Common Stock awarded in accordance with Section 6.1(c) of the Plan.

"Disability" means (i) with respect to Incentive Stock Options, the "permanent and total disability" of the Employee as such term is defined at Section 22(e)(3) of the Code; and (ii) with respect to other Awards, a condition of incapacity of a Participant which renders that person unable to engage in the performance of his or her duties by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

“Effective Date” shall mean the date of stockholder approval of the Plan by the stockholders of the Company.

“Eligible Participant” means an Employee or Outside Director who may receive an Award under the Plan.

“Employee” means any person employed by the Company or an Affiliate. Directors who are also employed by the Company or an Affiliate shall be considered Employees under the Plan.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exercise Price” means the price at which an individual may purchase a share of Common Stock pursuant to a Stock Option awarded in accordance with the Plan.

“Fair Market Value” means (i) for a security traded on a national securities exchange, including the NASDAQ Global Market, the last reported sales price reported on such date or, if the Common Stock was not traded on such date, on the immediately preceding day on which the Common Stock was traded thereon or the last previous date on which a sale is reported; (ii) if the Shares are not traded on a national securities exchange, but are traded on the over-the-counter market, if sales prices are not regularly reported for the Shares for the trading day referred to in clause (i), and if bid and asked prices for the Shares are regularly reported, the mean between the bid and the asked price for the Shares at the close of trading in the over-the-counter market on the applicable date, or if the applicable date is not a trading day, on the trading day immediately preceding the applicable date; and (iii) in the absence of such markets for the Shares, the Fair Market Value shall be determined in good faith by the Committee.

“Grant Date” means the date an Award is made by the Committee.

“Incentive Stock Option” means a Stock Option granted under the Plan, which is intended to meet the requirements of Section 422 of the Code.

“Non-Statutory Stock Option” means a Stock Option granted to an individual under the Plan that is not intended to be and is not identified as an Incentive Stock Option, or a Stock Option granted under the Plan that is intended to be and is identified as an Incentive Stock Option, but that does not meet the requirements of Section 422 of the Code.

“Option” or “Stock Option” means an Incentive Stock Option or a Non-Statutory Stock Option, as applicable.

“Outside Director” means a member of the Board of Directors of the Company who is not also an Employee.

“Parent” means any present or future corporation which would be a “parent corporation” of the Bank or the Company as defined in Sections 424(e) and (g) of the Code.

“Participant” means an individual who is granted an Award pursuant to the terms of the Plan; provided, however, upon the death of a Participant, the term “Participant” shall also refer to a Beneficiary designated in accordance with the Plan.

“Plan” means this Norwood Financial Corp 2024 Equity Incentive Plan.

“Restricted Stock Award” means an Award of shares of restricted stock granted to a Participant pursuant to Section 6.1(b) of the Plan.

“Trust” shall mean any grantor trust established by the Company for purposes of administration of the Plan.

“Trustee” or “Trustee Committee” means that person(s) or entity appointed by the Committee to hold legal title to the Plan assets under any Trust for the purposes set forth herein.

3. ADMINISTRATION.

- (a) **Committee.** The Committee shall administer the Plan. The Committee shall consist of no fewer than two Directors appointed by the Board of Directors, each of whom is (i) a “Non-Employee Director” within the meaning of Rule 16b-3 of the Exchange Act; and (ii) an “independent director” for purpose of the rules of the principal U.S. national securities exchange on which the Shares are traded, to the extent required by such rules. The Committee members shall be appointed by the Board of Directors and serve at the pleasure of the Board of Directors. A majority of the entire Committee shall constitute a quorum and the action of a majority of the members present at any meeting at which a quorum is present shall be deemed the action of the Committee. In no event may the Committee revoke outstanding Awards without the consent of the Participant. All decisions, determinations and interpretations of the Committee shall be final and conclusive on all persons affected thereby.
- (b) **Authority of Committee.** Subject to paragraph (a) of Section 3, the Committee shall:
 - (i) select the individuals who are to receive Awards under the Plan;
 - (ii) determine the type, number, vesting requirements, acceleration of vesting and other features and conditions of Awards made under the Plan;
 - (iii) interpret the Plan and Award Agreements (as defined below); and
 - (iv) make all other decisions and determinations that may be required or as the Committee deems necessary or advisable related to the operation of the Plan and Awards made thereunder.

The Committee may adopt such rules or guidelines as it deems appropriate to implement and administer the Plan.

- (c) **Awards.** Each Award granted under the Plan shall be evidenced by a written agreement (an “Award Agreement”). Each Award Agreement shall constitute a binding contract between the Company or an Affiliate and the Participant, and every Participant, upon acceptance of an Award Agreement, shall be bound by the terms and restrictions of the Plan and the Award Agreement. The terms of each Award Agreement shall be set in accordance with the Plan, but each Award Agreement may also include any additional provisions and restrictions determined by the Committee. In particular, and at a minimum, the Committee shall set forth in each Award Agreement:
 - (i) the type of Award granted;
 - (ii) the Exercise Price for any Option;
 - (iii) the number of shares or rights subject to the Award;
 - (iv) the expiration date of the Award;

- (v) the manner, time and rate (cumulative or otherwise) of exercise or vesting of the Award; and
- (vi) the restrictions, if any, placed on the Award, or upon shares which may be issued upon the exercise or vesting of the Award.

The Chairman of the Committee, the President of the Company and such other directors and officers as shall be designated by the Committee are hereby authorized to execute Award Agreements on behalf of the Company or an Affiliate and to cause them to be delivered to the Participants granted Awards under the Plan.

- (d) **Six-Month Holding Period.** Subject to vesting requirements, if applicable, except in the event of death or Disability of the Participant or a Change in Control of the Company, a minimum of six months must elapse between the Grant Date of an Option and the date of the sale of the Common Stock received through the exercise of such Option.

4. ELIGIBILITY.

Subject to the terms of the Plan, Employees and Outside Directors, as the Committee shall determine from time to time, shall be eligible to receive Awards in accordance with the Plan.

5. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS.

5.1 Shares Available. Subject to the provisions of Section 8, the Common Stock that may be delivered under this Plan shall be shares of the Company's authorized but unissued Common Stock, shares of Common Stock purchased in the open-market by the Company or any Trust established for purposes of administration of the Plan and any shares of Common Stock held as treasury shares.

5.2 Share Limits. The maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under this Plan (the "Share Limit") equals 500,000 shares. The following limits also apply with respect to Awards granted under this Plan:

- (a) The maximum number of shares of Common Stock that may be delivered pursuant to the exercise of Stock Options granted under this Plan is 500,000 Shares, reduced by the number of Plan shares issued as Restricted Stock Awards and Director Retainer Shares.
- (b) The maximum number of shares of Common Stock that may be delivered pursuant to Restricted Stock Awards granted under this Plan is 125,000 Shares.
- (c) The maximum number of shares of Common Stock that may be delivered pursuant to Director Retainer Shares granted under this Plan in accordance with Section 6.1(c) is 50,000 Shares.

5.3 Awards Settled in Cash, Reissue of Awards and Shares. To the extent that an Award is settled in cash or a form other than shares of Common Stock, or if shares of Common Stock are withheld from an Award for tax purposes, then the Shares that would have been delivered had there been no such cash or other settlement shall be counted against the shares available for issuance under this Plan. Shares that are subject to or underlie Awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent Awards under this Plan.

5.4 Reservation of Shares; No Fractional Shares; Minimum Issue. The Company shall at all times reserve a number of shares of Common Stock sufficient to cover the Company's obligations and contingent obligations to deliver shares with respect to Awards then outstanding under this Plan. No fractional shares shall be delivered under this Plan. The Committee may pay cash in lieu of any fractional shares in settlement of Awards under this Plan. No fewer than 100 shares may be purchased on exercise of any Stock Option unless the total number purchased or exercised is the total number at the time available for purchase or exercise by the Participant.

6. AWARDS.

6.1 Except as otherwise detailed herein, the Committee shall determine the type or types of Award(s) to be made to each Eligible Participant. Awards may be granted singularly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company. The types of Awards that may be granted under this Plan are Stock Options and Restricted Stock Awards, as follows:

(a) Stock Options.

The Committee may, subject to the limitations of this Plan and the availability of shares of Common Stock reserved but not previously awarded under the Plan, grant Stock Options to Employees and Outside Directors, subject to terms and conditions as it may determine, to the extent that such terms and conditions are consistent with the following provisions:

- (i) **Exercise Price.** The Exercise Price of Stock Options shall not be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the Grant Date.
- (ii) **Terms of Options.** In no event may an individual exercise an Option, in whole or in part, more than ten (10) years from the Grant Date.
- (iii) **Non-Transferability.** Unless otherwise determined by the Committee, an individual may not transfer, assign, hypothecate, or dispose of an Option in any manner, other than by will or the laws of intestate succession. The Committee may, however, in its sole discretion, permit the transfer or assignment of a Non-Statutory Stock Option, if it determines that the transfer or assignment is for valid estate planning purposes and is permitted under the Code and Rule 16b-3 of the Exchange Act. For purposes of this Section 6.1(a), a transfer for valid estate planning purposes includes, but is not limited to, transfers:
 - (1) to a revocable *inter vivos* trust, as to which an individual is both settlor and trustee;
 - (2) for no consideration to: (a) any member of the individual's Immediate Family; (b) a trust solely for the benefit of members of the individual's Immediate Family; (c) any partnership whose only partners are members of the individual's Immediate Family; or (d) any limited liability corporation or other corporate entity whose only members or equity owners are members of the individual's Immediate Family.

For purposes of this Section 6.1, "Immediate Family" includes, but is not necessarily limited to, a Participant's parents, grandparents, spouse, children, grandchildren, siblings (including half brothers and sisters), and individuals who are family members by adoption. Nothing contained in this Section 6.1 shall be construed to require the Committee to give its approval to any transfer or assignment of any Non-Statutory Stock Option or portion thereof, and approval to transfer or assign any Non-Statutory Stock Option or portion thereof does not mean that such approval will be given with respect to any other Non-Statutory Stock Option or portion thereof. The transferee or assignee of any Non-Statutory Stock Option shall be subject to all of the terms and conditions applicable to such Non-Statutory Stock Option immediately prior to the transfer or assignment and shall be subject to any other conditions prescribed by the Committee with respect to such Non-Statutory Stock Option.

(iv) **Special Rules for Incentive Stock Options.** Notwithstanding the foregoing provisions, the following rules shall further apply to grants of Incentive Stock Options:

- (1) If an Employee owns or is treated as owning, for purposes of Section 422 of the Code, Common Stock representing more than ten percent (10%) of the total combined voting securities of the Company at the time the Committee grants the Incentive Stock Option (a "10% Owner"), the Exercise Price shall not be less than one hundred and ten percent (110%) of the Fair Market Value of the Common Stock on the Grant Date.
- (2) An Incentive Stock Option granted to a 10% Owner shall not be exercisable more than five (5) years from the Grant Date.
- (3) To the extent the aggregate Fair Market Value of shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Employee during any calendar year, under the Plan or any other stock option plan of the Company or an Affiliate, exceeds \$100,000, or such higher value as may be permitted under Section 422 of the Code, such Incentive Stock Options in excess of the \$100,000 limit shall be treated as Non-Statutory Stock Options. Fair Market Value shall be determined as of the Grant Date for each Incentive Stock Option.
- (4) Each Award Agreement for an Incentive Stock Option shall require the individual to notify the Committee within ten (10) days of any disposition of shares of Common Stock under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions).
- (5) Incentive Stock Options may only be awarded to an Employee of the Company or its Affiliates.

(v) **Option Awards to Outside Directors.** Subject to the limitations of Section 6.4(a), the Committee may award Non-Statutory Stock Options to purchase shares of Common Stock to any Outside Director of the Company at an Exercise Price equal to the Fair Market Value of the Common Stock on such Grant Date. Such Options will be first exercisable as determined by the Committee at the time of such grant,

but in no case more quickly than at the rate of 100% on the one-year anniversary of the Grant Date of such Award during periods of continuing service as an Outside Director or Director Emeritus. Options awarded to Outside Directors that become earned and exercisable shall continue to be exercisable for a period of ten years following the Grant Date without regard to the continued services of such Outside Director to the Company. Upon the death or Disability of the Outside Director, such Option shall be deemed exercisable as if the Outside Director had attained the next applicable vesting event and shall continue to be exercisable for the remaining term of such Option. In the event of the Outside Director's death, such Options which may be exercised may be exercised by the Beneficiary or the personal representative of his or her estate or person or persons to whom his or her rights under such Option shall have passed by will or by the laws of descent and distribution. Options may be granted to newly appointed or elected Outside Directors within the sole discretion of the Committee. All outstanding Awards shall become immediately exercisable in the event of a Change in Control of the Bank or the Company. Unless otherwise inapplicable, or inconsistent with the provisions of this paragraph, the Options to be granted to Outside Directors hereunder shall be subject to all other provisions of this Plan.

(b) **Restricted Stock Awards.**

The Committee may make grants of Restricted Stock Awards, which shall consist of the grant of some number of shares of Common Stock to an Eligible Participant upon such terms and conditions as it may determine, to the extent such terms and conditions are consistent with the following provisions:

- (i) **Grants of Stock.** Restricted Stock Awards may only be granted in whole shares of Common Stock.
- (ii) **Non-Transferability.** Except to the extent permitted by the Code, the rules promulgated under Section 16(b) of the Exchange Act or any successor statutes or rules:
 - (1) The recipient of a Restricted Stock Award grant shall not sell, transfer, assign, pledge, or otherwise encumber shares subject to the grant until full vesting of such shares has occurred. For purposes of this Section 6.1(b), the separation of beneficial ownership and legal title through the use of any "swap" transaction is deemed to be a prohibited encumbrance.
 - (2) Unless otherwise determined by the Committee, and except in the event of the Participant's death or pursuant to a qualified domestic relations order, a Restricted Stock Award grant is not transferable and may be earned only by the individual to whom it is granted during his or her lifetime. Upon the death of a Participant, a Restricted Stock Award shall be transferred to the Beneficiary. The designation of a Beneficiary shall not constitute a transfer.
 - (3) If the recipient of a Restricted Stock Award is subject to the provisions of Section 16 of the Exchange Act, shares of Common Stock subject to the grant may not, without the written consent of the Committee (which

consent may be given in the Award Agreement), be sold or otherwise disposed of within six (6) months following the Grant Date.

(iii) **Issuance of Certificates.** The Committee shall take such action as is reasonably necessary for the issuance of shares of Common Stock to be issued pursuant to a Restricted Stock Award prior to the time that such Award shall be deemed earned and non-forfeitable, with such stock certificate evidencing such shares registered in the name of the Participant to whom the Restricted Stock Award was granted; provided, however, that the Company may not cause a stock certificate to be issued unless it has received a stock power duly endorsed in blank with respect to such shares. Further, each such stock certificate shall bear the following legend:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE RESTRICTIONS, TERMS AND CONDITIONS (INCLUDING FORFEITURE PROVISIONS AND RESTRICTIONS AGAINST TRANSFER) CONTAINED IN THE NORWOOD FINANCIAL CORP 2024 EQUITY INCENTIVE PLAN AND THE RELATED AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER OF SUCH SHARES AND NORWOOD FINANCIAL CORP. THE PLAN AND AWARD AGREEMENT ARE ON FILE IN THE OFFICE OF THE CORPORATE SECRETARY OF NORWOOD FINANCIAL CORP.

This legend shall not be removed until the Award becomes earned and non-forfeitable pursuant to the terms of the Plan and respective Award Agreement. Each certificate issued pursuant to this Section 6.1(b) shall be held by the Company or its Affiliates as custodian, unless the Committee determines otherwise.

(iv) **Treatment of Dividends.** Participants are entitled to all dividends and other distributions declared and paid on all shares of Common Stock subject to a Restricted Stock Award from and after the Grant Date of such Restricted Stock Award. Such dividends and other distributions shall be distributed to the holder of such Restricted Stock Award within 30 days of the payment date applicable to such distributions declared and paid with respect to the Common Stock; provided that in the event of the forfeiture of such Restricted Stock Award, all future dividend rights shall cease.

(v) **Voting Rights Associated with Restricted Stock Awards.** Voting rights associated with any Restricted Stock Award shall not be exercised by the Participant until certificates of Common Stock representing such Award have been issued to such Participant in certificate form or by book-entry. Any shares of Common Stock held by the Company or a Trust prior to such time shall be voted by the Company or the Trustee of such Trust, as applicable, as directed by the Committee. Any shares of Common Stock held by the Company after a Restricted Stock Award has been made, but prior to such time that such Shares shall be certificated or recorded in book-entry form, shall be voted by the Committee in accordance with the stock power held by the Company applicable to such Awards.

(vi) **Restricted Stock Awards to Outside Directors.** Notwithstanding anything herein to the contrary, the Committee may grant a Restricted Stock Award consisting of shares of Common Stock to any Outside Director of the Company. Such Award shall be earned and non-forfeitable as determined by the Committee at the time of grant, but in no case more quickly than at the rate of 100% on the one-year anniversary of the Grant Date of such Award during periods of continuing service as an Outside Director or Director Emeritus. Upon the death or Disability of the Outside Director, such Award shall be deemed earned and non-forfeitable as if the Outside Director had attained the next applicable vesting event. Such Award shall be immediately 100% earned and non-forfeitable upon a Change in Control of the Company or the Bank. Restricted Stock Awards may be granted to newly elected or appointed Outside Directors within the discretion of the Committee, provided that the total Restricted Stock Awards granted to Outside Directors shall not exceed the limitations set forth at Section 6.4(b) herein.

(c) **Director Retainer Shares.** Notwithstanding anything herein to the contrary, including Section 6.1(b)(vi) herein, effective on and after July 1, 2024, each Outside Director shall receive in arrears whole Shares equal to \$1,000 of Fair Market Value in lieu of the first \$1,000 of cash compensation related to such Director's monthly retainer as a Director of the Bank (with any fractional Shares paid in cash) (the "Director Retainer Shares"). For purposes of this Section 6.1(c), Fair Market Value shall be equal to the average of the last reported sales price of the Company's Common Stock for the last five calendar days on which such Common Stock traded for the month-end or quarter-end for which these Director Retainer Shares are being computed. Such Director Retainer Shares shall be credited to each Outside Director's book-entry account not less frequently than quarterly and shall be 100% earned and non-forfeitable as of the date of payment; provided that such Shares shall be restricted as to transfer or re-sale as follows: i) In no event may these Director Retainer Shares be sold or transferred by the Director within six-months of the date of payment; ii) Such Director Retainer Shares may not be sold or transferred by the Director unless such individual is then in compliance with the Company's Stock Ownership Guidelines applicable to its Directors as approved by the Board of Directors from time to time. Notwithstanding anything herein to the contrary, no single Outside Director may be awarded more than 500 Shares in any calendar year as Director Retainer Shares, nor receive more than 5,000 Director Retainer Shares in the aggregate under the Plan.

6.2 Award Payouts. Awards may be paid out in the form of cash, Common Stock, or combinations thereof as the Committee shall determine in its sole discretion, and with such restrictions as it may impose.

6.3 Method of Exercise/Consideration for Stock Options. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Option Award Agreement:

- (a) cash, check payable to the order of the Company, or electronic funds transfer;
- (b) through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of Shares that are not then subject to restrictions under any Company plan; or

(c) subject to such procedures as the Committee may adopt, pursuant to a “cashless exercise” with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of such Stock Option by the Participant delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the Participant chooses to pay the purchase price as so provided, the Participant and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure;

In no event shall any Shares newly-issued by the Company be issued for less than the minimum lawful consideration for such Shares or for consideration other than consideration permitted by applicable state law. In the event that the Committee allows a Participant to exercise an Option by delivering shares of Common Stock previously owned by such Participant, any such Shares delivered which were initially acquired by the Participant from the Company (upon exercise of a stock option or otherwise) must have been owned by the Participant for at least six months prior to such date of delivery. Shares of Common Stock used to satisfy the Exercise Price of an Option shall be valued at their Fair Market Value on the date of exercise. The Company will not be obligated to deliver any Shares unless and until it receives full payment of the Exercise Price and any related withholding obligations under Section 9.5 have been satisfied, or until any other conditions applicable to exercise or purchase have been satisfied. No shares of Common Stock shall be issued until full payment has been received by the Company, and no Participant shall have any of the rights of a stockholder of the Company until shares of Common Stock are issued upon the exercise of such Stock Options. Payment instruments will be received subject to collection. In the event a Participant chooses to pay the Option Exercise Price by previously-owned Shares through the attestation method, the number of Shares transferred to the Participant upon the exercise of the Stock Option shall be net of the number of attested shares. Unless expressly provided otherwise in the applicable Award Agreement, the Committee may at any time within its sole discretion eliminate or limit a Participant's ability to pay the purchase or Exercise Price of any Award by any method other than a cash payment to the Company.

6.4 Limitations on Awards.

(a) **Stock Option Award Limitations.** During the ten-year period following the Effective Date, Shares subject to Options granted to Outside Directors in the aggregate under this Plan shall not exceed 52,000 Shares representing approximately 10.4% of the total number of Shares authorized for delivery under this Plan pursuant to Section 5.2 or exceed 10,000 Shares to any individual Outside Director. During the ten-year period following the Effective Date, the aggregate number of Shares subject to Options granted to all Employees as a group shall not exceed 325,000 Shares, reduced by the aggregate number of Shares awarded pursuant to Options granted to all Outside Directors as a group under the Plan, and Options awarded to any single Employee shall not exceed 50,000 Shares authorized for delivery under the Plan pursuant to Section 5.2 herein. Notwithstanding anything herein to the contrary, under the Plan not more than 2,000 Shares subject to Options may be granted to any single Outside Director in any single calendar year, and not more than 15,000 Shares subject to Options may be granted to any single Employee in any single calendar year.

(b) **Restricted Stock Award Limitations.** During the ten-year period following the Effective Date, Shares subject to Restricted Stock Awards granted to Outside Directors in the aggregate under this Plan shall not exceed 50,000 Shares or approximately 10% of the total number of Shares authorized for delivery under this Plan pursuant to Section 5.2 or exceed

12,000 Shares to any individual Outside Director. Further, Restricted Stock Awards granted to any individual Outside Director will not exceed 1,200 Shares in any calendar year, excluding Director Retainer Shares. During the ten-year period following the Effective Date, the aggregate number of Shares subject to Restricted Stock Awards granted to all Employees a group shall not exceed 125,000 Shares, reduced by the aggregate number of Restricted Stock Awards granted to all Outside Directors as a group under the Plan. The aggregate number of Shares subject to Restricted Stock Awards granted to any single Employee shall not exceed 35,000 Shares authorized for delivery under the Plan pursuant to Section 5.2 herein. Notwithstanding anything herein to the contrary, under the Plan, a Restricted Stock Award consisting of not more than 11,200 shares of Company Common Stock may be granted to any single Employee in any single calendar year. Director Retainer Shares awarded in accordance with Section 6.2(c) herein shall not be included in these limitations.

(c) **Vesting of Awards.** Awards will not become earned and exercisable or earned and non-forfeitable more quickly than at the rate of 100% of such Award on the one-year anniversary of the Grant Date of such Award, except in the event of the death or Disability of the Participant or a Change in Control transaction occurring after the Grant Date of such Award. Except as otherwise provided by the terms of the Plan or by action of the Committee at the time of the grant of an Award, Restricted Stock Awards granted to Outside Directors and Directors Emeritus will be first earned and non-forfeitable at the rate of one-third of such Award on the one-year anniversary of the Grant Date and one-third annually thereafter during their periods of continued service, except in the event of the death or Disability of the Participant or a Change in Control transaction occurring after the Grant Date of such Award. Except as otherwise provided by the terms of the Plan or by action of the Committee at the time of the grant of an Award, Restricted Stock Awards granted to Employees will be first earned and non-forfeitable at the rate of one-fifth of such Award on the one-year anniversary of the Grant Date and one-fifth annually thereafter during their periods of continued service, except in the event of the death or Disability of the Participant or a Change in Control transaction occurring after the Grant Date of such Award..

7. EFFECT OF TERMINATION OF SERVICE ON AWARDS.

7.1 General. The Committee shall establish the effect of a termination of employment or service, death or Disability on the continuation of rights and benefits available under an Award, and, in so doing, may make distinctions based upon, among other things, the recipient of such Award, the cause of termination and the type of the Award. Notwithstanding the foregoing, the terms of Awards shall be consistent with the following, as applicable:

(a) **Termination of Employment or Service.** In the event that any Employee Participant's employment with the Company or an Affiliate shall terminate for any reason, other than Disability or death, all of any such Participant's Stock Options, and all of any such Participant's rights to purchase or receive shares of Common Stock pursuant thereto, shall automatically terminate (A) on the earlier of: (i) the respective expiration dates of any such Stock Options, or (ii) the expiration of three (3) months after the date of such termination of employment; or (B) at such later date as is determined by the Committee at the time of the grant of such Award based upon the Participant's continuing status as a Director or Director Emeritus of the Bank or the Company, but only if, and to the extent that, the Participant was otherwise entitled to exercise any such Stock Options at the date of such

termination of employment or service, and further that such Stock Options shall thereafter be deemed Non-Statutory Stock Options.

- (b) **Disability.** In the event that any Employee Participant's employment with the Company shall terminate as the result of the Disability of such Participant, such Participant may exercise any Stock Options previously granted to the Participant pursuant to the Plan at any time prior to the earlier of (i) the respective expiration dates of any such Stock Options, or (ii) the date which is one (1) year after the date of such termination of employment, but only if, and to the extent that, the Participant was entitled to exercise any such Stock Options at the date of such termination of employment or would have been eligible to exercise such Award had they continued employment through the date of the next applicable vesting event.
- (c) **Death.** In the event of the death of an Employee Participant, any Stock Options previously granted to such Participant may be exercised by the Participant's Beneficiary or the person or persons to whom the Participant's rights under any such Incentive Stock Options pass by will or by the laws of descent and distribution (including the Participant's estate during the period of administration) at any time prior to the earlier of (i) the respective expiration dates of any such Stock Options, or (ii) the date which is two (2) years after the date of death of such Participant, but only if, and to the extent that, the Participant was entitled to exercise any such Stock Options at the date of death or would have been eligible to exercise such Award had they continued employment through the date of the next applicable vesting event. At the discretion of the Committee, upon exercise of such Options, the Beneficiary may receive Shares or cash or a combination thereof. If cash shall be paid in lieu of shares of Common Stock, such cash shall be equal to the difference between the Fair Market Value of such Shares and the exercise price of such Options on the exercise date.

7.2 Events Not Deemed Terminations of Employment or Service. Unless the Company's policy or the Committee provides otherwise, the employment or service relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, (c) any other leave of absence authorized by the Company or the Committee; provided that, unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than 90 days, or (d) in the case of transfers between payroll locations or between the Company, an Affiliate or a successor. In the case of any Employee on an approved leave of absence, continued vesting of the Award while on leave may be suspended until the Employee returns to service, unless the Committee otherwise provides or applicable law otherwise requires. In no event shall an Award be exercised after the expiration of the term set forth in the Award Agreement.

7.3 Effect of Change of Affiliate Status. For purposes of this Plan and any Award, if an entity ceases to be an Affiliate of the Company, a termination of employment or service shall be deemed to have occurred with respect to each individual who does not continue as an Employee or Outside Director with the Company or another Affiliate after giving effect to the Affiliate's change in status.

8. ADJUSTMENTS IN CAPITAL STRUCTURE; ACCELERATION UPON A CHANGE IN CONTROL.

8.1 Adjustments in Capital Structure. Upon any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution with respect to the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction

affecting the Common Stock; or a sale of all or substantially all the business or assets of the Company in its entirety; then the Committee shall proportionately adjust the Plan and the Awards thereunder in such manner, to such extent and at such times, as is necessary to preserve the benefits or potential benefits of such Awards, including:

- (a) proportionately adjust any or all of: (i) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of Awards (including the specific Share Limits, maximums and numbers of shares set forth elsewhere in this Plan); (ii) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding Awards; (iii) the grant, purchase, or Exercise Price of any or all outstanding Awards; (iv) the securities, cash or other property deliverable upon exercise or payment of any outstanding Awards; or (v) the performance standards applicable to any outstanding Awards; or
- (b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding Awards, based upon the distribution or consideration payable to holders of the Common Stock.

8.2 The Committee may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash or property settlement and, in the case of Options, may base such settlement solely upon the excess, if any, of the per share amount payable upon or in respect of such event over the Exercise Price or base price of the Award. With respect to any Award of an Incentive Stock Option, the Committee may make an adjustment that causes the Option to cease to qualify as an Incentive Stock Option without the consent of the affected Participant.

8.3 Upon any of the events set forth in Section 8.1, the Committee may take such action prior to such event to the extent that the Committee deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the Awards in the same manner as is or will be available to stockholders of the Company generally. In the case of any stock dividend, stock split or reverse stock split, if no action is taken by the Committee, the proportionate adjustments contemplated by Section 8.1(a) above shall nevertheless be made.

8.4 Automatic Acceleration of Awards. Unless otherwise determined by the Committee at the time of the Award, upon a Change in Control of the Company or the Bank, each Stock Option then outstanding shall become fully earned and exercisable and remain exercisable for its remaining term and all Restricted Stock Awards then outstanding shall be deemed fully earned and non-forfeitable and be free of restrictions. The Committee may, in its sole discretion, determine that in the event of a Change in Control each outstanding Stock Option shall be cancelled in exchange for a cash payment equal to the difference between the Fair Market Value of the Common Stock on the date of the Option cancellation and the Exercise Price per share of the Option, in accordance with Section 9.7(i) herein.

8.5 Acceleration of Vesting. The Committee shall at all times have the power to accelerate the exercise date of Options and the date that Restricted Stock Awards shall be earned and non-forfeitable with respect to previously granted Awards; provided that such action is not contrary to regulations of the Company's applicable banking regulatory agency then in effect.

9. MISCELLANEOUS PROVISIONS.

9.1 Compliance with Laws. This Plan, the granting and vesting of Awards under this Plan, the offer, issuance and delivery of shares of Common Stock, the acceptance of payment of money under this Plan or under Awards are subject to compliance with all applicable federal and state laws, rules and

regulations (including, but not limited to, state and federal securities laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Company, provide such assurances and representations to the Company as may be deemed necessary or desirable to assure compliance with all applicable legal and accounting requirements.

9.2 Claims. No person shall have any claim or rights to an Award (or additional Awards, as the case may be) under this Plan, subject to any express contractual rights to the contrary (set forth in a document other than this Plan).

9.3 No Employment/Service Contract. Nothing contained in this Plan (or in any other documents under this Plan or in any Award Agreement) shall confer upon any Participant any right to continue in the employ or other service of the Company, constitute any contract or agreement of employment or other service or affect an Employee's status as an employee-at-will, nor interfere in any way with the right of the Company to change a Participant's compensation or other benefits, or terminate his or her employment or other service, with or without cause. Nothing in this Section 9.3, however, is intended to adversely affect any express independent right of such Participant under a separate employment or service contract other than an Award Agreement.

9.4 Plan Not Funded. Awards payable under this Plan shall be payable in shares of Common Stock or from the general assets of the Company. No Participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly provided otherwise) of the Company by reason of any Award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company and any Participant, Beneficiary or other person. Notwithstanding the foregoing, the Company may establish a Trust in accordance with Section 10 with respect to Awards made in accordance with Section 6.1(b) herein. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to any Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

9.5 Tax Matters; Tax Withholding.

- (a) **Tax Withholding.** Upon any exercise, vesting, or payment of any Award, the Company shall have the right, within its sole discretion, to:
 - (i) require the Participant (or the Participant's personal representative or Beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Company may be required to withhold with respect to such Award or payment;
 - (ii) deduct from any amount otherwise payable in cash to the Participant (or the Participant's personal representative or Beneficiary, as the case may be) the minimum amount of any taxes which the Company may be required to withhold with respect to such cash payment; or
 - (iii) in any case where tax withholding is required in connection with the delivery of shares of Common Stock under this Plan, pursuant to such rules and subject to such conditions as the Committee may establish, reduce the number of shares to be delivered to the Participant by the appropriate number of shares, valued in a

consistent manner at their Fair Market Value as necessary to satisfy the minimum applicable withholding obligation. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law.

- (b) **Required Notification of Section 83(b) Election.** In the event a Participant makes an election under Section 83(b) of the Code in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Section 83(b) of the Code or other applicable provision.
- (c) **Requirement of Notification upon Disqualifying Disposition Under Section 421(b) of the Code.** If any Participant shall make any disposition of shares of Common Stock delivered pursuant to the exercise of Incentive Stock Options under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten (10) days thereof.

9.6 Effective Date; Termination and Suspension; Approval; Amendments.

- (a) **Effective Date and Termination.** This Plan is effective upon the later of approval of the Plan by the Board of Directors of the Company or the vote of approval by the stockholders of the Company ("Approval Date"). Unless earlier terminated by the Board, this Plan shall terminate at the close of business on the day preceding the tenth anniversary of the Approval Date. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional Awards may be granted under this Plan, but previously granted Awards (and the authority of the Committee with respect thereto, including the authority to amend such Awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.
- (b) **Board of Directors Authorization.** Subject to applicable laws and regulations, the Board of Directors may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part; provided, however, that no such amendment may have the effect of repricing the Exercise Price of Options, except if such action is approved by a vote of stockholders. No Awards may be granted during any period that the Board of Directors suspends this Plan.
- (c) **Stockholder Approval.** Stockholder approval of such Plan shall be determined by an affirmative vote of a majority of the votes cast on the matter at a meeting of stockholders of the Company within one year of the date of adoption of the Plan by the Board of Directors of the Company. Any material amendment to the Plan deemed to require an approval vote of stockholders shall be approved by an affirmative vote of a majority of the votes cast on the matter at a meeting of stockholders of the Company.
- (d) **Limitations on Amendments to Plan and Awards.** No amendment, suspension or termination of this Plan or change affecting any outstanding Award shall, without the written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant or obligations of the Company under any Award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 8 shall not be deemed to constitute changes or

amendments for purposes of this Section 9.6. Notwithstanding any provision in this Plan or any Award Agreement to the contrary, the Committee may amend the Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of (i) conforming the Plan or the Award Agreement to any present or future law relating to plans of this or similar nature (including, but not limited to, Section 409A of the Code), or (ii) avoiding an accounting treatment resulting from an accounting pronouncement or interpretation thereof issued by the Securities and Exchange Commission or Financial Accounting Standards Board subsequent to the adoption of the Plan or the making of the Award affected thereby, which in the sole discretion of the Committee, may materially and adversely affect the financial condition or results of operations of the Company. By accepting an Award under this Plan, each Participant agrees and consents to any amendment made pursuant to this Section 9.6 and Sections 9.11 and 9.13 herein with respect to any Award granted under this Plan without further consideration, consent or action.

9.7 Governing Law; Compliance with Regulations; Construction; Severability.

- (a) **Construction.** This Plan, the Awards, all documents evidencing Awards and all other related documents shall be governed by, and construed in accordance with the laws of the Commonwealth of Pennsylvania, except to the extent preempted by Federal law.
- (b) **Forfeiture of Awards in Certain Circumstances.** In addition to any forfeiture or reimbursement conditions the Committee may impose upon an Award, a Participant may be required to forfeit an Award, or reimburse the Company for the value of a prior Award, by virtue of the requirement of Section 304 of the Sarbanes-Oxley Act of 2002 (or by virtue of any other applicable statutory or regulatory requirement), but only to the extent that such forfeiture or reimbursement is required by such statutory or regulatory provision. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration.
- (c) **Severability.** If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.
- (d) **Section 16 of Exchange Act.** It is the intent of the Company that the Awards and transactions permitted by Awards be interpreted in a manner that, in the case of Participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the Award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Company shall have no liability to any Participant for Section 16 consequences of Awards or events affecting Awards if an Award or event does not so qualify.
- (e) **Compliance with Federal Securities Law.** Shares of Common Stock shall not be issued with respect to any Award granted under the Plan unless the issuance and delivery of such shares shall comply with all relevant provisions of applicable law, including, without limitation, the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, any applicable state securities laws and the requirements of any stock exchange upon which the shares may then be listed.

- (f) **Necessary Approvals.** The inability of the Company to obtain any necessary authorizations, approvals or letters of non-objection from any regulatory body or authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Common Stock issuable hereunder shall relieve the Company of any liability with respect to the non-issuance or sale of such shares.
- (g) **Representations and Warranties of Participants.** As a condition to the exercise of any Option or the delivery of shares in accordance with an Award, the Company may require the person exercising the Option or receiving delivery of the shares to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of federal or state securities law.
- (h) **Termination for Cause.** Notwithstanding anything herein to the contrary, upon the termination of employment or service of a Participant by the Company or an Affiliate for "Cause" as determined by the Board of Directors or the Committee, all Awards held by such Participant which have not yet been delivered shall be forfeited by such Participant as of the date of such termination of employment or service.
- (i) **Cash Payment in Lieu of Delivery of Shares.** Upon the exercise of an Option, the Committee, in its sole and absolute discretion, may make a cash payment to the Participant, in whole or in part, in lieu of the delivery of shares of Common Stock. Such cash payment to be paid in lieu of delivery of Common Stock shall be equal to the difference between the Fair Market Value of the Common Stock on the date of the Option exercise and the Exercise Price per share of the Option. Such cash payment shall be in exchange for the cancellation of such Option. Such cash payment shall not be made in the event that such transaction would result in liability to the Participant or the Company under Section 16(b) of the Exchange Act and regulations promulgated thereunder, or subject the Participant to additional tax liabilities related to such cash payments pursuant to Section 409A of the Code.
- (j) **Prohibition of Cash Buy-Outs of Underwater Stock Options.** Under no circumstances will any Stock Option with an Exercise Price as of an applicable date that is greater than the Fair Market Value of a share of Stock as of the same date that was granted under the Plan be purchased by the Company without shareholder approval.
- (k) **Prohibition Against Repricing of Stock Options.** Except for adjustments pursuant to Section 8.1 or reductions of the Exercise Price approved by the Company's shareholders, neither the Committee nor the Board of Directors shall have the right or authority to make any adjustment or amendment that reduces or would have the effect of reducing the Exercise Price of a Stock Option previously granted under the Plan, whether through amendment, cancellation (including cancellation in exchange for a cash payment in excess of the Award's in-the-money value or in exchange for Stock Options or other Awards), replacement grants, or other means.

9.8 Captions. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

9.9 Non-Exclusivity of Plan. Nothing in this Plan shall limit or be deemed to limit the authority of the Board of Directors or the Committee to grant Awards or authorize any other compensation, with or without reference to Common Stock, under any other plan or authority.

9.10 Limitation on Liability. No Director, member of the Committee or the Trustee shall be liable for any determination made in good faith with respect to the Plan, the Trust or any Awards granted. If a Director, member of the Committee or the Trustee is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by any reason of anything done or not done by him or her in such capacity under or with respect to the Plan, the Company shall indemnify such person against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in the best interests of the Company and its Affiliates and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

9.11 Section 409A Compliance. To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Committee from time to time in order to comply with Section 409A of the Code. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A of the Code) to a Participant who is then considered a "specified employee" (within the meaning of Section 409A of the Code), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the Participant's separation from service, or (ii) the Participant's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A of the Code. Further, the settlement of any such 409A Award may not be accelerated except to the extent permitted by Section 409A of the Code. To the extent that an Award is deemed to constitute a 409A Award, and for which payment with respect to the Award or acceleration of such Award being deemed earned and exercisable or non-forfeitable is determined solely by reference to whether a Change in Control has occurred, the term "Change in Control" means (for purposes of determining whether a payment is due or acceleration exists) the first to occur of a "change in the ownership of the Company," a "change in the effective control of the Company" or a "change in the ownership of a substantial portion of the Company's assets," as those phrases are determined under Section 409A of the Code and the regulations promulgated thereunder, as in effect at the time of such Change in Control transaction.

9.12 Successors. Any obligations of the Company or an Affiliate under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company or Affiliate, respectively, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company or Affiliate, as applicable.

9.13 Clawback Policy. Awards under the Plan are subject to the terms of the Company's recoupment, clawback or similar policy as in effect from time to time, as well as any similar provisions of applicable law, including Section 10D of the Securities Exchange Act of 1934 (the "Exchange Act") and the Dodd Frank Wall Street Reform and Consumer Protection Act. As of the effective date of this Plan, the Company's policy provides that in accordance with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and in accordance with the provisions of Section 10D of the Exchange Act and the rules and regulations adopted by the National Association of Securities Dealers Automated Quotations in compliance therewith, in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Company will recover from grantee, if grantee is a current or former executive officer of the Company who received incentive-based compensation during the 3-year period preceding the date on which the Company is required to prepare an accounting restatement, based on the erroneous data, determined by the Committee to be in excess of what would have been paid to the executive officer under

the accounting restatement. In addition, the Company shall recover from grantee any Award recoverable under Section 304 of the Sarbanes-Oxley Act of 2002. Any Awards issued under the Plan will contain language consistent with the clawback policy in effect on the date of grant and will be subject to any changes required by law.

9.14 Trading Policy Restrictions. Option exercises and the sale of Common Stock received upon the exercise of such Options or the vesting of other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

9.15 Other Regulatory Requirements. The grant and settlement of Awards under the Plan shall be conditioned upon and subject to compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and the rules and regulations promulgated thereunder. In addition, notwithstanding anything in this Plan to the contrary, any Award Agreement or such Company clawback policy may also provide for the cancellation or forfeiture of an Award or the forfeiture and repayment to the Company of any Shares issued or transferred under and/or any other benefit related to an Award, or other provisions intended to have a similar effect, upon such terms and conditions as may be required by the Committee or under Section 10D of the Exchange Act, and any applicable rules or regulations promulgated by the Securities and Exchange Commission or any national securities exchange or national securities association on which the Shares may be traded.

9.16 No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company or any Affiliate from taking any action which is deemed by the Company or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Participant, beneficiary or other person shall have a right to enjoin any such action.

10. TRUST.

10.1 Activities of Trustee. The Trustee(s) shall receive, hold, administer, invest and make distributions and disbursements from the Trust in accordance with the provisions of the Plan and the applicable directions, rules, regulations, procedures and policies established by the Committee pursuant to the Plan.

10.2 Management of Trust. It is the intention of this Plan that the Trustee shall have complete authority and discretion with respect to the management, control and investment of the Trust, and that the Trustee shall invest all assets of the Trust, except those attributable to cash dividends paid with respect to unearned and unawarded Restricted Stock Awards, in Common Stock to the fullest extent practicable, except to the extent that the Trustee determines that the holding of monies in cash or cash equivalents is necessary to meet the obligations of the Trust. In performing their duties, the Trustees shall have the power to do all things and execute such instruments as may be deemed necessary or proper, including the following powers:

- (a) To invest up to one hundred percent (100%) of all Trust assets in Common Stock without regard to any law now or hereafter in force limiting investments for Trustees or other fiduciaries. The investment authorized herein may constitute the only investment of the Trust, and in making such investment, the Trustee is authorized to purchase Common Stock from the Company or from any other source, and such Common Stock so purchased may be outstanding, newly issued, or treasury shares.
- (b) To invest any Trust assets not otherwise invested in accordance with (a) above in such deposit accounts, and certificates of deposit (including those issued by the Bank),

obligations of the United States government or its agencies or such other investments as shall be considered the equivalent of cash.

- (c) To sell, exchange or otherwise dispose of any property at any time held or acquired by the Trust.
- (d) To cause stocks, bonds or other securities to be registered in the name of a nominee, without the addition of words indicating that such security is an asset of the Trust (but accurate records shall be maintained showing that such security is an asset of the Trust).
- (e) To hold cash without interest in such amounts as may be in the opinion of the Trustee reasonable for the proper operation of the Plan and Trust.
- (f) To employ brokers, agents, custodians, consultants and accountants.
- (g) To hire counsel to render advice with respect to their rights, duties and obligations hereunder, and such other legal services or representation as they may deem desirable.
- (h) To hold funds and securities representing the amounts to be distributed to a Participant or his Beneficiary as a consequence of a dispute as to the disposition thereof, whether in a segregated account or held in common with other assets.
- (i) As may be directed by the Committee or the Board of Directors from time to time, the Trustee shall pay to the Company any earnings of the Trust attributable to unawarded or forfeited Restricted Stock Awards.

Notwithstanding anything herein contained to the contrary, the Trustee shall not be required to make any inventory, appraisal or settlement or report to any court, or to secure any order of a court for the exercise of any power herein contained, or to maintain bond.

10.3 Records and Accounts. The Trustee shall maintain accurate and detailed records and accounts of all transactions of the Trust, which shall be available at all reasonable times for inspection by any legally entitled person or entity to the extent required by applicable law, or any other person determined by the Committee.

10.4 Earnings. All earnings, gains and losses with respect to Trust assets shall be allocated in accordance with a reasonable procedure adopted by the Committee, to bookkeeping accounts for Participants or to the general account of the Trust, depending on the nature and allocation of the assets generating such earnings, gains and losses. In particular, any earnings on cash dividends received with respect to Restricted Stock Awards shall be allocated to accounts for Participants, except to the extent that such cash dividends are distributed to Participants, if such shares are the subject of outstanding Restricted Stock Awards, or, otherwise held by the Trust or returned by the Company.

10.5 Expenses. All costs and expenses incurred in the operation and administration of this Plan, including those incurred by the Trustee, shall be paid by the Company or, if not so paid, then paid from the cash assets of the Trust.

10.6 Indemnification. Subject to the requirements and limitations of applicable laws and regulations, the Company shall indemnify, defend and hold the Trustee harmless against all claims, expenses and liabilities arising out of or related to the exercise of the Trustee's powers and the discharge of their duties hereunder, unless the same shall be due to their gross negligence or willful misconduct.

10.7 Term of Trust. The Trust, if established, shall remain in effect until the earlier of (i) termination by the Committee, (ii) the distribution of all assets of the Trust, or (iii) 21 years from the Effective Date. Termination of the Trust shall not affect any Restricted Stock Awards previously granted, and such Restricted Stock Awards shall remain valid and in effect until they have been earned and paid, or by their terms expire or are forfeited.

10.8 Tax Status of Trust. It is intended that the Trust established hereby shall be treated as a grantor trust of the Company under the provisions of Section 671 *et seq.* of the Code.

CERTIFICATION

I, James O. Donnelly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Norwood Financial Corp;
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: May 9, 2024

/s/ James O. Donnelly

James O. Donnelly
President and Chief Executive Officer

CERTIFICATION

I, William S. Lance, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Norwood Financial Corp;
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: May 9, 2024

/s/ William S. Lance

William S. Lance

Executive Vice President and Chief
Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Norwood Financial Corp (the Company) on Form 10-Q for the period ending March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the Report), we, James O. Donnelly, President and Chief Executive Officer, and William S. Lance, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James O. Donnelly
James O. Donnelly
President and Chief Executive Officer

/s/ William S. Lance
William S. Lance
Executive Vice President and Chief
Financial Officer

May 9, 2024
