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DELTA REPORT

10-K

ORRF - ORRSTOWN FINANCIAL SERVIC

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

The following comparison report has been automatically generated

TOTAL DELTAS	4486
CHANGES	642
DELETIONS	2002
ADDITIONS	1842

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

FORM 10-K

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

For the fiscal year ended December 31, 2022 December 31, 2023

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

For the transition period from _____ to _____

Commission file number: 001-34292

ORRSTOWN FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	**23-2530374**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
77 East King Street, P. O. Box 250, Shippensburg, Pennsylvania	**17257**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code: (717) 532-6114

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, no par value	**ORRF**	**NASDAQ Stock Market**

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $245.1 million $194.0 million. For purposes of this calculation, the term "affiliate" refers to all directors and executive officers of the registrant, and all persons beneficially owning more than 5% of the registrant's common stock.

Number of shares outstanding of the Registrant's common stock as of March 9, 2023 March 11, 2024: 10,725,745. 10,705,077.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2023 2024 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

Table of Contents

ORRSTOWN FINANCIAL SERVICES, INC.

FORM 10-K

INDEX

Table of Contents

Glossary of Defined Terms

The following terms may be used throughout this Annual Report on Form 10-K, including the consolidated financial statements and related notes.

Term	Definition
ACL	Allowance for credit losses
ALL	Allowance for loan losses
AFS	Available-for-sale
AOCI	Accumulated other comprehensive income (loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	Orrstown Bank, the commercial banking subsidiary of Orrstown Financial Services, Inc.
BHC Act	Bank Holding Company Act of 1965
CDI CECL	Core deposit intangible Current expected credit losses

CET1	Common Equity Tier 1
CFPB	Consumer Financial Protection Bureau
CMO	Collateralized mortgage obligation
CRA	Community Reinvestment Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ERM	Enterprise risk management Risk Management
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FDM	Financial difficulty modification
FHC	Financial holding company
FHLB	Federal Home Loan Bank
FRB	Board of Governors of the Federal Reserve System
GAAP	Accounting principles generally accepted in the United States of America
GDP	Gross Domestic Product
GLB Act	Gramm-Leach-Bliley Act
GSE	United States government-sponsored enterprise
Hamilton IEL	Hamilton Bancorp, Inc., and its wholly-owned banking subsidiary, Hamilton Bank (acquired May 1, 2019) Individually evaluated loan
IRC	Internal Revenue Code of 1986, as amended
LHFS	Loans held for sale
LIBOR	London Interbank Offered Rate
MBS	Mortgage-backed securities
MSR	Mortgage servicing right
NIM	Net interest margin
OCI	Other comprehensive income (loss)
OFA	Orrstown Financial Advisors, a division of the Bank that provides investment and brokerage services
OREO	Other real estate owned (foreclosed real estate)
OTTI	Other-than-temporary impairment
Parent Company	Orrstown Financial Services, Inc., the parent company of Orrstown Bank
2011 Plan	2011 Orrstown Financial Services, Inc. Stock Incentive Plan
PCD loans	Purchased credit deteriorated loans
PCI loans	Purchased credit impaired loans
PPP	Paycheck Protection Program
Repurchase Agreements	Securities sold under agreements to repurchase
ROU	Right of use (leases)
SBA	U.S. Small Business Administration
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SOFR	Secured Overnight Financing Rate
TDR	Troubled debt restructuring
U.S.	United States of America

Unless the context otherwise requires, the terms “Orrstown,” “we,” “us,” “our,” and “Company” refer to Orrstown Financial Services, Inc. and its subsidiaries.

Table of Contents

PART I

Caution About Forward-Looking Statements:

Certain statements appearing herein, which are not historical in nature, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications, from time to time, that contain such statements. Such forward-looking statements reflect the current views of the Company's management with respect to, among other things, future events and the Company's financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “project,” “forecast,” “goal,” “target,” “would” and “outlook,” or the negative variations of those words or other comparable words of a future or forward-looking nature. Forward-looking statements are statements that include projections, predictions, expectations, estimates or beliefs about events or results or otherwise are not statements of historical facts, many of which, by their nature, are inherently uncertain and beyond the Company's control, and include, but are not limited to, statements related to new business development, new loan opportunities, growth in the balance sheet and fee-based revenue lines of business, merger and acquisition activity, cost savings initiatives, reducing risk assets, and mitigating losses in the future. Accordingly, the Company cautions you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements and there can be no assurances that the Company will achieve the desired level of new business development and new loans, growth in the balance sheet and fee-based revenue lines of business, successful merger and acquisition activity and cost savings initiatives, and continued reductions in risk assets or mitigate losses in the future. Factors which could cause the actual results to differ from those expressed or implied by the forward-looking statements include, but are not limited to, the following: general economic conditions (including inflation and concerns about liquidity) on a national basis or in the local markets in which the Company operates; ineffectiveness of the Company's strategic growth plan due to changes in current or future market conditions; changes in interest rates; failure to complete the merger with Codorus Valley Bancorp, Inc. or unexpected delays related to the merger or either party's inability to satisfy closing conditions required to complete the merger; certain restrictions during the pendency of the proposed transactions with Codorus Valley Bancorp, Inc. that may impact the parties' abilities to pursue certain business opportunities or strategic transactions; the diversion of management's attention from ongoing business operations and opportunities; the effects of competition and how it may impact our community banking model, including industry consolidation and development of competing financial products and services; the integration of the Company's strategic acquisitions; the inability changes in consumer behavior due to fully achieve expected savings, efficiencies changing political, business and economic conditions, or synergies from mergers and acquisitions and cost savings initiatives, legislative or taking longer than estimated for such savings, efficiencies and synergies to be realized; regulatory initiatives; changes in laws and regulations; interest rate movements; changes in credit quality; inability to raise capital, if necessary, under favorable conditions; volatility in the securities markets; the demand for our products and services; deteriorating economic conditions; geopolitical tensions; changes in litigation matters, including the failure to obtain Court approval of proposed settlements, the number of plaintiffs who opt-out of proposed settlements and whether a proposed settlement is appealed; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; expenses associated with pending litigation and legal proceedings; and other risks and uncertainties. The foregoing list of factors is not exhaustive.

For a description of factors that we believe could cause actual results to differ materially from such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Critical Accounting Policies section included in Item 7, and Note 22, 23, Contingencies, in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. We encourage readers of this report to understand forward-looking statements to be strategic objectives rather than absolute targets of future performance. If one or more events related to these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, actual results may differ materially from what the Company anticipates. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time, and it is not possible for the Company to predict those events or how they may affect it. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements, expressed or implied, included in this Annual Report on Form 10-K are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on the Company's behalf may issue.

Table of Contents

ITEM 1 – BUSINESS

Background

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the financial holding company ("FHC") for its wholly-owned subsidiary Orrstown Bank. The Company’s principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania. The Parent Company was organized on November 17, 1987 for the purpose of acquiring the Bank and such other banks and bank-related activities as are permitted by law. The Company provides banking and financial advisory services located in south central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties, Pennsylvania, and in Anne Arundel, Baltimore, Howard and Washington Counties, Maryland, as well as Baltimore City, Maryland. The Company’s lending area also includes adjacent counties in Pennsylvania and Maryland, as well as Loudon County, Virginia and Berkeley, Jefferson and Morgan Counties, West Virginia.

Pending Merger

On December 12, 2023, the Company and Codorus Valley Bancorp, Inc. ("Codorus Valley" or “CVLY”) entered into a definitive agreement to affect a “merger of equals” transaction pursuant to which CVLY will be merged with and into the Company, with the Company as the surviving corporation (the "Merger"). Promptly following the Merger, CVLY’s wholly-owned bank subsidiary, PeoplesBank, A Codorus Valley Company, will be merged with and into the Bank, with the Bank as the surviving bank.

Under the terms of the agreement, CVLY shareholders will have the right to receive 0.875 shares of the Company’s common stock and cash in lieu of any fractional shares of the Company’s common stock. Upon closing, shareholders of the Company, prior to the closing of the Merger, will own approximately 56% of the combined company and shareholders of CVLY will own approximately 44% of the combined company. The transaction is subject to regulatory approvals and satisfaction of customary closing conditions, including approval from Orrstown and CVLY shareholders. The transaction is expected to close in the third quarter of 2024. As of December 31, 2023, CVLY had $2.2 billion in assets and operated 22 full-service branches and eight limited purpose branches in Pennsylvania and Maryland.

Business

The Bank was organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, the Parent Company acquired 100% ownership of the Bank.

The Parent Company's primary activity consists of owning and supervising its subsidiary, the Bank. Day-to-day management is conducted by its officers, who are also Bank officers. The Parent Company has historically derived most of its income through dividends from the Bank. At December 31, 2022 December 31, 2023, the Company had total assets of $2.9 billion $3.1 billion, total deposits of $2.5 billion $2.6 billion and total shareholders' equity of $228.9 million $265.1 million.

The Company Bank operates in the community banking segment and engages in lending activities, including commercial, residential, commercial mortgages, construction, municipal, and various forms of consumer lending and deposit services, including checking, savings, time and money market deposits. The Company Bank also provides fiduciary, investment advisory, insurance and brokerage services. These activities engaged in by the Bank are authorized by the Pennsylvania Banking Code of 1965. The Company and the Bank are subject to regulation by certain federal and state agencies and undergo periodic examinations by such regulatory authorities. The concentrations of credit by type of loan are included in Note 3, 4, Loans and Allowance for Loan Credit Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." The Bank maintains a diversified loan portfolio and evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the client pursuant to collateral standards established in the Bank's credit policies and procedures.

Human Capital

At December 31, 2022 December 31, 2023, the Bank had 404 410 full-time and 15 part-time employees compared to 412 full-time and 17 part-time employees at December 31, 2021. employees. At December 31, 2022 December 31, 2023, approximately 65% 66% of our workforce was female and 35% 34% were male. Our average tenure is approximately seven years. The Parent Company has no employees. Its 12 executive officers are employees of the Bank, who represent a mix of newer and more seasoned employees with diverse experience and have an average tenure of nine ten years.

We encourage and support the growth and development of our employees. Continuous learning and career development is advanced through ongoing performance and development conversations with employees, internally created training programs, including development and advancement training offered through Orrstown University, customized corporate training engagements and educational reimbursement and certification programs. Training opportunities are available both online and in-person, and all employees have online access to courses for professional development provided by a third-party. third party. During 2022, 2023, we also hired expanded our Management Associate Program from five employees to participate in our new Management Associate Program. seven employees. This program provides a structured learning experience, which ranges from one to two years, that focuses on the commercial line of business and credit administration.

administration, and then progresses into rotations within other lines of business. The inaugural class will graduate from the program in 2024.

Employee evaluations are conducted on at least an annual basis. Those evaluations focus on job performance, achievement of goals and employee and career development. In addition, the Company monitors we monitor employee satisfaction and engagement through periodic employee surveys.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and staff, our remote work options have evolved as expectations surrounding result of the COVID-19 pandemic shifted. Starting in 2021, pandemic. Currently, many of our employees effectively worked work a hybrid schedule from the Company our office and remote locations to ensure a safely-distanced working environment for our employees and clients, which was continued throughout 2022. locations. We continue to highlight the importance of the safety, health and wellness of our employees. We also introduced a number of new initiatives that focus on both physical and mental health. We take every opportunity to provide our employees with the tools and resources to assist them to navigate their work environment in a more positive and thoughtful manner.

[Table of Contents](#)

The Company believes We believe that it is critically important that its employee base reflects the communities that we serve. Since 2020, the Company's Our Diversity, Equity & Inclusion Council has taken concrete steps to diversify the job applicant pool. In addition to the Company's our website, social media platforms and through talent recruiting efforts by third-party recruiters, job openings were posted directly at Historically Black Colleges and Universities within the Company's market area. The Company's Our President and Chief Executive Officer also signed the CEO ACTION for Diversity & Inclusion Pledge, which makes commitments to continue making our workplaces trusting places, implementing and expanding unconscious bias education, sharing best practices and creating and sharing strategic inclusion and diversity plans with our Board of Directors. Our Diversity, Equity and Inclusion Council continued to take impactful steps in 2022. 2023. The council provided educational opportunities to employees throughout the year and also represented the Company during Harrisburg's and Lancaster's PrideFest events, India Day and India Day. contributed for the purchase of children's books to the Salvation Army in Harrisburg in celebration of Black History Month. In 2023, our Diversity, Equity & Inclusion Council started the Company's first Employee Resource Group ("ERG"). The pilot ERG was named Orrstown Women's Network ("OWN") and includes 35 members focused on topics and initiatives that are important to women. During 2023, OWN met quarterly and also completed a fundraiser and participated in Harrisburg's Breast Cancer Awareness Walk. Subsequently, our Diversity, Equity & Inclusion Council announced its second ERG offering: an LGBTQ+ Employee Resource Group, which will provide resources, learning and networking opportunities to all of its members.

The Company offers We offer competitive compensation to attract and further strengthen employee engagement and encourage retention. Compensation packages include market-competitive salary, healthcare and retirement benefits, paid time off, and may also include bonuses or sales commissions and short-term and long-term equity incentives.

We deploy numerous methods to foster employee engagement, including regular company-wide calls, weekly communication through our Orrstown Connections publications, new employee engagement event with the CEO, employee recognitions and service anniversaries including an event for Employee Appreciation Day, community service and leadership programs, annual events for all employees and off-site events with family and friends.

Lending

Federal bank regulatory agencies have adopted uniform regulations prescribing standards for extensions of credit that are secured by liens or interests in real estate or made for the purpose of financing permanent improvements to real estate. Under these regulations, all insured depository institutions, such as the Bank, must adopt and maintain written policies establishing appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures and documentation, and approval and reporting requirements. The real estate lending policies must reflect consideration of the federal bank regulatory agencies' Interagency Guidelines for Real Estate Lending Policies.

All secured loans are supported with appraisals or evaluations of collateral. Business equipment and machinery, inventories, accounts receivable, and farm equipment are considered appropriate security, provided borrowers meet acceptable standards for liquidity and marketability. Loans secured by real estate generally do not exceed 85% of the appraised value of the property. Loan to collateral values are monitored as part of the loan review process, and appraisals are updated as deemed appropriate under the circumstances.

Commercial Lending

The Bank originates commercial real estate, equipment, construction, working capital and other commercial purpose loans to commercial clients throughout the Bank's various markets. The Bank has significant market share in south central Pennsylvania and has been expanding its presence geographically in recent years. Currently, growth markets include the

Harrisburg region, Lancaster County and Maryland markets. The markets, while the Bank's commercial lending is primarily focused in these geographic regions or with borrowers headquartered in these geographic regions; however, regions, the Company's lending area has also expanded into includes adjacent counties in Pennsylvania and Maryland, as well as Loudon County, Virginia and Berkeley, Jefferson and Morgan Counties, West Virginia.

The Bank's credit policy dictates the underwriting requirements for the various types of commercial loans the Bank makes available to borrowers. The policy covers such requirements as debt coverage ratios, advance rates against different forms of collateral, loan-to-value ratios and maximum term.

A majority of the Company's loans are for business purposes. At December 31, 2022 December 31, 2023, approximately 79% of the loan portfolio was comprised of commercial loans.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted, which established the SBA PPP. The SBA PPP provided economic relief to small businesses nationwide adversely impacted under the COVID-19 Emergency Declaration issued on March 13, 2020. The SBA PPP, which began on April 3, 2020 and ended on May 31, 2021, provided small businesses with funds to cover up to 24 weeks of payroll costs and other expenses, including benefits. It also provided for forgiveness of up to the full principal amount of qualifying loans. During 2020 and 2021, the Bank closed and funded almost 6,500 loans for a total gross loan amount of $699.4 million.

Consumer Lending

The Bank originates home equity loans, home equity lines of credit and other consumer loans, primarily through its branch network and client service center. A large majority of the consumer loans are secured by either a first or second lien

Table of Contents

position on the borrower's primary residential real estate. The Bank requires a loan-to-value ratio of no greater than 85% of the value of the real estate being taken as collateral with a minimum credit score of 710. The Bank also, at times, purchases consumer loans to help diversify credit risk in our loan portfolio.

Residential Lending

The Bank originates residential mortgages throughout its various markets referred from retail branches and through a network of mortgage loan officers. Residential mortgages originated by the Bank may be sold to secondary market investors, which include both GSE and non-GSE investors. All mortgages, regardless of being sold or held in the Bank's portfolio, are generally underwritten to secondary market industry standards for prime mortgages. For loans originated for investment, the Bank requires pricing adjustments commensurate with the risk, and the real estate taken as collateral generally results in the Bank holding a first lien on the property. The loan-to-value ratio requirements of the real estate being taken as collateral varies per the Credit Policy, and may require the borrower to obtain private mortgage insurance.

Loan Review

The Company has a loan review policy and program, which is designed to identify and monitor risk in the lending function. The Management ERM Committee, comprised of executive and senior officers and loan department personnel, is charged with the oversight of overall credit quality and risk exposure of the Company's loan portfolio. This includes the monitoring of the lending activities of all Company personnel with respect to underwriting and processing new loans and the timely follow-up and corrective action for loans showing signs of deterioration in quality. A loan review program provides the Company with an independent review of the commercial loan portfolio on an ongoing basis. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as extended delinquencies, bankruptcy, repossession or death of the borrower occurs, which heightens awareness as to increases the possibility of a possible credit event. loss.

Internal loan reviews are completed annually on all commercial relationships with a committed loan balance in excess of $1.0 million, which includes confirmation of risk rating by an independent credit officer. In addition, all commercial relationships greater than $500 thousand rated substandard, doubtful or loss are reviewed quarterly and corresponding risk ratings are changed or reaffirmed by the Company's Problem Loan Committee, with subsequent reporting to the Management ERM Committee and the Board of Directors.

The Bank outsources its independent loan review to a third-party provider, who monitors and evaluates borrowers on a quarterly basis utilizing risk-rating criteria established in the credit policy in order to identify deteriorating trends and detect conditions which might indicate potential problem loans. The results of the third-party loan review are reported quarterly to the Management and Board ERM Committees for review. The loan ratings provide the basis for evaluating the adequacy of the ALL. ACL.

Deposit Products

The Bank offers deposit products to retail, commercial, non-profit and government clients through its retail branch network. network, its website and commercial team. Product offerings for retail clients include checking accounts, money market, savings and certificates of deposit. The Bank offers a strong suite of treasury management solutions for businesses that help them to forecast and manage their cash and receivables. The Bank is committed to advancing digital capabilities for all clients, to ensure scalability and optimization of financial performance within the organizations. A robust treasury management online banking platform allows clients to send and collect money electronically using ACH and wire transfer origination services, deposit checks via mobile or desktop capture, and mitigate fraud through check and ACH positive pay services. Wire transfers may be sent and also received domestically, as well as internationally in most currencies. Online bill-pay services allow check and electronic payments, with same day, next day and future dated payments. Additionally, business clients can automatically move money between Bank accounts using various automated sweep services. Using strategic partnerships, the Bank is able to offer best-in-class lockbox services, armored cash logistic solutions, credit cards, purchasing cards, and merchant card processing services.

Digital capability for consumers includes person-to-person (P2P) payment, bill pay, and mobile deposit capture and domestic money transfer services. Traditional domestic and international wire transfer services are also offered via branch. the Bank's branches. In addition to opening accounts and communicating with employees via traditional branch or call-center engagement, digital online account opening, online loan and credit card application processing, online mortgage pre-qualification and mortgage application processing, automated telephone services, and online chat features provide consumers with convenient digital alternatives to more traditional products and services.

The Bank competes for deposits similarly on the basis of a combination of value and service and by providing convenience through a banking broad network of branches, ATMs, card services, and digital service channels.

Table of Contents

Investment Services

Through its trust department, the Bank renders services as trustee, executor, administrator, guardian, managing agent, custodian, investment advisor, and other fiduciary activities authorized by law under the trade name Orrstown Financial Advisors, or OFA. OFA offers retail brokerage services through a third-party broker/dealer arrangement with Cetera Advisor Networks LLC. At December 31, 2022 December 31, 2023, average assets under management by OFA totaled $1.7 billion $1.8 billion.

Competition

The Bank's principal market area consists of south central Pennsylvania, the greater Baltimore region, and Washington County, Maryland. The Bank serves a substantial number of depositors in this market area and its contiguous counties.

The Bank competes with other banks and less heavily regulated financial services companies, such as credit unions and finance and trust companies, as well as mortgage banking companies, mutual funds, investment advisors, and brokerage firms, both within and outside of its primary market areas. Financial technology companies, or FinTechs, Fintechs, are also providing nontraditional, but increasingly strong competition for the Bank's borrowers, depositors, acquisition and other retention of clients.

The Bank competes for loans primarily on the basis of a combination of value and service by building client relationships as a result of addressing its clients' banking needs, demonstrating expertise, and providing convenience to its clients.

The Bank competes for deposits similarly on the basis of a combination of value and service and by providing convenience through a banking network of branches and ATMs within its markets and digital service channels such as mobile banking.

The Company implements strategic initiatives focused on expanding its core businesses and exploring, on an ongoing basis, acquisition, divestiture, and joint venture opportunities to the extent permitted by its regulators and in alignment with its strategic goals. The Company analyzes each of the Bank's products and businesses in the context of shareholder return, client demands, competitive advantages, industry dynamics, and growth potential. The Company's management believes its market area will support further growth in assets and deposits in the future, which it expects to contribute to the Company's ability to maintain or grow profitability. future.

Regulation and Supervision

The Parent Company is a bank holding company registered with the FRB and has elected status as a FHC. The Bank is a Pennsylvania-chartered commercial bank and a member bank of the Federal Reserve System.

Regulatory Environment

The banking industry is highly regulated, and Orrstown is subject to supervision, regulation, and examination by the FRB, as its primary federal regulator, and the Pennsylvania Department of Banking and Securities. The statutory and regulatory framework that governs the Company is generally intended to protect depositors and clients, the FDIC's Deposit Insurance Fund, the U.S. banking and financial system, and financial markets as a whole by ensuring the safety and soundness of bank holding companies ("BHCs") and banks. Bank regulators regularly examine the operations of BHCs and banks. Regulators have broad supervisory and enforcement authority over BHCs and banks, including the power to impose nonpublic supervisory agreements, issue cease and desist orders, impose fines and other civil and criminal penalties, terminate deposit insurance, and appoint a conservator or receiver.

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations, and supervisory agreements could subject the Company and its respective officers, directors, and institution-affiliated parties to the remedies described above, and other sanctions. In addition, the FDIC may terminate a bank's deposit insurance upon a finding that the bank's financial condition is unsafe or unsound or that the bank has engaged in unsafe or unsound practices or has violated an applicable rule, regulation, order, or condition enacted or imposed by the bank's regulatory agency.

Banking statutes, regulations, and policies are continually under review, as applicable, by Congress, state legislatures, and federal and state regulatory agencies. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters, and similar written guidance applicable to Orrstown. Any change in statutes, regulations, or regulatory policies applicable to us, including changes in their interpretation or implementation, could have a material effect on our business or organization.

The Parent Company is also subject to the disclosure and regulatory requirements of the Securities Act and the Exchange Act, both as administered by the SEC, as well as the rules of Nasdaq that apply to companies with securities listed on the Nasdaq Capital Market.

Table of Contents

Several of the more significant regulatory provisions applicable to BHCs and banks to which the Company are subject are discussed below, along with certain regulatory matters concerning the Parent Company and the Bank. To the extent that the following information describes statutory or regulatory provisions, such information is qualified in its entirety by reference to the particular statutes or regulations. Any change in applicable law or regulation may have a material effect on the business and prospects of the Parent Company and the Bank.

Financial and Bank Holding Company Activities

As a FHC, the Parent Company is permitted to engage, directly or through subsidiaries, in a wide variety of activities that are financial in nature or are incidental or complementary to a financial activity, in addition to all of the activities otherwise allowed.

As a FHC, the Parent Company is generally subject to the same regulation as other BHCs, including the reporting, examination, supervision and consolidated capital requirements of the FRB. To preserve its FHC status, the Parent Company must remain well-capitalized and well-managed and ensure that the Bank remains well-capitalized and well-managed for regulatory purposes and earns “satisfactory” or better ratings on its periodic Community Reinvestment Act CRA examinations. An FHC ceasing to meet these standards is subject to a variety of restrictions, depending on the circumstances.

If the Parent Company or the Bank are either not well-capitalized or not well-managed, the Parent Company or the Bank must promptly notify the FRB. Until compliance is restored, the FRB has broad discretion to impose appropriate limitations on a FHC’s activities. If compliance is not restored within 180 days, the FRB may ultimately require the FHC to divest its depository institutions or in the alternative, to discontinue or divest any activities that are permitted only to non-FHC bank holding companies.

If the FRB determines that a FHC or its subsidiaries do not satisfy the CRA requirements, the potential restrictions are different. In that case, until all of the subsidiary institutions are restored to at least “satisfactory” CRA rating status, the FHC may not engage, directly or through a subsidiary, in any of the additional activities permissible under the BHC Act nor make additional acquisitions of companies engaged in such additional activities. However, completed acquisitions and additional activities and affiliations previously begun are left undisturbed, as the BHC Act does not require divestiture for this type of situation.

Federal Deposit Insurance

The FDIC's Deposit Insurance Fund provides insurance coverage for certain deposits, up to a standard maximum deposit insurance amount of $250 thousand per depositor and is funded through assessments on insured depository institutions, based on a methodology designed to take into account the risk each institution poses to the Deposit Insurance Fund. The Bank accepts client deposits that are insured by the Deposit Insurance Fund and, therefore, must pay insurance premiums. The FDIC may increase the Bank’s insurance premiums based on various factors, including changes in the FDIC’s assessment of its Bank's risk profile. In October Beginning with the first quarterly assessment period of 2022, 2023, the FDIC finalized a rule to increase increased the initial base deposit insurance assessment rate by two basis points, beginning in the first quarter of 2023. The increase in the assessment rate for banks which is intended to increase the Deposit Insurance Fund ("DIF") reserve ratio to the statutory minimum of 1.35%. For 2022, 2023, the FDIC insurance expense for the Bank was $1.1 million $2.0 million.

In November 2023, the FDIC approved a final rule to implement a special assessment to recover the loss to the DIF associated with protecting uninsured deposits from bank events earlier in 2023. The FDIC will collect the special assessment beginning with the first quarterly assessment of 2024 and will continue to collect the special assessment for an estimated total of eight quarterly assessment periods. Banking organizations with total assets under $5.0 billion will be exempt from the special assessment, which is based on data from the December 31, 2022 reporting period.

If the FDIC is appointed conservator or receiver of a bank upon that bank’s insolvency or the occurrence of other events, the FDIC may sell some, part, or all of a bank’s assets and liabilities to another bank or repudiate or disaffirm most types of contracts to which that bank was a party if the FDIC believes such contracts are burdensome. In resolving the estate of a failed bank, the FDIC as receiver will first satisfy its own administrative expenses, and the claims of holders of U.S. deposit liabilities also have priority over those of other general unsecured creditors.

Liability for Banking Subsidiaries

The Parent Company is required to serve as a source of financial and managerial strength to the Bank and, under appropriate conditions, to commit resources to support the Bank. This support may be required by the FRB at times when the Bank might otherwise determine not to provide it or when doing so is not otherwise in the interests of the Parent Company or its shareholders or creditors. The FRB may require a BHC to make capital injections into a troubled subsidiary bank and may charge the BHC with engaging in unsafe and unsound practices if the BHC fails to commit resources to such a subsidiary bank or if it undertakes actions that the FRB believes might jeopardize the BHC’s ability to commit resources to such subsidiary bank.

Under these requirements, the Parent Company may in the future be required to provide financial assistance to the Bank should it experience financial distress. Capital Any loans by the Parent Company a holding company to the Bank would be its subsidiary bank are subordinate in right of payment to deposits and to certain other debts indebtedness of the Bank. such subsidiary bank. In the event of the Parent Company's bankruptcy, any commitment by

Table of Contents

the Parent Company to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Pennsylvania Banking Law

The Pennsylvania Banking Code contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, and employees, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Pennsylvania Banking Code delegates extensive rule-making power and administrative discretion to the Pennsylvania Department of Banking and Securities so that the supervision and regulation of state-chartered banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

The FDIA, however, prohibits state-chartered banks from making new investments, loans, or becoming involved in activities as principal and equity investments which are not permitted for national banks unless the FDIC determines the activity or investment does not pose a significant risk of loss to the Deposit Insurance Fund, and a bank meets all applicable capital requirements. Accordingly, additional operating authority provided to the Bank by the Pennsylvania Banking Code may be significantly restricted by the FDIA.

Dividend Restrictions

The Parent Company is a legal entity separate and distinct from its banking and non-banking subsidiaries. Since the Parent Company's consolidated net income consists largely of net income of its subsidiaries, its ability to make capital distributions, including paying dividends and repurchasing shares, depends upon its receipt of dividends from these subsidiaries. Under federal law, there are various limitations on the extent to which the Bank can declare and pay dividends to the Parent Company, including those related to regulatory capital requirements, general regulatory oversight to prevent unsafe or unsound practices, and federal banking law requirements concerning the payment of dividends out of net profits, surplus, and available earnings. The Bank must maintain the CET1 Capital Conservation Buffer requirement of 2.5% to avoid becoming subject to restrictions on capital distributions, including dividends. Certain contractual restrictions also may limit the ability of the Bank to pay dividends to the Parent Company. No assurances can be given that the Bank will, in any circumstances, pay dividends to the Parent Company.

The Parent Company's ability to declare and pay dividends to its shareholders is similarly limited by federal banking law and FRB regulations and policy.

FRB policy provides that a BHC should not pay dividends unless (1) the BHC’s net income over the last four quarters (net of dividends paid) is sufficient to fully fund the dividends, (2) the prospective rate of earnings retention appears consistent with the capital needs, asset quality, and overall financial condition of the BHC and its subsidiaries, and (3) the BHC will continue to meet minimum required capital adequacy ratios. Accordingly, a BHC should not pay cash dividends that can only be funded in ways that weaken the BHC’s financial health, such as by borrowing. The policy also provides that a BHC should inform the FRB reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the BHC’s capital structure. BHCs also are expected to consult with the FRB before increasing dividends or redeeming or repurchasing capital instruments. Additionally, the FRB could prohibit or limit the payment of dividends by a BHC if it determines that payment of the dividend would constitute an unsafe or unsound practice.

Transactions between a Bank and its Affiliates

Federal banking laws and regulations impose qualitative standards and quantitative limitations upon certain transactions between a bank and its affiliates, including between a bank and its holding company and companies that the BHC may be deemed to control for these purposes. Transactions covered by these provisions must be on arm’s-length terms, and cannot be offered on terms more favorable than would be offered to non-related borrowers of similar creditworthiness, and cannot exceed certain amounts which are determined with reference to that bank’s regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the BHC may be required to provide it. The Dodd-Frank Act expanded the coverage and scope of these restrictions and requirements, including by applying them to the credit exposure arising under derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. Federal banking laws also place similar restrictions on loans and other extensions of credit by FDIC-insured banks, such as the Bank, and their subsidiaries to their directors, executive officers, and principal shareholders.

Regulatory Capital Requirements

Compliance with respect to capital requirements is incorporated by reference from Note 16, 17, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary

Table of Contents

Data," and from the Capital Adequacy and Regulatory Matters section of Item 7, “Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations.”

The Bank is subject to certain risk-based capital and leverage ratio requirements under the U.S. Basel III capital rules adopted by the FRB. These rules implement the Basel III international regulatory capital standards in the U.S., as well as certain provisions of the Dodd-Frank Act. These quantitative calculations are minimums, and the FRB may determine that a banking organization, based on its size, complexity, or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. The FRB asset-sized reporting threshold for a BHC is $3.0 billion and a company with consolidated assets under that limit is generally not subject to the FRB consolidated capital rules. A company with consolidated assets under the limit may continue to file reports that include capital amounts and ratios. Orrstown has elected to continue to file those reports.

Under the U.S. Basel III capital rules, the Parent Company's and the Bank’s assets, exposures, and certain off-balance sheet items are subject to risk weights used to determine the institutions’ risk-weighted assets. These risk-weighted assets are used to calculate the following minimum capital ratios for the Parent Company and the Bank:

- CET1 Risk-Based Capital Ratio, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital primarily includes common shareholders’ equity subject to certain regulatory adjustments and deductions, including goodwill, intangible assets, certain deferred tax assets, and AOCI. The Company has elected to opt out of including AOCI components.

- Tier 1 Risk-Based Capital Ratio, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is primarily comprised of CET1 capital, perpetual preferred stock, and certain qualifying capital instruments.

- Total Risk-Based Capital Ratio, equal to the ratio of total capital, including CET1 capital, Tier 1 capital, and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying ALL. ACL.

- Tier 1 Leverage Ratio, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets, and certain other deductions).

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications.

In addition to meeting the minimum capital requirements, under the U.S. Basel III capital rules, the Bank must also maintain the required Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The Capital Conservation Buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios. The Capital Conservation Buffer requirement is 2.5%. The Tier 1 Leverage Ratio is not impacted by the Capital Conservation Buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the Capital Conservation Buffer.

The Parent Company has the ability to provide additional capital to the Bank to maintain the Bank's risk-based capital ratios at levels which would be considered well-capitalized.

At December 31, 2022 December 31, 2023, the Parent Company's and the Bank's regulatory capital ratios were above applicable well-capitalized standards and met the Capital Conservation Buffer requirement.

Bank Acquisitions by Orrstown

BHCs must obtain prior approval of the Federal Reserve in connection with any acquisition that results in the BHC owning or controlling 5% or more of any class of voting securities of a bank or another BHC.

Acquisitions of Ownership of Orrstown

Acquisitions of Orrstown's voting stock above certain thresholds are subject to prior regulatory notice or approval under federal banking laws, including the BHC Act and the Change in Bank Control Act of 1978. Under the Change in Bank Control Act, a person or entity generally must provide prior notice to the FRB before acquiring the power to vote 10% or more of our outstanding common stock. Investors should be aware of these requirements when acquiring shares in the Company's stock.

Data Privacy

Federal and state law contains extensive consumer privacy protection provisions. The GLB Act requires financial institutions to periodically disclose their privacy policies and practices relating to sharing such information and enables retail clients to opt out of our ability to share information with unaffiliated third parties under certain circumstances. Other federal

Table of Contents

and state laws and regulations impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact clients with marketing offers. These security and privacy policies and procedures for the protection of personal and confidential information are in effect across all businesses and geographic locations as applicable. Federal law also makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain client information of a financial nature by fraudulent or deceptive means. Data privacy and data protection are areas of increasing federal and state legislative focus.

Like other lenders, the Bank uses credit bureau data in its underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act, which also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on the Company.

Cybersecurity

Multiple federal laws contain provisions requiring regulated financial institutions to maintain cybersecurity programs incorporating specific elements. The GLB Act requires financial institutions to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of client records and information.

The Cybersecurity Information Sharing Act is intended to improve cybersecurity in the U.S. by enhanced sharing of information about security threats among the U.S. government and private sector entities, including financial institutions. The Cybersecurity Information Sharing Act also authorizes companies to monitor their own systems notwithstanding any other provision of law and allows companies to carry out defensive measures on their own systems from cyber-attacks. The law includes liability protections for companies that share cyber threat information with third parties so long as such sharing activity is conducted in accordance with Cybersecurity Information Sharing Act.

In October 2016, the federal bank regulatory agencies issued an Advanced Notice of Proposed Rulemaking regarding enhanced cyber risk management standards, which would apply to a wide range of large financial institutions and their third-party service providers. The proposed rules would expand existing cybersecurity regulations and guidance to focus on cyber risk management and governance, management of internal and external dependencies, and incident response, cyber resilience, and situational awareness. In addition, the proposal contemplated more stringent standards for institutions with systems that are critical to the financial sector. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more. The federal banking agencies have not yet taken further action on such proposed standards.

The United States federal bank regulatory agencies adopted a rule regarding notification requirements for banking organizations related to significant computer security incidents. Effective April 1, 2022, a bank holding company and a state member bank are required to notify the Federal Reserve within 36 hours of incidents that have materially disrupted or degraded, or are reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its client base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The Company's Computer Security Incident Response Plan includes procedures for timely and accurate notifications to regulators, law enforcement, and insurance companies. These procedures are tested comprehensively at least annually.

Community Reinvestment Act

The CRA is intended to encourage banks to help meet the credit needs of their service areas, including low- and moderate-income neighborhoods, consistent with safe and sound business practices. The relevant federal bank regulatory agency, the FRB in the Bank's case, examines each bank and assigns it a public CRA rating. A bank's record of fair lending compliance is part of the resulting CRA examination report. The CRA requires the relevant federal bank regulatory agency to consider a bank's CRA assessment when considering that bank's application to conduct certain mergers or acquisitions or to open or relocate a branch office. The FRB also must consider the CRA record of each subsidiary bank of a BHC in connection with any acquisition or merger application filed by the BHC. An unsatisfactory CRA record could substantially delay or result in the denial of an approval or application by the Parent Company or the Bank. The Bank received a CRA rating of "Satisfactory" in its most recent examination. examination prepared by the FRB on January 25, 2021. Leaders of the federal banking agencies have had indicated their support for modernizing the CRA regulatory framework to address changing delivery systems and consumer preferences. In May 2022, preferences, and on October 24, 2023, the United States federal bank regulatory agencies jointly issued a joint proposal that would, among other things, final rule to strengthen and modernize the CRA regulations by maintaining the existing CRA ratings, but modifying the evaluation framework to replace the existing tests generally applicable to banks with at least $2.0 billion in total assets (e.g., the lending, investment and service tests) with four new tests and associated performance metrics. The final rule updates the CRA regulations to expand access to credit, investment, and basic banking services in low- and moderate-income communities, adapt to changes in the banking industry, including the expanded role of mobile and online banking, and provide greater clarity consistency, and transparency. Following the comment period, it is expected that a final ruling consistency. The new CRA regulations will be issued by the Agencies during 2023.

Table of Contents

become effective on January 1, 2026.

Anti-Money Laundering

The Bank Secrecy Act and the PATRIOT Act contain anti-money laundering and financial transparency provisions intended to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities. The Bank Secrecy Act, as amended by the PATRIOT Act, requires depository institutions and their holding companies to undertake activities including maintaining an anti-money laundering program, verifying the identity of clients, verifying the identity of certain beneficial owners for legal entity clients, monitoring for and reporting suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. The Bank is subject to the Bank Secrecy Act and, therefore, is required to provide its employees with anti-money laundering training, designate an anti-money laundering compliance officer, and undergo an annual, independent audit to assess the effectiveness of its anti-money laundering program. The Bank has implemented policies, procedures, and internal controls that are designed to comply with these anti-money laundering requirements. Bank regulators are focusing their examinations on anti-money laundering compliance, and we will continue to monitor and augment, where necessary, our anti-money laundering compliance programs. The federal banking agencies are required, when reviewing bank and BHC acquisition or merger applications, to consider the effectiveness of the anti-money laundering activities of the applicant.

The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the BSA, was enacted in January 2021. The AMLA codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the U.S. Department of the Treasury ("Treasury") to promulgate priorities for anti-money laundering and countering the financing of terrorism policy; requires the development of standards by the Treasury for testing technology and internal processes for BSA compliance; expands enforcement- and investigation-related authority, including a significant expansion in the available sanctions for certain BSA violations; and expands BSA whistleblower incentives and protections. Many of the statutory provisions in the AMLA will require required additional rulemaking, reports and other measures, and the impact of the AMLA will depend on, among other things, rulemaking and implementation guidance. Of these statutory provisions, the final rule for the Corporate Transparency Act (the "CTA") will become became effective January 1, 2024. The CTA authorizes authorized FinCEN to collect uniform beneficial ownership information for certain types of corporations, limited liability companies or other similar entities and disclose the information to authorized Federal agencies engaged in national security, intelligence, or law enforcement activities; state, local, and Tribal law enforcement agencies with court authorization; financial institutions with client due diligence requirements and regulators supervising them for compliance with such requirements; foreign law enforcement agencies, prosecutors, judges, and other agencies that meet specific criteria; and Treasury officers and employees under certain circumstances in an attempt to help prevent criminal and terrorist activity.

Office of Foreign Assets Control Regulation

The Office of Foreign Assets Control is responsible for administering economic sanctions that affect transactions with designated foreign countries, nationals, and others, as defined by various Executive Orders and in various legislation. Office of Foreign Assets Control-administered sanctions take many different forms. For example, sanctions may include: (1) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (2) a blocking of assets in which the government or "specially designated nationals" of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction, including property in the possession or control of U.S. persons. The Office of Foreign Assets Control also publishes lists of persons, organizations, and countries suspected of aiding, harboring, or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Blocked assets, such as property and bank deposits, cannot be paid out, withdrawn, set off, or transferred in any manner without a license from the Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences.

Transaction Account Reserves

FRB regulations require depository institutions to maintain cash reserves against specified deposit liabilities. The dollar amount of a depository institution's reserve requirement is determined by applying the reserve ratios specified in Regulation D to an institution's transaction accounts (primarily NOW and regular checking accounts). The FRB issued a final rule, effective December 22, 2020, lowering the reserve requirement on transaction accounts to 0%. Effective January 1, 2023 January 1, 2024, the FRB will establish the new reserve requirement exemption amount and low reserve tranche for 2023, 2024, but will not elevate the current reserve percentage from zero for depository institutions.

Table of Contents

Consumer Protection Regulation and Supervision

The Bank is subject to the regulations promulgated by the CFPB, as administered by the FRB, with respect to federal consumer protection laws. The Bank is also subject to certain state consumer protection laws and, under the Dodd-Frank Act, state attorneys general and other state officials are empowered to enforce certain federal consumer protection laws and regulations. State authorities have increased their focus on and enforcement of consumer protection rules. These federal and state consumer protection laws apply to a broad range of the Bank's activities and to various aspects of its business and include laws relating to interest rates, fair lending, disclosures of credit terms and estimated transaction costs to consumer borrowers, debt collection practices, the use and provision of information to consumer reporting agencies, and the prohibition of unfair, deceptive, or abusive acts or practices in connection with the offer, sale, or provision of consumer financial products and services.

The CFPB has promulgated many mortgage-related final rules since it was established under the Dodd-Frank Act, including rules related to the ability to repay, qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, high-cost mortgage requirements, Home Mortgage Disclosure Act requirements, and appraisal and escrow standards for higher priced mortgages. The mortgage-related final rules issued by the CFPB have materially restructured the origination, servicing, and securitization of residential mortgages in the U.S. These rules have impacted, and will continue to impact, the business practices of residential mortgage lenders, including the Bank.

Nasdaq Capital Market

The Company's common stock is listed on the Nasdaq Capital Market under the trading symbol "ORRF" and is subject to Nasdaq's rules for listed companies.

Available Information

The Company is subject to the informational requirements of the Exchange Act and, in accordance with the Exchange Act, it files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The SEC maintains an Internet web site that contains reports, proxy statements, and other information about issuers, like us, who file electronically with the SEC. The address of the site is www.sec.gov. The reports and other information, including any related amendments, filed by us with, or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, by the Company to, the SEC are also available free of charge at our Internet web site as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The address of the site is www.orrstown.com. Except as specifically incorporated by reference into this Annual Report on Form 10-K, information on those web sites is not part of this report.

ITEM 1A – RISK FACTORS

An investment in our common stock is subject to risks inherent in our business. The material risks and uncertainties that management believes affect us are described below. This report is qualified in its entirety by these risk factors.

Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report and our other filings with the SEC. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations.

If any of the following risks actually materialize, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to Credit

If our allowance for loan credit losses is not sufficient to cover actual losses, our earnings would decrease.

The allowance for loan losses ACL is recorded as a reduction to loans and leases on the consolidated balance sheet, and the reserve for unfunded lending commitments is included in other liabilities on the consolidated balance sheet. While the Company believes we believe that its allowance for loan losses our ACL as of December 31, 2022 December 31, 2023 was sufficient to cover incurred losses in the loan and lease portfolio on that date, the Company we may need to increase its our provision for credit losses in future periods due to changes in the risk characteristics of the loan and lease portfolio, thereby negatively impacting its our results of operations.

We periodically make a determination of

On January 1, 2023, the Company adopted ASU 2016-13, the current expected credit losses accounting standard commonly referred to as "CECL," which replaced the incurred loss model with the lifetime expected loss model. The CECL methodology requires an allowance organization to measure all expected credit losses over the contractual term for loan losses financial assets measured at amortized cost, including loans, based on available information, including, but not limited historical experience, current conditions, and reasonable and supportable forecasts. The adoption of the new CECL standard resulted in a cumulative-effect adjustment that increased the ACL for loans by $2.4 million and increased the off-balance sheet credit exposures reserve by $100 thousand. Retained earnings, net of deferred taxes, decreased by $2.0 million, and deferred tax assets increased by $559 thousand. As a result of the adoption of CECL standard, companies must recognize credit losses on these assets equal to management's estimate of credit losses over the assets' remaining expected lives. It is possible that our ongoing reported earnings and lending activity will be impacted negatively as a result of the application of CECL.

The ACL is determined based on various factors impacting the quality of the loan and lease portfolio as indicated by trends in loan risk ratings, our borrowers' financial condition, payment performance, economic conditions, the value of the underlying collateral, and the level support from a guarantor, in addition to the impact from economic conditions, government macroeconomic policies, interest rates and the regulatory environment. The experience and expertise of our loan officers, credit analysts and special assets group are essential to performing credit quality reviews, in addition to analyzing trends in delinquencies, levels of non-accruing and criticized loans and leases. Management

Table of Contents

relies on its leases and modifications to loan officers and credit quality reviews, its experience and its evaluation of economic conditions, among terms. The ACL may also be influenced by other factors, in determining including concentrations by the amount type of provision required for loan, collateral, borrower or location of the allowance for loan losses. Provisions to this allowance result in an expense for collateral or borrower. Such concentrations could increase the period. If, as a result of general possibility that similarly situated borrowers and their collateral may collectively be affected by certain economic conditions, previously incorrect assumptions in the qualitative factors, or an increase in defaulted loans or leases, we determine that additional increases in the allowance for loan losses are necessary, additional expenses may be incurred. conditions.

Determining the allowance for loan losses ACL inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and trends, all of which may undergo material changes. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans and leases that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses ACL for any of several reasons. State and federal regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may request that we increase the allowance for loan losses. ACL. Changes in economic conditions or individual business or personal circumstances affecting borrowers, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Any increases in ACL.

If our assessment of and expectations concerning the allowance for loan losses above-mentioned factors differ from actual developments, we may result in a decrease in be required to increase our net income and, possibly, our capital, and ACL, which could have an adverse effect on our financial condition, and results of operations.

As a result of the adoption of ASU 2016-13 effective January 1, 2023, the Company updated its critical accounting policy to the allowance for credit losses. The updates in this standard replace the incurred loss impairment methodology GAAP with the current expected credit losses ("CECL") methodology. The CECL methodology incorporates current condition, operations and "reasonable and supportable" forecasts, as well as prepayments, to estimate loan losses over the life of the loan. The Company expects to recognize a one-time cumulative-effect adjustment to the allowance for credit losses as of the date of adoption. The determination of the one-time cumulative-effect adjustment, and the determination of the allowance for credit losses in future periods, under the CECL model depend significantly upon the Company's assumptions and judgments with respect to a variety of factors. As under the existing incurred loss model, if the Company's assumptions and judgments regarding such matters prove to be inaccurate, its allowance for credit losses might not be sufficient, and additional provisions for credit losses might need to be made. Depending on the amount of such provisions for credit losses, the adverse impact on the Company's earnings could be material. For a more complete description of the potential impact ASU 2016-13 may have on our financial statements and allowance for credit losses, please refer to Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data" appearing elsewhere in this Form 10-K. regulatory capital.

Commercial real estate lending may expose us to a greater risk of loss and impact our earnings and profitability.

Our business strategy includes making loans secured by commercial real estate. These types of loans generally have higher risk-adjusted returns and shorter maturities than other loans. Loans secured by commercial real estate properties are generally for larger amounts and may involve a greater degree of risk than other loans. Payments on loans secured by these properties are often dependent on the income produced by the underlying properties which, in turn, depends on the successful operation and management of the properties. properties and the businesses that operate within them. Accordingly, repayment of these loans is subject to conditions in the real estate market or the local economy. Additionally, the COVID-19 pandemic has had a potentially long-term negative impact on certain commercial real estate assets due to the risk that tenants may reduce the office space they lease as some portion of the workforce continues to work remotely on a hybrid or full-time basis. In challenging economic conditions and as a result of changing demand for office space, these loans represent higher risk and could result in internal risk rating downgrades and an increase in our total net charge-offs, requiring us to increase our allowance for loan losses, ACL, which could have a material adverse effect on our financial condition or results of operations. While we seek to minimize these risks in a variety of ways, there can be no assurance that these measures will protect against credit-related losses.

Our loan portfolio has a significant concentration in commercial real estate loans.

Our loan portfolio is made up largely includes a large amount of commercial real estate loans. The federal banking agencies have promulgated guidance governing banks with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total commercial real estate loans represent 300% or more of total risk-based capital and that bank’s commercial real estate loan portfolio has increased 50% or more during the prior thirty-six months. Owner-occupied commercial real estate loans are excluded from this second category. If a bank is deemed to have a concentration in commercial real estate loans, it will be required to employ heightened risk management practices that address board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and maintenance of increased capital levels as needed to support the level of commercial real estate lending. At December 31, 2022 December 31, 2023, the Bank’s construction, land development and other land balances were 64% 44% of total risk-based capital, commercial real estate loans were 319% 307% of total risk-based risk-based capital and the Bank’s commercial real estate loan portfolio had increased by 78% 69% during the prior thirty-six months. In addition, the Bank's office space portfolio was 71% of total risk-based capital at December 31, 2023. At this date, the Bank's office space portfolio included only limited exposure to properties in major metropolitan markets and amounted to approximately 2% of the total commercial real estate loan portfolio balance. The Bank believes it has taken the appropriate steps to implement appropriate risk management practices, which are subject to regulatory examination, including enhanced market analysis, stress testing and sensitivity analysis. If our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement

to maintain increased capital levels or restrict our ability to originate new loans secured by commercial real estate. We can provide no assurance that capital would be available, or available on terms favorable to the Company, us, at that time.

The credit risk related to commercial and industrial loans is greater than the risk related to residential loans.

Commercial and industrial loans generally carry larger loan balances and involve a greater degree of risk of nonpayment or late payment than home equity loans or residential mortgage loans. Commercial and industrial loans include advances to local and regional businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit or term loans. Although commercial and industrial loans may be unsecured to our highest rated borrowers, the majority of these loans are secured by the borrower’s accounts receivable, inventory and machinery and equipment. In a significant number of these loans, the collateral also includes the business real estate or the business owner’s personal real estate or assets. Commercial and industrial loans are more susceptible to risk of loss during a downturn in the economy, as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline. We attempt to mitigate this risk through our underwriting standards, including evaluating the creditworthiness of the borrower, regular monitoring, and, to the extent available, credit ratings on the business. However, these procedures cannot entirely eliminate the risk of loss associated with commercial and industrial lending.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

As a participating lender in the SBA PPP, we are subject to risks that the SBA may not fund some or all PPP loan guaranties and to additional risks of litigation from our clients or other parties regarding our processing of loans for the PPP.

The Company had $14.1 million in gross outstanding balance of SBA PPP loans at December 31, 2022. We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which a loan was originated, funded, or serviced by us. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

We may be exposed to the risk of litigation regarding our process and procedures used in processing applications for the PPP and in connection with our processing of PPP loan forgiveness applications. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in a material adverse impact on our business, financial condition and results of operations or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome.

Risks Related to Interest Rates and Investments

Changes in interest rates could adversely impact the Company's our financial condition and results of operations.

Our operations are subject to risks and uncertainties surrounding our exposure to changes in the interest rate environment. Operating income, net income Earnings and liquidity depend to a great extent on our net interest margin. 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 FRB. 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, and liquidity, could contract and be materially adversely affected. Our earnings and liquidity 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.

Changes in interest rates also can affect our ability to originate loans, our ability to obtain and retain deposits, and the value of interest-earning assets, and the ability to realize gains from the sale of such assets, which could all negatively impact shareholder's equity and regulatory capital. Since December 31, 2021, March 2022, the FRB Federal Reserve Open Markets Committee ("FOMC") has raised the federal funds Fed Funds rate by 450 525 basis points and has indicated that additional interest rate increases are possible in 2023. points. Additional increases in interest rates could

Table of Contents

also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and charge-offs, but could also necessitate further increases to our allowance for credit losses ACL and reduce net income. In addition, based on our interest rate sensitivity analyses, an increase in the general level of interest rates may negatively affect the market value of the investment portfolio depending on the duration of certain securities included in the investment portfolio. In December of 2023, the FOMC signaled its intention to reduce interest rates in 2024, contingent upon inflation settling at its 2.0% target. A decrease in interest rates may trigger loan prepayments, which may serve to reduce net interest income if we are unable to lend these funds to other borrowers or invest the funds at the same or higher interest rates. In addition, based on our interest rate sensitivity analyses, an increase in the general level of interest rates will negatively affect the market value of the investment portfolio because of the relatively higher duration of certain securities included in the investment portfolio.

Our subordinated notes, issued in December 2018, have had a 6.0% fixed interest rate through December 2023, December 30, 2023, after which the interest rate will convert converted to a variable rate, equivalent to the LIBOR 90-day average fallback rate, or any replacement reference SOFR rate, plus 3.16% through maturity in December 2028. At December 31, 2023, the interest rate on our subordinated debt was 8.78%. An increase in the interest rate on our subordinated debt could have a material adverse effect on our liquidity and results of operations.

Our securities portfolio performance in difficult market conditions could have adverse effects on our results of operations.

Unrealized losses on investment securities result from changes in market interest rates, credit spreads and liquidity in the marketplace, along with changes in the credit profile of individual securities issuers. Under GAAP, we Prior to implementation of CECL, unrealized losses on AFS debt securities caused by a credit event would require the direct write-down of the AFS security through the OTTI approach; however, the new standard under ASC 326-30, *Financial Instruments - Credit Losses*, requires credit losses to be presented as an ACL. We are still required to review our investment portfolio periodically for conduct an impairment evaluation on AFS securities to determine whether the presence of impairment of our Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance continues to require us to reduce the security's amortized cost basis down to its fair value through earnings.

We also evaluate the unrealized losses on AFS securities taking into consideration current and future market conditions, the extent and nature of changes to determine if a security's decline in fair value issuer rating changes below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and trends, volatility the level of earnings, current analysts' evaluations, our ability credit support in the security structure. Management also evaluates other factors and intent to hold investments until circumstances that may be indicative of a recovery of decline in the fair value as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us security due to deem particular securities a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. Under the CECL standard, if the present value of the cash flows expected to be impaired, with collected is less than the credit-related portion of amortized cost, an ACL is recorded for the reduction in the value recognized as a charge to our earnings through a valuation allowance. credit loss.

Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments an ACL charge and any additional amount of loss due to non-credit factors could impact AOCI. A reduction in the value of our securities portfolio which may could have an adverse effect on our regulatory capital, financial condition or results of operations in future periods. During 2022, the Company experienced a decline in the value of its AFS investment securities, as a result of the rising interest rate environment, which resulted in $55.2 million in unrealized losses reflected in AOCI and reduced total shareholders' equity. Additional increases in interest rates and credit spread changes could result in additional unrealized losses on AFS investment securities. The Company has determined that its unrealized losses on investment securities as of December 31, 2022 did not meet the definition of OTTI. The Company does not intend to sell any of its investment securities nor will be required to sell them before recovery of their amortized cost.

In addition, deterioration or defaults made by issuers of the underlying collateral of our investment securities may cause additional credit-related other-than-temporary impairment charges to our income statement. Our consolidated financial statements.

During 2023, the net unrealized losses of our AFS investment securities decreased $14.0 million as a result of a decline in market interest rates, which increased total shareholders' equity. However, increases in interest rates and credit spread changes could result in additional unrealized losses on AFS investment securities. We consider the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, we maintain that we have the intent and ability to borrow from other financial institutions or hold our AFS securities until the amortized cost is recovered. We did not record a cumulative-effect adjustment related to access the debt or equity capital markets our AFS securities upon adoption of CECL on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations. January 1, 2023.

Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings and financial condition.

A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Among other things, a downgrade in the U.S. government's credit rating could adversely impact the value of our securities portfolio and may trigger requirements that the Company we post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instruments would could significantly exacerbate the other risks to which we are subject and any could have related adverse effects on the our business, financial condition and results of operations.

Uncertainty about the transition from LIBOR to other benchmark interest rate indexes may adversely affect our business.

LIBOR is used extensively in the United States as a benchmark for various consumer, commercial and financial contracts, including funding sources, adjustable-rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks, which will stop reporting such information after June 30, 2023. Other benchmarks may perform differently than LIBOR or may have other consequences that cannot currently be anticipated. On March 15, 2022, Congress passed the Adjustable Interest Rate (LIBOR) Act to establish a replacement reference rate for contracts that (i) reference LIBOR, (ii) will not mature prior to June 30, 2023 or (iii) may lack fallback provisions for providing a clear replacement for LIBOR. On December 16, 2022, the Federal Reserve adopted the final rule which implemented the legislation that replaces references to LIBOR with Board-selected benchmark replacements based on SOFR. The Company has implemented alternative references rates in our financial instruments to replace LIBOR, including Term SOFR. The uncertainty regarding the transition from LIBOR to another benchmark rate or rates, such as the SOFR, could have adverse impacts on our

Table of Contents

funding costs or net interest margins, as well as any floating-rate obligations, loans, deposits, derivatives, and other financial instruments that currently use LIBOR as a benchmark rate and, ultimately, adversely affect our financial condition and results of operations.

Risks Related to Competition and to Our Business Strategy

Difficult economic and market conditions can adversely affect the financial services industry and may materially and adversely affect the Company. us.

Our operations are sensitive to general business and economic conditions in the U.S. If the growth of the U.S. economy slows, or if the economy worsens or enters a recession, our growth and profitability could be constrained. In addition, economic conditions in foreign countries can affect the stability of global financial markets, which could impact the U.S. economy and financial markets. Weak economic conditions, which could directly impact our operations, are characterized by inflation,

fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased loan delinquencies, real estate price declines and lower home sales and commercial activity, and increased problem assets and foreclosures. All of these factors are could be detrimental to our business. In addition, our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies could have a material adverse effect on our business, financial position, results of operations and cash flows.

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non-performance by financial institutions or transactional counterparties, could adversely affect our financial condition and results of operations.operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on May 1, 2023, First Republic Bank went into receivership and its deposits and substantially all of its assets were acquired by JPMorgan Chase Bank, National Association. Similarly, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection went into receivership, and Innovation, which appointed the FDIC as receiver. Similarly, on March 12, 2023, Signature Bank was placed went into receivership. A statement by the U.S. Department of the Treasury (the "Treasury"), the FRB

Inflation and the FDIC indicated that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held rapid increases in uninsured deposit accounts.

Increases in bond interest rates have led to a significant decline in the fair trading value of investment securities. Although the Treasury, FDIC and previously issued government securities with interest rates below current market interest rates. The FRB have announced a program to provide up to $25 billion of loans, to financial institutions secured by certain government securities, to FDIC-insured depository institutions and certain U.S. branches and agencies of such government-backed agency securities held by financial institutions foreign banks, to mitigate the risk of potential losses on the sale of such instruments, widespread demands for customer withdrawals or other liquidity needs of financial institutions for immediate liquidity may exceed instruments. Currently, new advances with terms up to one year under the capacity of such program. Additionally, there program can only be made through March 11, 2024. There is no guarantee that the Treasury, the FDIC and and/or the FRB, will provide access to uninsured funds as applicable, would take such actions in the future in the event of the closure of other banks or financial institutions, or that they would do so in a timely fashion. fashion, or that such actions, if taken, would have their intended effect.

Because our business is concentrated in south central Pennsylvania, the greater Baltimore region, and Washington County, Maryland, our financial performance could be materially adversely affected by economic conditions and real estate values in these market areas.

Our operations and the properties securing our loans are primarily located in south central Pennsylvania, the greater Baltimore region, and Washington County, Maryland. Our operating results depend largely on economic conditions and real estate valuations in these and surrounding areas. A deterioration in economic conditions, increased unemployment, inflation, and a decline in real estate values in these market areas or other factors beyond our control could materially adversely affect our operations.

Inflationary pressures and rising prices may affect our results of operations and financial condition.

Inflation rose sharply at the end of 2021 and throughout 2022. Inflationary pressures are currently expected to continued throughout 2023, and may remain elevated throughout 2023. in 2024. Small to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our clients to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to increase, which could adversely affect our results of operations and financial condition.

Table of Contents

We face significant competition in the financial services industry.

We face significant competition in originating loans, attracting deposits and providing other financial services from financial and non-financial services firms, including traditional banks and credit unions, online banks, mortgage banking companies, wealth management companies, financial technology companies and others. Some of our competitors enjoy advantages, including greater financial resources and higher lending limits, more expansive marketing campaigns, better brand recognition, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. Emerging technologies have the potential to intensify competition and accelerate disruption in the financial services industry. In recent years, non-financial services firms, such as financial technology companies, have been offering services traditionally provided by financial institutions. These firms use technology and mobile platforms to enhance the ability of companies and individuals to borrow, money, save and invest. invest money. Our ability to compete successfully depends on a number of factors, including our ability to develop and execute strategic plans and initiatives; to develop competitive products and technologies; and to attract, retain and develop a highly skilled employee workforce. If we are not able to compete successfully, we could be placed at a competitive disadvantage, which could result in the loss of clients and market share, and our business, results of operations and financial condition could suffer.

Our business may be adversely affected if we fail to adapt our products and services to technological advances, evolving industry standards and consumer preferences.

The banking industry undergoes constant technological change with frequent introductions of new technology-driven products and services. The widespread adoption of new technologies, including internet services cryptocurrencies and payment systems, could require substantial expenditures to modify or adapt our existing products and services as we grow and develop our internet banking and mobile banking channel strategies in addition to remote connectivity solutions. We might not be successful in developing or introducing new products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal clients. Our future success may depend, in part, on our ability to address the needs of our current and prospective clients by using technology to provide products and services that will satisfy demands for convenience, as well as to create additional efficiencies in operations.

Development of new products, services and services technologies may impose additional costs on us and may expose us to increased operational risk.

The introduction of new products and services can involve significant time and resources, including to obtain regulatory approvals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented, rapid technological change in the industry, our ability to access technical and other information from its our clients, the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices and the preparation of marketing, sales and other materials that fully and accurately describe the product or service and its underlying risks. Our failure to manage these risks and uncertainties would also expose us to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our clients. Products and services relying on internet and mobile technologies may expose us to fraud and cybersecurity risks. Implementation of certain new technologies, such as those related to artificial intelligence, automation and algorithms, may have unintended consequences due to their limitations, potential manipulation, or our failure to use them effectively. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business and reputation, as well as on our consolidated results of operations and financial condition.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance, and legal reporting systems; internal controls; management review processes; and other mechanisms. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes.

We face continuing and growing security risks to our information base, including the information we maintain relating to our clients.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including financial information regarding clients. Our electronic communications and information systems infrastructure, as well as the systems infrastructures of the vendors we use to meet our data processing and

Table of Contents

communication needs, could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Denial of service attacks have been launched against a number of large financial services institutions. Hacking and identity theft risks, in particular, could cause serious reputational harm. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks. Although, to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. No matter how well designed or implemented our controls are, we will not be able to anticipate all security breaches of these types, and we may not be able to implement effective preventive measures against such security breaches in a timely manner. A failure or circumvention of our security systems could have a material adverse effect on our business operations and financial condition.

We regularly assess and test our security systems and disaster preparedness, including back-up systems, but the risks are substantially escalating. As a result, cyber-security cybersecurity and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remain a priority. Accordingly, we may be required to expend additional resources to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures. Any breach of our system security could result in disruption of our operations, unauthorized access to confidential client information, significant regulatory costs, litigation exposure and other possible damages, loss or liability. Such costs or losses could exceed the amount of available insurance coverage, if any, and would adversely affect our earnings. Also, any failure to prevent a security breach, or to quickly and effectively deal with such a breach, could negatively impact client confidence, damaging our reputation and undermining our ability to attract and keep clients.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability.

We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could negatively impact the Company's our growth revenue and profit profitability and could result in regulatory scrutiny. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in significant costs to remediate or replace the defective components, which would adversely impact our financial condition and results of operations. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We may become subject to claims and litigation pertaining to fiduciary responsibility.

We provide fiduciary services through OFA. From time to time, clients may make claims and take legal action with regard to the performance of our fiduciary responsibilities. Whether such claims and legal actions are founded or unfounded, if such claims or legal actions are not resolved in a manner favorable to us, the claims or related actions may result in significant financial expense and liability to us and/or adversely affect our reputation in the marketplace, as well as adversely impact client demand for our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Climate change may adversely affect our business and results of operations.

Current and anticipated effects of climate change could negatively impact the Company us and its our clients. Weather-related events, such as severe storms, hurricanes, flooding and droughts, can present risks to the Company us and its our clients, including property damage, change in the value of properties securing our loans, changes in client behavior and preferences, and disruption of business operations, all which can increase credit risk and result in loss of revenue and additional expenses. These concerns over the impacts of climate change have gained political and social attention resulting in many legislative and regulatory initiatives to lessen the effects of climate change, which also may result in heightened supervisory expectations on banks' risk management practices. Ongoing legislative and regulatory uncertainties and expanded requirements for climate risk management practices may result in increases to compliance and operating costs, which could have a negative impact on our financial condition and results of operations.

Risks Related to Mergers and Acquisitions

Growing Our business may be negatively impacted by acquisition involves risks. risk associated with acquisitions.

We intend to pursue a growth plan consistent with our business strategy, including growth by acquisition, as well as leveraging our existing branch network. To the extent that On December 12, 2023, we signed a definitive agreement for a "merger of equals transaction" with CVLY. We may wish to seek to acquire other companies in the future, our future. Our business may be negatively impacted by certain risks inherent with such the acquisition of CVLY or other future acquisitions. Some of these risks include the following:

- we may incur substantial expenses in pursuing potential acquisitions;
- management may divert its attention from other aspects of our business;
- we may assume potential and unknown liabilities of the acquired company;
- the acquired business may not perform in accordance with management's expectations, including potentially losing key clients of the acquired business;
- difficulties may arise in connection with the integration of the operations of the acquired business with our businesses; and
- we may lose key employees of the combined business.

Our ability to manage growth successfully will depend on our ability to attract qualified personnel and maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms, as well as on factors beyond our control, such as economic conditions and competition. If we grow too quickly and are not able to attract qualified personnel, control costs and maintain asset quality, this continued rapid growth could materially adversely affect our financial performance.

Goodwill generated in acquisitions may negatively affect our financial condition.

To the extent that merger consideration, consisting of cash and shares of our common stock, exceeds the fair value of the net assets acquired, including identifiable intangibles, that amount will be reported as goodwill by us. In accordance with current accounting guidance, goodwill will not be amortized, but will be evaluated for impairment annually or more frequently as warranted by specific events or circumstances. A failure to realize the expected benefits of a merger could adversely impact the carrying value of the goodwill recognized in the merger and, in turn, negatively affect our financial results.

We may be unable to successfully integrate the operations of acquired entities over time.

Acquisitions involve the integration with companies that previously operated independently. The potential difficulties of combining the operations of the acquired companies with Orrstown include integrating personnel with diverse business backgrounds, integrating departments, systems operating procedures and information technologies, combining different corporate cultures, attracting new clients and retaining existing clients and key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined company and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration process could have a material adverse effect on the business and results of operations of the combined company.

The success of an acquisition depends, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses acquired with the Company. If we are unable to successfully execute on integration, the anticipated earnings and cost savings expected to be derived from an acquisition may not be realized fully or may take longer to realize than anticipated.

The market price of our common stock after acquisitions may be affected by factors different from those affecting our shares currently.

The businesses of the Company us and acquired entities may differ and, accordingly, the results of operations of the combined company and the market price of the shares of common stock of the combined company may be affected by factors different from those currently affecting the independent results of operations and market prices of common stock of each separate entity. The market value of our common stock fluctuates based upon various factors, including changes in our business, operations or prospects, market assessments of the merger, Merger, regulatory considerations, market and economic considerations, and other factors. Further, the market price of our common stock after an acquisition may be affected by factors different from those currently affecting our common stock. Additionally, future business acquisitions may result in the issuance and payment of additional shares of stock, which would dilute current shareholders' ownership interests, and may involve the payment of a premium over book and market values. Therefore, dilution of our tangible book value and net income per common share could occur in connection with any future transaction.

Risks Related to Proposed Merger with CVLY

We may continue to incur substantial costs related to the Merger and integration of CVLY, and these costs may be greater than anticipated due to unexpected events.

We have incurred and expect to incur a number of non-recurring costs associated with the Merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, severance/employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs and other related costs. Some of these costs are payable regardless of whether the Merger is completed.

In addition, we expect to incur integration costs following the completion of the Merger, including facilities and systems consolidation costs and employment-related costs. We may also incur additional costs to maintain employee morale and to retain key employees. There are a large number of processes, policies, procedures, operations, technologies and systems that will need to be integrated, including purchasing, accounting and finance, payroll, compliance, treasury management, branch operations, vendor management, risk management, lines of business, pricing and benefits. While we have assumed that certain level of costs will be incurred, there are many factors beyond our control that could affect the total amount or the timing of the integration costs. Moreover, many of the costs that will be incurred are, by their nature, difficult to estimate accurately. These integration costs may result in the combined company taking charges against earnings following the completion of the Merger, and the amount and timing of such charges are uncertain at present. There can be no assurances that the expected benefits and efficiencies related to the Merger will be realized to offset these transaction and integration costs over time.

Failure to complete the Merger could negatively impact our business and results of operations.

If the Merger is not completed for any reason, there may be various adverse consequences and we may experience negative reactions from the financial markets and from their respective customers and employees. For example, our business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that current market prices reflect a market assumption that the Merger will be beneficial and will be completed. We also could be subject to litigation related to any failure to complete the Merger or to proceedings commenced against us to perform their respective obligations under the merger

Table agreement. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of Contents$8.3 million to the other party.

We are subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on our business. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers and others who deal with us to seek to change existing business relationships. In addition, the merger agreement requires that we conduct our business in the ordinary course of business consistent with past practice and restricts us from taking certain actions prior to the effective time or termination of the merger agreement without CVLY's consent in writing. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Merger.

Combining with CVLY may be more difficult, costly or time-consuming than expected, and we may fail to realize the anticipated benefits of the Merger.

The proposed Merger is a transaction combining two financial institutions of relatively similar asset size. The success of the Merger will depend on, among other things, the ability to realize the anticipated cost savings. To realize the anticipated benefits and cost savings from the Merger, we and CVLY must successfully integrate and combine our businesses in a manner that permits those cost savings to be realized without adversely affecting current revenues and future growth. If we and CVLY are not able to successfully achieve these objectives, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings of the Merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the Merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the Merger, which may adversely affect the value of the common stock of the combined company following the completion of the Merger.

Our future results following the Merger may suffer if the combined company does not effectively manage its expanded operations.

Following the Merger, the size of our business following the completion of the Merger will increase beyond the current size of either our or CVLY's businesses. Our future success will depend, in part, upon our ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We may also face increased scrutiny from governmental authorities as a result of the increased size of our business. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, revenue enhancement or other benefits currently anticipated from the Merger.

Risks Related to Regulatory Compliance and Legal Matters

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have a material adverse effect on our operations.

We and our subsidiaries are subject to extensive state and federal regulation and supervision. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The FRB and the state banking regulators have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and our subsidiaries may conduct business and obtain financing.

The laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. Such changes could, among other things, subject us to additional costs, including costs of compliance; limit the types of financial services and products we may offer; and/or increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, policies, or supervisory guidance could result in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputational damage, which could have a material adverse effect on our business, financial condition, and results of operations. See the "Supervision and Regulation" section of Item 1, "Business."

Altering our overdraft fee practices could materially adversely affect the Company's our fee income and results of operations.

Overdraft fee practices of banks have recently come under increased regulatory scrutiny and been the subject of litigation. This increased scrutiny and litigation have prompted many larger banks to reform their overdraft fee practices or cease charging overdraft fees altogether. Reforming, reducing or eliminating overdraft fees could materially adversely affect our fee income and results of operations. Pending or future legal proceedings, proceeding, regarding our overdraft fee practices, against us may result in judgments, settlements, fines, penalties, defense costs, or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us.

Increases in FDIC insurance premiums may have a material adverse effect on our results of operations.

We are generally unable to control the amount of premiums that are required to be paid for FDIC insurance. In October Beginning with the first quarterly assessment period of 2022, 2023, the FDIC finalized a rule to increase increased the initial base deposit insurance assessment rate by two basis points, beginning in the first quarter of 2023. The increase in the assessment rate for banks which is intended to increase the Deposit Insurance Fund ("DIF") reserve ratio to 1.35%. On March 10, 2023 In November 2023, the FDIC approved a final rule to implement a special assessment to recover the loss to the DIF associated with protecting uninsured deposits from bank events earlier in 2023. The FDIC will collect the special assessment beginning with the first quarterly assessment of 2024 and will continue to collect the special assessment for an estimated total of eight quarterly assessment periods. Banking institutions with total assets under $5.0 billion will be exempt from this special assessment, which is based on data from the December 31, 2022 reporting period. Although the FDIC has currently limited the special assessment in effect in the first quarter of 2024 to banking institutions with total assets greater than $5.0 billion, the FDIC was appointed receiver of SVB, and on March 12, 2023, the FDIC was appointed receiver of Signature Bank in each case due primarily to liquidity concerns at those institutions. Promptly following such bank failures, the federal banking regulators announced that the FDIC will use funds from the Deposit Insurance Fund to ensure that all depositors of SVB and Signature Bank are made whole, at no cost to taxpayers. We anticipate that the FDIC will impose special assessments on all banks in order to replenish the Deposit Insurance Fund. As a result of these or bank or financial institution failures, the Company may be required to pay significantly higher premiums than the levels currently imposed, as well as additional special assessments or taxes, which could adversely affect earnings. earnings, as a result of bank or financial institution failures or other events. Any future increases or required prepayments in FDIC insurance premiums may materially adversely affect our results of operations.

Legislative, regulatory and legal developments involving income and other taxes could materially adversely affect the Company's our results of operations and cash flows.

The Company is We are subject to U.S. federal and U.S. state income, payroll, property, sales and use, and other types of taxes, including the Pennsylvania Bank Shares Tax. Significant judgment is required in determining the Company's our provisions for income taxes. Changes in tax rates, enactments of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in substantially higher taxes, and therefore, could have a significant adverse effect on the Company's our results of operations, financial condition and liquidity. Increases in the assessment rate for the Pennsylvania Bank Shares Tax, which is calculated on the outstanding equity of the Bank, may also materially adversely affect our results of operations.

The Company is We are required to use judgment in applying accounting policies and different estimates and assumptions in the application of these policies could result in a decrease in capital and/or other material changes to the reports of financial condition and results of operations.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, ACL, the fair value of certain financial instruments, particularly securities, and goodwill and purchase accounting. While

Table of Contents

we have identified those accounting policies that we consider critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could have a material adverse effect on our financial condition and results of operations.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the FASB, SEC and other regulatory bodies change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be operationally complex to implement and can materially impact how we record and report our financial condition and results of operations.

We are subject to stringent capital requirements which may adversely impact return on equity, require additional capital raises, or limit the ability to pay dividends or repurchase shares.

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define “capital” for calculating these ratios. The minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The regulations also establish a “capital conservation buffer” of 2.5%, which if complied with will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The application of these capital requirements could, among other things, require us to maintain higher capital, resulting in lower returns on equity, and we may be required to obtain additional capital or be subject to adverse regulatory actions, including limitations on our ability to pay dividends or repurchase shares, if we are unable to comply with such requirements.

The FRB may require us to commit capital resources to support the Bank.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the FRB may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may require the holding company to borrow the funds or raise capital on terms considered unfavorable to shareholders. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by us to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act, and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the FRB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We may become subject to enforcement actions even though noncompliance was inadvertent or unintentional.

The financial services industry is subject to intense scrutiny from bank supervisors in the examination process and aggressive enforcement of federal and state regulations, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with anti-money laundering, Bank Secrecy Act and Office of Foreign Assets Control regulations, and economic sanctions against certain foreign countries and nationals. Enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations; however, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even

Table of Contents

though systems and procedures designed to ensure compliance were in place at the time. Failure to comply with these and other regulations, and supervisory expectations related thereto, may result in fines, penalties, lawsuits, regulatory sanctions, reputation damage, or restrictions on our business.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

As a participant in the financial services industry, many aspects of our business involve substantial risk of legal liability. From time to time we are named as a defendant or are otherwise involved in various legal proceedings, including regulatory enforcement actions, class actions and other litigation or disputes with third parties. Litigation pending against us is described in Note 22, 23, Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statement and Supplementary Data," of this Annual Report on Form 10-K. There is no assurance that regulatory enforcement actions or litigation with private parties will not increase in the future. Pending or future legal proceedings against us may result in judgments, settlements, fines, penalties, indemnification costs, defense costs, or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us.

Risks Related to Liquidity

We are subject to liquidity risk, which could negatively affect our funding levels.

Market conditions or other events could negatively affect our access to or the cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences. Although we maintain a liquid asset portfolio and have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets, liabilities, and off-balance sheet commitments under various economic conditions, a substantial, unexpected, or prolonged change in the level or cost of liquidity could have a material adverse effect on us. If the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, borrowing under certain secured borrowing arrangements, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may result in an increase to the overall cost of funds and may not be available under stressed conditions, which would could cause us to liquidate a portion of our liquid asset portfolio to meet any funding needs. In the event additional liquidity is needed, we have access to liquidity from the FHLB, the FRB discount window and other sources. At December 31, 2022 December 31, 2023, we have combined borrowing capacity from the FHLB and FRB of over approximately $1.0 billion. Accessing these sources of liquidity would impose additional borrowing costs on the Company. us.

Loss of deposits or a change in deposit mix could increase our cost of funding.

Deposits are a stable source of funding for which costs are typically lower than other financing options. We compete with banks and other financial institutions for deposits, as well as institutions offering uninsured investment alternatives, including money market funds and Treasury Bill alternatives. Our competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or obtain new deposits. Recent bank Bank failures could negatively impact depositor confidence in us or the banking industry and cause our deposits to decline. Funding costs may increase if we lose deposits and are forced to replace them with more expensive sources of funding, if clients shift their deposits into higher cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin net interest income and net income. Increased deposit competition could materially adversely affect our ability to fund lending operations. As a result, we may need to seek other sources of funds that could increase our cost of funds.

Wholesale funding sources may prove insufficient to replace deposits at maturity and support our operations and future growth.

The CompanyWe must maintain sufficient funds to respond to the needs of depositors and borrowers. To manage liquidity, we draw upon a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources may include Federal Home Loan Bank advances, proceeds from the sale of investments and loans, and liquidity resources at the holding company. Our ability to manage liquidity will be severely constrained if we are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. In addition, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and clients to do business with us.

Table of ContentsOur ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

The Parent Company is a holding company dependent on liquidity through payments, including dividends, from its bank subsidiary, which is subject to restrictions.

The Parent Company is a holding company, separate from the Bank, and must provide for its own liquidity. The Parent Company depends on dividends, distributions and other payments from the Bank to fund dividend payments and stock repurchases, if permitted, and to fund all payments on obligations. The FRB requires a BHC to act as a source of financial and managerial strength for its subsidiary banks. The FRB could require us to commit resources to the Bank when doing so is not otherwise in the interests of our shareholders or creditors. The Bank is subject to laws that restrict dividend payments or authorize regulatory bodies to prohibit or reduce the flow of funds from it to us. If the Bank is unable to pay dividends to us, we may not be able to service our debt, pay dividends on our common stock or engage in stock repurchases. A reduction or elimination of dividends could adversely affect the market price of our common stock and would adversely affect our business, financial condition, results of operations and prospects. In addition, our right to participate in a distribution of assets upon the Bank's liquidation or reorganization is subject to the prior claims of the Bank's creditors, including its depositors. Restrictions

on the Bank's ability to dividend funds to the Company are included in Note 16, 17, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

The Concerns about the soundness of other financial institutions could adversely affect the Company. us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have historically led to market-wide liquidity problems, losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. While we did not have any direct exposure to SVB or Signature Bank as of March 14, 2023, the bank failures that occurred in 2023, the failures of those institutions led to extreme volatility in the prices of securities issued by financial institutions. Bank failures could negatively impact depositor client and investor confidence in us, which could negatively impact our earnings, stock price or liquidity. We could experience increases in deposits and assets as a result of other banks' difficulties or failure, which would increase the capital we are required to maintain to support such growth.

Risks Related to Owning Our Stock

If the Company wants, we want, or is are compelled, to raise additional capital in the future, that capital may not be available when it is needed or on terms favorable to current shareholders.

Federal banking regulators require us to maintain adequate levels of capital to support our operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by our management and board of directors based on capital levels that they believe are necessary to support our business operations. Changes in our financial condition or results of operations, applicable accounting standards, laws and regulations and other factors could make it necessary or advisable for the Company us to raise additional capital. Under such circumstances, the Company's our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot provide assurance of our ability to raise additional capital on terms and time frames acceptable to us or to raise additional capital at all. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial condition and results of operations. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of current investors by diluting earnings per share of our common stock and potentially diluting book value per share, depending on the issuance price. The price at which we issue additional shares of stock could be less than the current market price of our common stock. Furthermore, a capital raise through the issuance of additional shares may have an adverse impact on our stock price. In addition, a capital raise involving the issuance of debt securities could negatively impact our earnings and liquidity.

The market price of our common stock is subject to volatility.

The market price of the Company's our common stock has been subject to fluctuations in response to numerous factors, many of which are beyond our control. These factors include actual or anticipated variations in our operational results and cash flows, changes in financial estimates by securities analysts, trading volume, large purchases or sales of our common stock, market conditions within the banking industry, the general state of the securities markets and the market for stocks of financial institutions, as well as general economic conditions. The impact of the recent large bank failures of SVB and Signature Bank on the price of securities issued by financial institutions, generally, is one example of a situation in which factors outside of our control can negatively impact the market price of our securities. In addition, if the Company's our common stock ceases to be included in the Russell 2000 index, which is reconstituted in June of each year, this could result in decreased liquidity in, and demand for, our common stock, which could cause the market price of our common stock to decline.

Table of Contents

A reduction in our credit rating could adversely affect our access to capital and could increase our cost of funds.

A credit rating agency regularly evaluates the Parent Company and the Bank, and credit ratings are based on a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including conditions affecting the financial services industry, the economy, and changes in rating methodologies. There can be no assurance that we will maintain our current credit ratings. A downgrade of the credit ratings of the Parent Company or the Bank could adversely affect our access to liquidity and capital, and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us or purchase our securities. This could affect our growth, profitability, and financial condition, including liquidity.

General Risk Factors

The Company We may not be able to attract and retain skilled people.

Competition for the best people in most activities engaged in by us can be intense, and we may not be able to attract and hire sufficiently skilled people to fill open and newly created positions or to retain current or future employees. This competition for talented, skilled and diverse employees has been intensified by the increase in remote and flexible work arrangements, wage pressures and opportunities in the labor market. An inability to attract and retain individuals with the necessary skills to fill open positions, or the unexpected loss of services of one or more of our key personnel, could have a material adverse impact on our business due to the loss of their skills, knowledge of our markets, years of industry experience or the difficulty of promptly finding qualified replacement personnel.

We believe that our continued growth and future success will depend in large part on the skills of our management team and our ability to motivate and retain these individuals and other key personnel. The loss of service of one or more of our executive officers or key personnel could delay or reduce our ability to successfully implement our long-term business strategy, our business could suffer, and the value of our stock could be materially adversely affected. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We believe our management team possesses valuable knowledge about the banking industry and that their knowledge and relationships could be very difficult to replicate. Our success also depends on the experience of our branch managers and lending officers and on their relationships with the clients and communities they serve. The loss of these key personnel could negatively impact our banking operations. The loss of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition, or operating results.

***We could be adversely affected by a failure in our internal controls*.**

We rely on our employees to design, manage, and operate our systems and controls to assure that we properly enter into, record and manage processes, transactions and other relationships with clients, suppliers and other parties with whom we do business. In some cases, we rely on employees of third parties to perform these tasks. We also depend on employees and the systems and controls for which they are responsible to assure that we identify and mitigate the risks that are inherent in our relationships and activities. When we change processes or procedures, introduce new products or services, or implement new technologies, we may fail to adequately identify or manage operational risks resulting from such changes.

As a result of our necessary reliance on employees, whether ours or those of third parties, we are subject to human vulnerabilities. These range from innocent human error to misconduct or malfeasance, potentially leading to operational breakdowns or other failures. Our controls may not be adequate to prevent problems resulting from human involvement in our business, including risks associated with the design, operation and monitoring of automated systems. Errors by our employees or others responsible for systems and controls on which we depend and any resulting failures of those systems and controls could result in significant harm to us. This could include client remediation costs, regulatory fines or penalties, litigation or enforcement actions, or limitations on our business activities. We could also suffer damage to our reputation, impacting our ability to attract and retain clients and employees.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Negative public opinion could damage our reputation and adversely affect our earnings.

Reputational risk, or the risk to the Company's our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including banking operations and trust and investment operations, our management of actual or potential conflicts of interest

Table of Contents

and ethical issues, and our protection of confidential client information. Negative public opinion can also result from events occurring in the banking industry, such as bank failures, which are outside of the Company's our control. Negative public opinion can adversely affect the Company's our ability to keep and attract clients and can expose the Company us to litigation and regulatory action. Although we take steps to minimize reputation risk in the way we conduct our business activities and deal with our clients, communities and vendors, these steps may not be effective. The proliferation of social media websites utilized by us and other third parties, as well as the personal use of social media by our employees and others, including personal blogs and social network profiles, also may increase the risk that negative, inappropriate or unauthorized information may be posted or released publicly that could harm our reputation or have other negative consequences, including as a result of our employees interacting with our clients in an unauthorized manner in various social media outlets. Any damage to our reputation could affect our ability to retain and develop the business relationships necessary to conduct business, which in turn could negatively impact our financial condition, results of operations, and the market price of our common stock.

Acts of terrorism, natural disasters, global climate change, pandemics, wars and global conflicts may have a negative impact on our business and operations.

Acts of terrorism, natural disasters, global climate change, pandemics, wars, global conflicts or other similar events could disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and otherwise have a negative impact on our business and operations. While we have in place business continuity plans, such events could still damage our facilities, disrupt or delay the normal operations of our business (including communications and technology), result in harm to, or cause travel limitations on, our employees, and have a similar impact on our clients, suppliers, third-party vendors and counterparties. These events also could impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the U.S. or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations, and may have other adverse effects on us in ways that we are unable to predict.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of Pennsylvania law and provisions of our articles of incorporation and bylaws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us, even if a merger might be in the best interest of our shareholders. Our articles of incorporation authorize our Board of Directors to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These and other provisions could make it more difficult for a third party to acquire us.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 1C – CYBERSECURITY

We use, store and process data for and about our customers and employees. We have implemented a cybersecurity risk management program that is designed to identify, assess, and mitigate risks from cybersecurity threats to this data and our systems.

Risk Management Oversight and Governance

Under the ultimate direction of our Chief Executive Officer and executive management team, our Information Security Core Committee has primary responsibility for overseeing our management of cybersecurity risks. This committee is chaired by our Chief Information Security Officer, or CISO, who reports directly to our Chief Risk Officer. Other members of the committee include representatives from Information Technology, Operations, Privacy, Compliance, BSA, Audit. Business Continuity, Vendor Management, Human Resources, Physical Security, Unified Fraud, Retail, Wealth Management, Lending, and Enterprise Risk Management.

Our CISO, working with his team and the Information Security Core Committee, has primary responsibility for assessing and managing our cybersecurity threat management program. He has more than 25 years of experience in building and leading information security teams and has worked at a technology start-up and a large, publicly-traded financial institution before joining the Company. His experience as a technology engineer has prepared him to lead a variety of teams, both large and small, design, implement and execute executive cyber and information security controls. He studied Computer Science at the University of Virginia and holds a Certified Information Systems Security Professional ("CISSP") certification.

In addition to frequent electronic communication, the committee meets monthly and more frequently, as circumstances warrant, to discuss and monitor prevention, detection, mitigation and remediation of risks from cybersecurity threats. When appropriate, meetings will also include our Chief Risk Officer, Chief Financial Officer, General Counsel and members of our disclosure committee. On a regular basis, the CISO also updates the executive management team on developments within the cybersecurity sphere.

The Board of Directors has delegated oversight of the Company's cybersecurity program to the Enterprise Risk Management Committee of the Board of Directors. The Enterprise Risk Management Committee is responsible for reviewing reports on data management and security initiatives and significant existing and emerging cybersecurity risks, including cybersecurity incidents, the impact on the Company and its stakeholders of any significant cybersecurity incident and any disclosure obligations arising from any such incidents.

Our CISO meets quarterly with the Enterprise Risk Management Committee of the Board of Directors to discuss management's ongoing cybersecurity risk management programs. He provides information about the sources and nature of risks the Company faces, how management assesses such risks – including in terms of likelihood and severity of impact, progress on vulnerability remediation and current developments in the cybersecurity landscape. This presentation is shared with the full Board of Directors to enable discussion of cybersecurity risk management at the full board level.

Processes for the Identification of Cybersecurity Threats

Under the guidance of the Information Security Core Committee and the CISO, we have adopted a cybersecurity risk management program that addresses, among other areas:

- Identification of assets at risk from cybersecurity threats;
- Identification of potential sources of cybersecurity threats;
- Assessment of the status of protections in place to prevent or mitigate cybersecurity threats; and
- Given that landscape, how to manage cybersecurity risks.

Our risk assessment and mitigation program is centered on three key components:

- Identification of risks, which involves input from different groups across the Company;
- Evaluation of the likelihood of the risks manifesting, the severity of the potential consequences and prioritization of different risk items based on, among other things, importance to the business and cost/benefit analysis to fully address; and
- Execution – establishment of a program to address.

Our information security team is responsible for monitoring our information systems for vulnerabilities and mitigating any issues. It works with other groups in the Company to understand the severity of the potential consequences of a cybersecurity incident and to make decisions about how to prioritize mitigation and other initiatives based on, among other things, materiality to the business. The information security team has processes designed to keep the Company apprised of the different threats in the cybersecurity landscape – this includes interacting with intelligence networks, working with researchers, discussions with peers at other companies, monitoring social media, reviewing government alerts and other news items and attending security conferences. The team also regularly monitors our internal network and out customer-facing network to identify security risks.

Our Internal Audit function updates the Enterprise Risk Management Committee of our Board of Directors on a quarterly basis about the Company's enterprise risk management program. These reports are the culmination of a process that involves discussions with leaders across the Company and incorporates a multitude of enterprise risk factors, including cybersecurity threats. The Enterprise Risk Management Committee Chair, in turn, reports to the full Board of Directors a summary of the enterprise risk management presentation.

We have an employee education program that is designed to raise awareness of cybersecurity threats to reduce our vulnerability as well as to encourage consideration of cybersecurity risks across functions.

As part of the assessment of the protections we have in place to mitigate risks from cybersecurity threats, we engage third parties to conduct risk assessments on our systems. To assess the effectiveness of our program, we also have engaged consultants to conduct penetration testing and other vulnerability analyses. Over a cycle of several years, our Internal Audit function, with the assistance of outside technical advisors, will conduct an assessment of different systems to provide the Enterprise Risk Management Committee with information on our risk management processes, including cybersecurity risk.

Before purchasing third party technology or other solutions that involve exposure to the Company's assets and electronic information, our information technology team requires those companies to complete a security review before being approved to work with the Company.

ITEM 2 – PROPERTIES

Our principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania. These facilities are owned by the Bank, which also maintains its principal and additional executive and administrative offices at those locations.

We own or lease other premises for use in conducting our business activities, including bank branches, an operations center, and offices in Cumberland, Dauphin, Franklin, Lancaster, and Perry Counties, Pennsylvania and Anne Arundel, Baltimore, Howard, and Washington Counties, Maryland. We believe that the properties currently owned and leased are adequate for present levels of operation. We are constantly evaluating the best and most efficient mix of branch locations to service our clients due to evolving trends in our industry and increased client engagement through digital channels.

During the third quarter of 2022, the Company announced that five Pennsylvania branches would be closing and staffing model adjustments would be made to drive long-term growth and improve operating efficiencies in 2023 and forward. As a result of these initiatives, the Company recorded a pre-tax restructuring charge of $3.2 million, which included building and fixed asset write-downs of $1.9 million. On December 23, 2022, the Bank announced that it had entered into a Purchase and Assumption Agreement providing for the sale of its Path Valley branch, one of the five branches scheduled to be closed, and the associated deposit liabilities. The transaction is expected to close in the second quarter of 2023. In the first quarter of 2021, the Company consolidated an additional six branch locations, discontinued three loan production offices, and reduced its back-office real estate, which reduced approximately 27,000 square feet. In January 2020, Orrstown consolidated five Pennsylvania closed on May 12, 2023. The other four branches in Franklin and Perry Counties that averaged less than $20.0 million in deposits per location into other, larger Bank branches and sold an operation's center facility in the second quarter of 2020. These efforts improved the profitability of the remaining branch locations and eliminated close to 50,000 square feet of excess back-office space.

Table of Contents

were closed on December 30, 2022.

ITEM 3 – LEGAL PROCEEDINGS

Information regarding legal proceedings is included in Note 22, 23, Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statement and Supplementary Data."

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol "ORRF." At the close of business on March 9, 2023 March 11, 2024, there were 2,852 2,736 shareholders of record.

The Board declared cash dividends of $0.76 $0.80 and $0.74 $0.76 per common share in 2022 2023 and 2021, 2022, respectively. Although the Company cannot guarantee the amount of future dividend payments, the Board understands the importance of the dividend to our shareholders and is committed to paying regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on our future earnings, capital requirements and financial condition. In addition, any dividend increases prior to the completion of the merger of equals with Codorus Valley Bancorp, Inc. must be approved by Codorus Valley Bancorp, Inc. Restrictions on the payment of dividends are discussed in Note 16, 17, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." On January 24, 2023 January 23, 2024, the Board declared a cash dividend of $0.20 per common share, which was paid on February 14, 2023 February 13, 2024, to shareholders of record as of February 7, 2023 February 6, 2024.

Securities Authorized for Issuance under Equity Compensation Plans

Information regarding the Company's equity compensation plans is included in Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased		(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1, 2022 to October 31, 2022	4,785	$	24.26	4,785	159,059
November 1, 2022 to November 30, 2022	—		—	—	159,059
December 1, 2022 to December 31, 2022	—		—	—	159,059
Total	4,785	$	24.26	4,785	

Period	(a) Total number of shares (or units) purchased		(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1, 2023 to October 31, 2023	—	$	—	—	28,467
November 1, 2023 to November 30, 2023	—		—	—	28,467
December 1, 2023 to December 31, 2023	—		—	—	28,467
Total	—	$	—	—	

In September 2015, the Board of Directors of the Company authorized a share repurchase program pursuant to which the Company could repurchase up to 416,000 shares of the Company's outstanding shares of common stock in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act. On April 19, 2021, the Board of Directors authorized the additional future repurchase of up to 562,000 shares of its outstanding common stock for a total of 978,000 shares. When and if appropriate, repurchases may be made in open market or privately negotiated transactions, depending on market conditions, regulatory requirements and other corporate considerations, as determined by management. Share repurchases may not occur and may be discontinued at any time. For the three months and year ended December 31, 2022 December 31, 2023, the Company repurchased 4,785 and 584,771 zero shares of its common stock. For the year ended December 31, 2023, the Company repurchased 130,592 shares of its common stock at an average price of $24.26 per share and $24.25, respectively. $19.75. At December 31, 2022 December 31, 2023, 818,941 949,533 shares had been repurchased under the program at a total cost of $18.7 million $21.2 million, or $22.78 $22.36 per share. Common stock available for future repurchase totals approximately 159,059 28,467 shares, or 1% 0.3% of the Company's outstanding common stock at December 31, 2022 December 31, 2023.

Table of Contents

PERFORMANCE GRAPH

The performance graph below compares the cumulative total shareholder return on our common stock with other indexes: the S&P U.S. SmallCap Banks index of banks with assets between $1.0 billion and $5.0 billion, the S&P 500 Index, and the NASDAQ Composite index. The graph assumes an investment of $100 on December 31, 2017 December 31, 2018 and reinvestment of dividends on the date of payment without commissions. Shareholder returns on our common stock are based on trades on the NASDAQ Stock Market. The performance graph represents past performance and should not be considered to be an indication of future performance.

Stock grapy 2023v1.jpg

		Period Ending							*Period Ending*					
Index	***Index***	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	***Index***	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**
Orrstown Financial Services, Inc.	Orrstown Financial Services, Inc.	100.00	73.66	94.18	71.97	113.34	107.39							
S&P U.S. SmallCap Bank Index	S&P U.S. SmallCap Bank Index	100.00	83.44	104.69	95.08	132.36	116.69							
S&P 500 Index	S&P 500 Index	100.00	95.62	125.72	148.85	191.58	156.88							

NASDAQ Composite Index	NASDAQ Composite Index	100.00	97.16	132.81	192.47	235.15	158.65

Source: S&P Global Market Intelligence © 2023 2024

In accordance with the rules of the SEC, this section captioned "Performance Graph" shall not be incorporated by reference into any of our future filings made under the Exchange Act or the Securities Act. The Performance Graph and its accompanying table are not deemed to be soliciting material or to be considered filed under the Exchange Act or the Securities Act.

Recent Sales of Unregistered Securities

The Company has not, within the past three years, sold any equity securities, which were not registered under the Securities Act.

Table of Contents

ITEM 6 – [RESERVED]

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

The following discussion and analysis is intended to assist readers in understanding the consolidated financial condition and results of operations of the Company and should be read in conjunction with our Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications. These reclassifications did not have a material impact on the Company's consolidated financial condition, results of operations or statement of consolidated cash flows.

Overview

The Company, headquartered in Shippensburg, Pennsylvania, is a one-bank holding company that has elected status as a financial holding company. The consolidated financial information presented herein reflects the Company and its wholly-owned subsidiary, the Bank. At December 31, 2022 December 31, 2023, the Company had total assets of $2.9 billion $3.1 billion, total liabilities of $2.7 billion $2.8 billion and total shareholders' equity of $228.9 million $265.1 million as reported in the consolidated balance sheets.

The Company's primary source of income is net interest income, which is the difference between interest earned on its interest earning assets, such as loans and investment securities, and interest paid on its interest-bearing liabilities that includes deposits and borrowings. Our The Company's results of operations are impacted by economic conditions and market interest rates. Our profitability for the years ended December 31, 2022 December 31, 2023, 2022 and 2021 and 2020 was primarily influenced by our continued organic growth and ongoing expansion into targeted markets and the rising interest rates rate environment.

On December 12, 2023, the Company entered into an agreement and plan to merge with Codorus Valley. For the year ended December 31, 2023, the Company incurred merger-related expenses of $1.1 million, which was included in 2022, non-interest expenses in the consolidated statements of income under Part II, Item 8, "Financial Statements and a continued focus on maintaining strong asset quality. Supplemental Data."

During 2022, the Company agreed to settle a litigation matter, which resulted in a provision for legal settlement ("legal settlement") of $13.0 million, before the tax effect, and the Company announced that five branch locations in Pennsylvania would be closing and staffing model adjustments would be made to drive long-term growth and improve operating efficiencies in 2023 and forward. As a result of these initiatives, the Company recorded a pre-tax restructuring charge of $3.2 million. Both the legal settlement and the restructuring charge were included in non-interest expenses in the consolidated statements of income under Part II, Item 8, "Financial Statements and Supplemental Data."

During the year ended December 31, 2020, the Company recognized charges associated with the consolidation of six branch locations, the discontinuance of three loan production offices, a reduction in back-office real estate and staffing reductions. These actions were initiated due to evolving client preferences for the digital delivery of products and services. The cost reductions resulting from these actions and the consolidation of five branches earlier in 2020, enabled the Company to invest in technology and people to facilitate its continued growth. A charge of $1.6 million was recorded in the year ended December 31, 2020, which included $1.3 million related to branch and loan production office consolidations.

Critical Accounting Estimates

The Company's consolidated financial statements are prepared in accordance with GAAP and follow general practices within the financial services industry. The most significant accounting policies followed by the Company are presented in Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." In applying those accounting policies, the Company's management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. Certain of the critical accounting estimates are more dependent on such judgment and, in some cases, may contribute to volatility in our reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Some of the more significant areas in which the Company's management applies critical assumptions and estimates include the following:

Accounting for loan losses — Credit Losses - Loans

The loan portfolio is the largest asset on the Company's balance sheet. The allowance for loan losses ACL represents the amount that, in management's judgment, appropriately reflects credit losses inherent in the loan portfolio at the balance sheet date. A provision for loan credit losses is recorded to adjust the level of the ALL ACL as deemed necessary determined by management. In estimating On January 1, 2023, the Company adopted ASU 2016-13, the current expected credit losses inherent in accounting standard commonly referred to as "CECL," which replaces the loan portfolio, assumptions and judgment are applied incurred loss model with the lifetime expected loss model. The CECL methodology requires an organization to measure amounts all expected credit losses over the contractual term for financial assets measured at amortized cost based on historical credit loss experience, current conditions, and reasonable and supportable forecasts.

Determining the ACL inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and trends, all of which may undergo material changes, including expected probabilities of default, expected loss given default, the timing of expected future cash flows collateral values including the impact from unexpected changes in prepayment speeds, estimated losses based on historical credit loss experience and other factors used to determine forecasted economic conditions. To the borrowers' abilities to repay its obligations. Historical loss trends are also considered, as are economic conditions, industry trends, portfolio trends extent actual results differ from management's estimates, additional provisions for credit losses may be required that could adversely impact results of operations and borrower-specific financial data. Loans acquired regulatory capital in future periods.

The ACL is maintained at a discount, that is, in part, attributable level considered appropriate to absorb credit quality, are initially recorded at fair value with no carry-over of an acquired entity's previously established ALL. Cash flows expected at acquisition, in excess of estimated fair value, are recognized as interest income losses over the remaining lives expected life of the loan. The ACL for expected credit losses is determined based on a quantitative assessment of two categories of loans: collectively evaluated loans and individually evaluated loans. Subsequent decreases In addition, the ACL also includes a qualitative component, which adjusts the CECL model results for risk factors that are not considered within the CECL model, but are relevant in assessing the expected credit losses within the loan classes.

The ACL on loans is measured on a collective basis when similar risk characteristics exist within the Company's loan segments between commercial and consumer. Each of these loan segments are broken down into multiple loan classes, which are characterized by loan type, collateral type, risk attributions and the manner in which management monitors the performance of the borrower. The risks associated with lending activities differ and are subject to the impact of changes in interest rates, market conditions, the collateral securing the loans, and general economic conditions.

The ACL for loans collectively evaluated is measured using a lifetime expected loss rate model that considers historical loss performance and past events in addition to forecasts of future economic conditions. Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond the quantitatively calculated reserve on collectively evaluated loans. As the quantitative reserve calculation incorporates historical conditions, management may consider an additional or reduced reserve is warranted through qualitative risk factors based on current and expected principal conditions. Management uses the best available information to complete these evaluations; however, future adjustments to the ACL may be necessary if conditions significantly differ from the assumptions used in making the evaluations.

Utilizing a third-party vendor, the ACL for loans collectively evaluated is measured using a lifetime expected loss rate model under the vendor's neutral scenario that considers historical loss performance and past events in addition to forecasts of future economic conditions. The Company elected to use the discounted cash flow ("DCF") methodology for the quantitative analysis for the majority of its loan segments, which applies the probability of default to future cash flows, require the Company to evaluate the need for additions using a loss driver model and loss given default factors, and then adjusts to the ALL. Subsequent improvements in net present value to derive the required reserve. The probability of default estimates are derived through the application of reasonable and supportable economic forecasts to the regression models, which incorporates the Company's and peer loss-rate data, unemployment rate and GDP and can be obtained from the Federal Reserve Economic Database. The reasonable and supportable forecasts of the selected economic metrics are then input into the regression model to calculate an expected default rate. The expected default rates are then applied to expected loan balances estimated through the consideration of contractual repayment terms and expected prepayments. The prepayment and curtailment assumptions adjust the contractual terms of the loan to arrive at the expected cash flows, result, first, in which are obtained from the recovery of any applicable ALL third-party vendor. The model incorporates an annualized prepayment rate and then, in the recognition of

Table of Contents

additional interest income over the remaining lives of the loans. a twelve-month rate for curtailment based on a "statistical tendency to repay." Changes in the circumstances considered when determining management's estimates prepayment and assumptions curtailment speeds that vary from the current model inputs could result in changes to those estimates an inaccurate of expected credit losses. The development and assumptions and validation of credit models also in adjustment included determining the length of the ALL, or, reasonable and supportable forecast and regression period and utilizing national peer group historical loss rates, which a four-quarter forecast period followed by a four-quarter straight-line reversion period were applied.

Management selected the national unemployment rate and GDP as the drivers of the quantitative portion of collectively evaluated reserves on loan classes reliant upon the DCF methodology, primarily as a result of high correlation coefficients identified in regression modeling, which represents a significant judgment in determining the ACL; however, changes in the case macroeconomic forecast could significantly impact the calculated ACL. For the consumer loan segment, the quantitative reserve was calculated using the remaining life methodology where the average historical bank-specific and peer loss rates are applied to expected loan balances over an estimated remaining life of loans acquired at a discount, increases in interest income in future periods. loans. The Company has delayed the implementation of *ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The implementation deadline of ASU 2016-13 was extended for smaller reporting and other companies until the fiscal year and interim periods beginning after December 15, 2022. The Company will implement ASU 2016-13 effective January 1, 2023. We expect to recognize a one-time cumulative-effect adjustment that results in an increase to the allowance for credit losses as of the date of adoption of the new standard. estimated remaining life is calculated using historical bank-specific loan attrition data.

See Notes Note 1, Summary of Significant Accounting Policies, and Note 3, 4, Loans and Allowance for Loan Credit Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplemental Data," to the consolidated financial statements for details on our allowance for loan losses estimate. the ACL evaluation.

Accounting for OTTI — The Company determines whether unrealized losses are temporary in nature in accordance with FASB ASC 320-10, Investments - Overall, ("FASB ASC 320-10") and FASB ASC 325-40, Investments – Beneficial Interests in Securitized Financial Assets, when applicable. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer.Income Taxes

FASB ASC 320-10 requires the Company to assess if an OTTI exists by considering whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If either of these situations applies, the guidance requires the Company to record an OTTI charge to earnings on debt securities for the difference between the amortized cost basis of the security and the fair value of the security. If neither of these situations applies, the Company is required to assess whether it is expected to recover the entire amortized cost basis of the security. If the Company is not expected to recover the entire amortized cost basis of the security, the guidance requires the Company to bifurcate the identified OTTI into a credit loss component and a component representing loss related to other factors. A discount rate is applied which equals the effective yield of the security. The difference between the present value of the expected flows and the amortized book value is considered a credit loss, which would be recorded through earnings as an OTTI charge. When a market price is not readily available, the market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from the open market and other sources as appropriate for the security. The difference between the market value and the present value of cash flows expected to be collected is recognized in AOCI on the unaudited condensed consolidated statements of financial condition. See Note 2, Investment Securities, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplemental Data," to the consolidated financial statements for details on our investment securities and OTTI evaluation.

Accounting for income taxes — The Company is subject to federal and state income taxes in the jurisdictions in which it operates. Due to the complexity of the tax laws, management may make judgments in computing income tax expense, which are subject to varying interpretations by management and the taxing authorities, and could result in changes upon final determination. Income tax expense is based upon income before taxes, adjusted for the effect of certain tax-exempt income, non-deductible expenses and credits. Temporary differences may occur as a result of certain income and expense items being reported in different periods for financial reporting and tax purposes. Deferred taxes are calculated, using the applicable enacted marginal tax rate, based on the differences between the tax basis and carrying value of the asset or liability on the financial statement. The Company

recognizes, when applicable, interest and penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of income. Under *FASB ASC 740*, *Income Taxes*, the Company must apply a more likely than not probability threshold on its tax positions before a financial statement benefit is recognized. A valuation allowance would be recognized if any deferred tax assets were determined to be more likely than not unrecoverable. See Note 7, 8, Income Taxes, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplemental Data," to the consolidated financial statements for details on our income tax expense and deferred tax assets and liabilities.

Readers of the Company's consolidated financial statements should be aware that the estimates and assumptions used may need to be updated in future financial presentations for changes in circumstances, business or economic conditions, in order to fairly represent the condition of the Company at that time.

Economic Climate, Inflation and Interest Rates

Preliminary real GDP for the fourth quarter of 2022 reflected 2023 increased 3.2% on an annualized increase basis, which is a decline from 4.9% during the third quarter of 2.7%, which declined 2023; however, it represents an improvement from the annualized increase of 3.2% during the third quarter of 2022 and 7.0% 2.7% during the fourth quarter of 2021. 2022. The preliminary GDP during the fourth quarter of 2022 2023 reflected increases in private inventory investments, which included manufacturing and utilities, across multiple sectors including consumer spending primarily healthcare and personal care services, and goods, residential fixed assets, exports, federal government spending due to non-defense and private inventory investment. The increase in consumer spending and compensation. goods was notable within food services, accommodations, health care, and pharmaceutical products. The decrease increase in real GDP residential fixed assets was from new residential structures. Within exports, petroleum and recreational goods and vehicles were the leading factors. Compared to the third quarter of 2022 is due to slowing of nonresidential fixed investment and

Table of Contents

consumer spending. During 2023, the offsetting factors resulting in deceleration in real GDP during the fourth quarter of 2021, restrictions and disruptions were still occurring due to COVID-19 cases; however, there was a strong economic recovery from the pandemic, which the economy experienced increases included slowdowns in multiple industries, including consumer spending, residential fixed assets, private inventory investment and exports including travel, personal spending within healthcare, recreation and transportation. Residential fixed investment remained down during 2022 from 2021 federal government spending. Fluctuation in real GDP in recent periods, due to a decrease in new single-family construction and the impact from inflation, and credit conditions, supply chain issues.

challenges and geopolitical tensions, continues to create uncertainty in the current economic environment. The personal consumption expenditures ("PCE") price index increased 3.2% by 1.9% in the fourth quarter of 2022, 2023, compared to an increase of 4.3% and 7.0% 2.9% for the final estimates estimate in the third quarter of 2022 and fourth quarter of 2021, respectively. 2023. Excluding food and energy prices, the PCE increased 3.2% price index remained at 2.0% in the fourth quarter of 2022 2023 as compared to 4.7% in the third quarter of 2022 and 5.2% in the fourth quarter. 2023.

The national unemployment rate remained unchanged at was 3.7% in December 2023 compared to 3.8% in September 2023 and 3.5% in December 2022 compared to September 2022, but did improve from 3.9% in December 2021. Within 2022. However, within the Company's geographic footprint, the unemployment rate has decreased considerably in Pennsylvania by 0.9% from 4.4% at 4.3% in December 2021 2022 to 3.5% at in December 2022, 2023, and decreased in Maryland by 1.5% from 4.7% at December 2021 to 3.2% 3.0% in December 2022. 2022 to 1.9% in December 2023. These decreases in state-wide unemployment rates are consistent with those experienced by the counties in which the Company operates branches and other corporate offices. There continued to be notable job gains nationally in healthcare, leisure and hospitality, professional, scientific and professional technical services, and government during the second half fourth quarter of 2022. Although there was a strong economic recovery in 2021 from the pandemic, the fluctuations in real GDP during 2022 are indicative of inflation, supply chain challenges, geopolitical tensions and labor shortages. 2023.

At December 31, 2022, both December 31, 2023 and 2022, the 10-year Treasury bond reached yield was 3.88%, an increase of 0.05%; however, it ranged from 3.83% at September 30, 2022, and a significant increase from 1.51% at December 31, 2021, as it continued 3.30% to rise 4.98% during 2023 due to uncertain economic conditions and inflationary pressures. In an attempt to combat the impact of inflation, the rising consumer price index, supply chain disruptions, the state of the and labor market and geopolitical tensions, the Federal Reserve Open Markets Committee ("FOMC") FOMC approved increases to the Fed Funds rate totaling 450 525 basis points since March 2022:

- 25 basis points on March 17, 2022;
- 50 basis points on May 5, 2022;
- 75 basis points on June 16, 2022;
- 75 basis points on July 27, 2022;
- 75 basis points on September 21, 2022;

- 75 basis points on November 2, 2022;
- 50 basis points on December 15, 2022; and
- 25 basis points on February 2, 2023.2022 through the date of this report. In December of 2023, the FOMC signaled its intention to reduce interest rates in 2024, contingent upon inflation settling at its 2.0% target.

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.

As the Company's balance sheet consists primarily of financial instruments, interest income and interest expense are greatly influenced by the level of interest rates and the slope of the yield curve, as well as the mix of assets and funding. The Company has been able to grow its net interest income by $12.7 million $5.3 million from 2021 2022 to 2022 2023 due to organic commercial loan growth and rising interest rates, despite the decrease of $10.7 million $5.9 million in SBA PPP interest income from the prior year. Competition for quality lending opportunities and deposits remains intense, which, together with an inverted yield curve, will continue to challenge the Company's ability to grow its net interest margin and to manage its overhead expenses.

Table Beginning in March 2023, the banking industry experienced disruption from the failures of Contentsmultiple regional U.S. banking institutions, each due to unique circumstances related to risk management of liquidity, interest, and capital and associated stress on deposits and unrealized losses on investment securities. These events led to a decline of confidence in the banking industry, which has since subsided, and overall economic uncertainty, which is expected to result in increased regulatory oversight and policymaking. The industry has experienced a significant increase in competition and pricing on deposits, which has driven funding costs higher. Although the Company was not materially impacted by these events during the year ended December 31, 2023, the Company has continued to assess its funding sources and analyze its liquidity position, interest rate sensitivity and capital adequacy, while also monitoring the ongoing events and volatility in the banking industry.

Results of Operations

Summary

Earnings in Net income totaled $35.7 million, $22.0 million and $32.9 million for 2023, 2022 reflected an increase in net interest income primarily from the deployment of cash into higher yielding commercial loans and investment securities and the impact from rising interest rates, partially offset by the increase in costs of funds, increases in provision for loan losses and non-interest expenses, including salaries and employee benefits expense and the impact of the legal settlement and restructuring charge.

The Company recorded net income of $22.0 million, $32.9 million and $26.5 million for 2022, 2021, and 2020, respectively. Diluted earnings per share totaled $3.42, $2.06 and $2.96 for 2023, 2022 and $2.40 for 2022, 2021, and 2020, respectively. Excluding merger-related expenses of $1.1 million, for the legal settlement year ended December 31, 2023, net income totaled $36.6 million and the restructuring charge, diluted earnings per share totaled $3.51 compared to net income of $34.8 million and diluted earnings per share of $3.25 for the year ended December 31, 2022, net income totaled $34.8 million excluding the legal settlement and diluted earnings per share totaled $3.25. restructuring expenses. See "Supplemental Reporting of Non-GAAP Measures."

Net interest income totaled $99.6 million $104.9 million, $99.6 million and $87.0 million for 2023, 2022 and $83.6 million for 2021, respectively. During 2023 and 2022, 2021 and 2020, respectively, reflecting the increase in net interest income reflected the deployment of cash into higher yielding commercial loans and investment securities and the impact of the rising interest rates during 2022. Interest rates increased during 2019, but decreased throughout 2020 and remained low during 2021, contributing to reductions on interest-earning asset yields, partially offset by the impact of an increase in yields on loans and investment securities and the cost of funds and increases in interest-bearing liabilities during 2021 and 2020. liabilities. During 2021, and 2020, net interest income benefited from the Company's expanded geographic footprint, organic growth in commercial loans from an expanded increased sales force as the Company continued to take advantage of market opportunities, and SBA PPP interest income. For 2023, 2022 2021 and 2020, 2021, interest income recognized on SBA PPP loans totaled $192 thousand, $6.1 million, $16.8 million and $10.9 million $16.8 million, respectively.

Asset quality trends continued to exhibit low levels of charge-offs and non-performing loans, except for one commercial construction loan with an outstanding balance of $15.4 million that the Bank downgraded to substandard and placed into non-accrual status during the fourth quarter of 2022. The provision for loan credit losses on loans totaled $4.2 million $1.7 million, $4.2 million and $1.1 million in 2023, 2022 and $5.3 million in 2022, 2021, and 2020, respectively. During 2022, qualitative factors were unchanged from December 31, 2021, except the first quarter of 2023, the Company adopted the new accounting standard for a reduction CECL, which resulted in the *National and Local Economic Conditions* factor. This factor had been increased previously for economic concerns in change from the commercial real estate portfolio associated with the COVID-19 pandemic. The additional allocation was removed during 2022 as these concerns had subsided. In 2021, improvement in borrowers' performances and the economic recovery resulted in a reduction in certain qualitative factors, including the COVID-19 qualitative factor. This factor was previously implemented to specifically address the downgrades of loans resulting from granted deferrals or forbearances incurred loss model based upon identified hardships caused by the economic shutdown during the pandemic. The provision for loan losses recorded in 2020 was primarily a result of increased uncertainty related on historical loss experience to the COVID-19 pandemic.expected loss model, which reflects the expected credit losses over the expected life of financial assets and commitments.

Noninterest income totaled $27.0 million $25.7 million, $27.0 million and $29.2 million for 2023, 2022 and $28.3 million for 2022, 2021, and 2020, respectively. The decrease of $1.3 million from 2022 to 2023 was primarily due to a decrease of $1.6 million in swap fee income, partially offset by an increase in mortgage banking activities of $184 thousand. The decrease in noninterest income of $2.2 million from 2021 to 2022 was primarily due to a decrease in mortgage banking activities of $5.5 million. This, which was partially offset by increases in swap fee income of $2.3 million and other income primarily due to of $1.1 million. Other income in 2022 included realized gains on the Company's investment in a non-housing limited partnership of $1.1 million. The increase from 2020 to 2021 included increases of $1.7 million in wealth management income, $706 thousand in interchange income, $635 thousand in mortgage banking activities, and investment securities gains of $654 thousand due to the sales of $148.4 million of investments securities during 2021. These increases in 2021 were partially offset by gains on the sale of portfolio loans of $2.8 million recorded in 2020. There were no sales of portfolio loans in 2022 and 2021.

Noninterest expenses totaled $95.8 million $83.8 million, $74.1 million $95.8 million and $74.1 million for 2023, 2022 and 2021, and 2020, respectively. Salaries and employee benefits expense increased $4.0 million The decrease of $12.0 million from 2021 2022 to 2022 due to incentive compensation and merit-based increases, the filling of several vacancies, and higher healthcare costs. In 2022, the Company incurred additional non-interest expenses 2023 was primarily due to a legal settlement of $13.0 million and a restructuring charge which included planned branch closures, of $3.2 million. Salaries during 2022, partially offset by an increase of $3.0 million in salaries and employee benefits expense increased by $652 thousand and merger-related expenses of $1.1 million during 2023. The increase of $21.7 million in non-interest expenses from 2020 2021 to 2021 2022 was due to the aforementioned legal settlement and restructuring charge and an increase of $4.0 million in incentive compensation, partially offset by a decrease in healthcare costs. In 2020, the Company incurred $1.3 million in restructuring expenses, which included branch salaries and loan production office consolidations. During 2020, the Company recorded a loss of $736 thousand associated with the sale of an operations facility, and recorded a recovery from settlement on a cybersecurity insurance claim of $486 thousand. employee benefits expenses.

Income tax expense totaled $4.6 million $9.4 million, $4.6 million and $8.0 million for 2023, 2022 and $6.0 million for 2022, 2021, and 2020, or an effective tax rate of 17.2% 20.8%, 19.6% 17.2% and 18.6% 19.6% respectively. The Company's effective tax rate is less than the 21% federal statutory rate due to tax-exempt income, including interest earned on tax-exempt loans and investment securities and income from life insurance policies and tax credits. The increase in the effective tax rate in 2023 was primarily due to an increase in taxable income compared to the prior year due to the legal settlement and restructuring charge in 2022. In addition, the effective tax rate increased in 2023 due to the portion of interest expense disallowed as a deduction against earnings under the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") and an increase in state taxes as a result of a greater percentage of taxable income earned in a state with a state income tax. The difference in the effective tax rate in 2022 from prior years 2021 was primarily due to a decrease in taxable income resulting from the legal settlement and restructuring charge, an increase in tax-exempt interest income on loans and investment securities due to the rising higher interest rate environment, and additional tax credits.

Table of Contents

Net Interest Income

Net interest income is the primary component of the Company's net income. Interest-earning assets include loans, investment securities and interest-bearing bank balances. Interest-bearing liabilities include primarily deposits and borrowed funds.

Net interest income is affected by changes in interest rates, the volume of interest-earning assets and interest-bearing liabilities, and the composition of those assets and liabilities. "Net interest spread" and "net interest margin" are two common statistics related to changes in net interest income. Net interest spread represents the difference between the yields earned on interest-earning assets and the rates paid for interest-bearing liabilities. Net interest margin is the ratio of net interest income to average earning asset balances.

The FRB influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is affected by changes Starting in the prime interest rate. In March 2020, the prime rate was reduced by 150 basis points and ended 2020 at 3.25%. The prime rate remained at that level throughout 2021 until 2022, the FOMC increased the fed fund Fed Fund rate by 425 basis points during 2022 and 100 basis points during 2023 as an attempt to combat the impact of inflation, the rising consumer price index, supply chain disruptions, the state of the labor market and geopolitical tensions.

Core deposits are deposits that are stable, lower cost and generally reprice more slowly than other deposits when interest rates change. Core deposits, which exclude certificates of deposit, are typically funds of local clients who also have a borrowing or other relationship with the Bank. The Company is primarily funded by core deposits, with noninterest-bearing demand deposits historically being a significant source of funds. During 2022, this the lower-cost funding base had a positive impact on the Bank's net interest income and net interest margin in the rising interest rate environment. However, as the Fed Fund rate continued to increase, the competition for deposits also increased in the latter part of 2022 and continued throughout 2023 with clients utilizing their funds at a higher frequency and additional liquidity was needed to meet the credit demands of our clients. Therefore, funding costs In addition, decreases in demand deposits and savings deposits were primarily due to clients shifting to higher-yielding products within the Bank, including time deposits with promotional offerings of up to 18-month terms. The Bank is currently liability sensitive as interest bearing liabilities are expected to continue to increase into 2023 and could result in margin compression. reprice faster than interest earning assets.

The following table presents net interest income, net interest spread and net interest margin on a taxable-equivalent basis for 2023, 2022 2021 and 2020. 2021. Taxable-equivalent adjustments are the result of increasing income from tax-exempt loans and investment securities by an amount equal to the taxes that would be paid if the income were fully taxable based on a 21% federal corporate tax rate for 2023, 2022 2021 and 2020, 2021, reflecting our statutory tax rates for those years.

Table of Contents

		2022			2021			2020			2023		
		Average Balance	Taxable-Equivalent Interest	Taxable-Equivalent Rate	Average Balance	Taxable-Equivalent Interest	Taxable-Equivalent Rate	Average Balance	Taxable-Equivalent Interest	Taxable-Equivalent Rate			
	Average Balance										Average Balance	Taxable-Equivalent Interest	Tax Equi R
Assets	Assets												
Federal funds sold and interest-bearing bank balances													
Federal funds sold and interest-bearing bank balances													

Federal funds sold and interest-bearing bank balances	Federal funds sold and interest-bearing bank balances	**$ 98,793**	**$ 774**	**0.78 %**	$ 258,834	$ 353	0.14 %	$ 32,519	$ 115	0.35 %	**$ 40,856**	**$ $**	**1,809**	**4.43**	**4.43 %**
Taxable securities	Taxable securities	**368,479**	**10,237**	**2.78**	372,461	6,622	1.78	438,565	10,458	2.38					
Tax-exempt securities (1)	Tax-exempt securities (1)	**141,161**	**5,209**	**3.69**	89,574	3,157	3.52	55,807	1,982	3.55					
Total investment securities		**509,640**	**15,446**	**3.03**	462,035	9,779	2.12	494,372	12,440	2.52					
Total investment securities (2)															
Loans (1)(2)(3)		**2,042,422**	**93,799**	**4.59**	1,985,350	84,453	4.25	1,928,486	87,900	4.56					
Loans (1)(3)(4)															
Loans (1)(3)(4)															
Loans (1)(3)(4)															
Total interest-earning assets	Total interest-earning assets	**2,650,855**	**110,019**	**4.15**	2,706,219	94,585	3.50	2,455,377	100,455	4.09					
Cash and due from banks	Cash and due from banks	**28,534**			30,231			26,954							
Bank premises and equipment	Bank premises and equipment	**32,673**			34,545			36,627							
Bank premises and equipment															
Bank premises and equipment															
Other assets	Other assets	**155,428**			143,479			143,919							
Allowance for loan losses		**(22,690)**			(19,659)			(17,030)							
Other assets															
Other assets															
Allowance for credit losses															
Allowance for credit losses															
Allowance for credit losses															
Total assets															
Total assets															
Total assets	Total assets	**$ 2,844,800**			$ 2,894,815			$ 2,645,847							
Liabilities and Shareholders' Equity	**Liabilities and Shareholders' Equity**														
Liabilities and Shareholders' Equity															
Liabilities and Shareholders' Equity															
Interest-bearing demand deposits															
Interest-bearing demand deposits															
Interest-bearing demand deposits	Interest-bearing demand deposits	**$ 1,414,177**	**$ 4,308**	**0.30 %**	$ 1,392,996	$ 1,287	0.09 %	$ 1,156,292	$ 4,755	0.41 %	**$ 1,525,204**	**$ $**	**26,944**	**1.77**	**1.77 %**
Savings deposits	Savings deposits	**232,660**	**341**	**0.15**	202,371	203	0.10	163,133	246	0.15					
Time deposits	Time deposits	**273,276**	**1,688**	**0.62**	360,264	2,709	0.75	452,298	7,008	1.55					

Total interest-bearing deposits	Total interest-bearing deposits	**1,920,113**	**6,337**	**0.33**	1,955,631	4,199	0.21	1,771,723	12,009	0.68			
Securities sold under agreements to repurchase		**22,305**	**44**	**0.20**	22,888	32	0.14	18,064	86	0.48			
FHLB advances and other		**15,678**	**630**	**4.01**	40,589	482	1.19	179,457	1,923	1.07			
Securities sold under agreements to repurchase and federal funds purchased													
FHLB advances and other borrowings													
Subordinated notes	Subordinated notes	**31,993**	**2,013**	**6.29**	31,931	2,009	6.29	31,874	2,006	6.29			
Total interest-bearing liabilities	Total interest-bearing liabilities	**1,990,089**	**9,024**	**0.45**	2,051,039	6,722	0.33	2,001,118	16,024	0.80			
Noninterest-bearing demand deposits	Noninterest-bearing demand deposits	**557,142**			542,952			381,869					
Other liabilities	Other liabilities	**53,288**			38,665			35,960					
Other liabilities													
Other liabilities													
Total liabilities													
Total liabilities													
Total liabilities	Total liabilities	**2,600,519**			2,632,656			2,418,947					
Shareholders' equity	Shareholders' equity	**244,281**			262,159			226,900					
Shareholders' equity													
Shareholders' equity													
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	**$ 2,844,800**			$ 2,894,815			$ 2,645,847					
Total liabilities and shareholders' equity													
Total liabilities and shareholders' equity													
Taxable-equivalent net interest income / net interest spread													
Taxable-equivalent net interest income / net interest spread													
Taxable-equivalent net interest income / net interest spread	Taxable-equivalent net interest income / net interest spread		**100,995**	**3.70 %**		87,863	3.17 %		84,431	3.29 %	**106,339**	**3.39**	**3.39 %**

Taxable-equivalent net interest margin	Taxable-equivalent net interest margin	**3.81 %**	3.25 %	3.44 %
Taxable-equivalent net interest margin				
Taxable-equivalent adjustment	Taxable-equivalent adjustment	**(1,365)**	(889)	(824)
Net interest income	Net interest income	**$ 99,630**	$ 86,974	$ 83,607
Net interest income				
Net interest income				
Ratio of average interest-earning assets to average interest-bearing liabilities	Ratio of average interest-earning assets to average interest-bearing liabilities	**133 %**	**132 %**	**123 %**
Ratio of average interest-earning assets to average interest-bearing liabilities				
Ratio of average interest-earning assets to average interest-bearing liabilities				

NOTES TO ANALYSIS OF NET INTEREST INCOME:

(1) Yields and interest income on tax-exempt assets have been computed on a taxable-equivalent basis assuming a 21% tax rate.

(2) Average balance of investment securities is computed at fair value.

(3) Average balances include nonaccrual loans.

(3) (4) Interest income on loans includes prepayment and late fees. fees, where applicable.

Table of Contents

The following table presents changes in net interest income on a taxable-equivalent basis for 2022, 2021 2023 and 2020 2022 by rate and volume components.

		2022 Versus 2021 Increase (Decrease) Due to Change in			2021 Versus 2020 Increase (Decrease) Due to Change in			2023 Versus 2022 Increase (Decrease) Due to Change in			2022 Versus 2021 Increase (Decrease) Due to Change in		
		Average Volume	Average Rate	Total	Average Volume	Average Rate	Total						
	Average Volume							Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest Income	**Interest Income**												
Federal funds sold and interest-bearing bank balances													
Federal funds sold and interest-bearing bank balances													
Federal funds sold and interest-bearing bank balances	Federal funds sold and interest-bearing bank balances	**$ (218)**	**$ 639**	**$ 421**	$ 800	$ (562)	$ 238						
Taxable securities	Taxable securities	**(71)**	**3,686**	**3,615**	(1,576)	(2,260)	(3,836)						
Tax-exempt securities	Tax-exempt securities	**1,818**	**234**	**2,052**	1,199	(24)	1,175						

Loans	Loans	**2,428**	**6,918**	**9,346**	2,592	(6,039)	(3,447)
Total interest income	Total interest income	**3,957**	**11,477**	**15,434**	3,015	(8,885)	(5,870)
Total interest income							
Total interest income							
Interest Expense	**Interest Expense**						
Interest-bearing demand deposits							
Interest-bearing demand deposits							
Interest-bearing demand deposits	Interest-bearing demand deposits	**20**	**3,001**	**3,021**	973	(4,441)	(3,468)
Savings deposits	Savings deposits	**30**	**108**	**138**	59	(102)	(43)
Time deposits	Time deposits	**(654)**	**(367)**	**(1,021)**	(1,426)	(2,873)	(4,299)
Securities sold under agreements to repurchase		**(1)**	**13**	**12**	23	(77)	(54)
FHLB advances and other		**(296)**	**444**	**148**	(1,488)	47	(1,441)
Securities purchases under agreements to repurchase and federal funds purchased							
FHLB advances and other borrowings							
Subordinated notes	Subordinated notes	**4**	**—**	**4**	4	(1)	3
Total interest expense	Total interest expense	**(897)**	**3,199**	**2,302**	(1,855)	(7,447)	(9,302)
Taxable-Equivalent Net Interest Income	**Taxable-Equivalent Net Interest Income**	**$ 4,854**	**$ 8,278**	**$ 13,132**	$ 4,870	$ (1,438)	$ 3,432

Note: The change attributed to volume is calculated by multiplying the average change in average balance by the prior year's average rate. The remainder is attributable to rate.

2023 versus 2022

Net interest income increased by $5.3 million, or 5%, from $99.6 million in 2022 to $104.9 million in 2023. Similarly, net interest income on a taxable-equivalent basis for 2023 increased by $5.3 million, or 5%, compared with 2022. The Company's net interest spread decreased by 31 basis points from 3.70% in 2022 to 3.39% in 2023 primarily due to the increase in the cost of funds.

Interest income on loans increased by $33.1 million, from $93.5 million in 2022 to $126.6 million in 2023, and interest income on investment securities increased by $7.1 million, from $14.4 million in 2022 to $21.5 million in 2023. Total interest expense increased by $36.0 million from $9.0 million in 2022 to $45.0 million in 2023. Interest expense on deposits increased by $31.2 million from $6.3 million in 2022 to $37.5 million in 2023, and interest expense on borrowed funds increased by $4.8 million to $2.6 million in 2022 to $7.4 million in 2023.

Taxable-equivalent net interest margin decreased by one basis point to 3.80% in 2023 from 3.81% in 2022. The taxable-equivalent yield on interest-earning assets increased by 125 basis points to 5.40% in 2023 from 4.15% in 2022, reflecting both the deployment of cash into higher yielding loans and investment securities and the impact of elevated interest rates on these interest-earning assets. The increase in yield was partially offset by an increase of 157 basis points in the cost of interest-bearing liabilities from 0.45% in 2022 to 2.02% in 2023 due to increased funding costs from higher market interest rates, competitive pressures and an increase in higher cost borrowings.

Average loans increased by $197.2 million from $2.0 billion during 2022 to $2.2 billion during 2023. Average investment securities increased by $10.9 million from $509.6 million in 2022 to $520.5 million during 2023 due to net investment purchases and a decrease in unrealized losses from 2022. Average interest-bearing liabilities increased by $241.3 million from $2.0 billion in 2022 to $2.2 billion during 2023. The competition for deposits increased in the latter part of 2022 and continued throughout 2023, which was coupled with clients utilizing their funds at a higher frequency. Therefore, additional liquidity was needed to meet demands of our clients, which resulted in an increase in higher cost borrowings.

The yield on loans increased by 109 basis points to 5.68% in 2023 from 4.59% in 2022. Taxable-equivalent interest income earned on loans increased by $33.3 million from $93.8 million in 2022 to $127.1 million in 2023 primarily due to an increase in the average balances of commercial, residential mortgage and home equity loans and from the impact of the rising rate environment. The increase in interest income from loan growth and higher rates was partially offset by a decrease in interest income from SBA PPP loans due to a lower amount of forgiveness activity during 2023 compared to 2022.

The average balance of commercial loans, excluding SBA PPP loans, increased by $211.9 million from $1.6 billion during 2022 to $1.8 billion during 2023. SBA PPP loans, net of deferred fees and costs, averaged $8.8 million during 2023, a decrease of $58.3 million from an average of $67.1 million in 2022. This decrease was due to forgiveness of SBA PPP loans since 2022. Average residential mortgage loans increased by $35.7 million from $211.0 million for 2022 to $246.7 million for 2023 due primarily to adjustable-rate and jumbo mortgage loans originated for the portfolio. Average home equity loans increased by $14.1 million from $175.5 million for 2022 to $189.6 million for 2023. Average installment and other consumer loans decreased by $6.3 million from $26.3 million for 2022 to $20.0 million for 2023.

For 2023, interest income on loans included $192 thousand of interest and net deferred fee income associated with the SBA PPP loans compared to $6.1 million for 2022. Accretion of purchase accounting adjustments included in interest income was $748 thousand during 2023 compared to $1.1 million in 2022. The decrease in accretion was due to a decline in accelerated accretion from acquired loan payoffs or significant payments from the prior year. During 2023, accelerated accretion was $269 thousand compared to $724 thousand in 2022. Prepayment income on commercial loans decreased from $1.0 million during 2022 to $826 thousand during 2023.

Interest income on investment securities on a tax-equivalent basis increased by $7.0 million to $22.4 million for 2023 from $15.4 million for 2022, with the taxable equivalent yield increasing by 128 basis points from 3.03% for 2022 to 4.31% for 2023. The increase reflects the impact from higher interest rates since March 2022 and the impact of investment security purchases at higher yields. The average balance of investment securities was impacted by purchases of $45.6 million and unrealized gains of $14.0 million, which were partially offset by investment security sales totaling $22.0 million during 2023.

The average balance of federal funds sold and interest-bearing bank balances decreased by $57.9 million from $98.8 million for 2022 to $40.9 million for 2023, due primarily to the deployment of cash into loans and investment securities. The related interest income increased by $1.0 million to $1.8 million for 2023 from $774 thousand for 2022. This increase was caused by 525 basis points of Fed Funds rate increases by the FOMC since March 2022.

Interest expense on deposits increased by $31.2 million from $6.3 million in 2022 to $37.5 million in 2023. The average balance of interest-bearing deposits increased by $141.4 million from $1.9 billion in 2022 to $2.1 billion 2023 and the cost of funds increased by 149 basis points from 0.33% in 2022 to 1.82% in 2023. Average time deposits increased $64.9 million in 2023, which the change in volume increased interest expense on time deposits by $401 thousand. The cost of time deposits increased by 233 basis points from 0.62% in 2022 to 2.95% in 2023 as clients sought higher-yielding products during the rising interest rate environment, including the Bank's promotional offerings for time deposits with terms up to 18-months. Average interest-bearing demand deposits increased by $111.0 million in 2023. Interest expense for interest-bearing demand deposits increased by $22.6 million, with the cost of funds increasing by 147 basis points from 0.30% in 2022 to 1.77% in 2023 as a result of deposit rate increases during 2023.

Interest expense on borrowings increased by $4.8 million to $7.4 million in 2023 from $2.6 million in 2022, as the cost of borrowings increased by 31 basis points from 4.01% in 2022 to 4.32% in 2023. Average borrowings increased by $108.0 million from $15.7 million in 2022 to $123.7 million in 2023, as the Bank opted to borrow funds to provide additional liquidity to meet the credit needs of its clients. On December 31, 2023, the Company's subordinated notes converted from a fixed rate at 6.0% to a floating rate of interest at 90-day average fallback SOFR rate plus 3.16%, or 8.78%.

2022 versus 2021

Net interest income increased by $12.6 million, or 15%, from $87.0 million in 2021 to $99.6 million in 2022. Net interest income for 2022 on a taxable-equivalent basis increased by $13.1 million, or 15%, compared with 2021. The Company’s net interest spread increased by 53 basis points from 3.17% in 2021 to 3.70% in 2022.

Interest income on loans increased by $9.3 million, from $84.2 million in 2021 to $93.5 million in 2022, and interest income on investment securities increased by $5.3 million, from $9.1 million in 2021 to $14.4 million in 2022. Total interest expense increased by $2.3 million from $6.7 million in 2021 to $9.0 million in 2022.

Taxable-equivalent net interest margin increased by 56 basis points to 3.81% in 2022 from 3.25% in 2021.The taxable-equivalent yield on interest-earning assets increased by 65 basis points to 4.15% in 2022 from 3.50% in 2021, which reflects the deployment of cash into higher yielding loans and investment securities, as well as the rising interest rates on the loans and investment securities portfolios, which were partially offset by the increase of 12 basis points in the cost of interest-bearing liabilities from 2021 to 2022. The cost of interest-bearing liabilities increased from 0.33% in 2021 to 0.45% in 2022 reflecting an increase to deposit rates due to the rising rate environment, partially offset by the runoff in higher cost time deposit balances. In 2021, the Company repaid its overnight borrowings, resulting in a decrease in interest expense.

Average loans increased by $57.1 million, and remained at $2.0 billion during 2022 and 2021, due to commercial and home equity loan growth, but was partially offset by the impact of SBA PPP loan forgiveness. Average investment securities increased by $47.6 million from $462.0 million in 2021 to $509.6 million during 2022 due to investment purchases. Average interest-bearing liabilities decreased by $61.0 million from $2.1 billion in 2021 to $2.0 billion during 2022 due primarily to a decrease in average balances in time deposits and overnight borrowings.

The yield on loans increased by 34 basis points to 4.59% in 2022 from 4.25% in 2021. Taxable-equivalent interest income earned on loans increased by $9.3 million, or 11%, year-over-year, primarily due to an increase in the average balances of commercial and home equity loans, excluding SBA PPP loans, and the impact of the rising rate environment. The increase in interest income from loan growth and higher rates was partially offset by a decrease in interest income from SBA PPP loans due to reduced fee income as a lower amount of SBA PPP loans were forgiven during 2022 compared to 2021.

The average balance of commercial loans, excluding SBA PPP loans, increased by $352.1 million from $1.2 billion during 2021 to $1.6 billion during 2022. SBA PPP loans, net of deferred fees and costs, averaged $67.1 million during 2022, a decrease of $299.7 million from an average of $366.8 million in 2021. This decrease was due to the forgiveness of SBA PPP loans since 2021. Average home equity loans increased by $19.1 million from $156.4 million for 2021 to $175.5 million for 2022. Average installment and other consumer loans decreased by $12.9 million from $39.2 million for 2021 to $26.3 million for 2022.

For 2022, interest income on loans included $6.1 million of interest and net deferred fee income associated with the SBA PPP loans compared to $16.8 million for 2021. Accretion of purchase accounting adjustments included in interest income was $1.1 million during 2022 compared to $1.7 million in 2021. The decrease in accretion was partially due to a decline from the prior year in accelerated accretion from acquired loan payoffs or significant payments. During 2022, accelerated accretion was $724 thousand compared to $1.1 million in 2021. Prepayment income on commercial loans increased slightly by $109 thousand to $1.0 million during 2022 from $926 thousand in 2021.

Interest income on investment securities on a tax-equivalent basis increased by $5.6 million to $15.4 million for 2022 from $9.8 million for 2021, with the taxable equivalent yield increasing by 91 basis points from 2.12% for 2021 to 3.03% for 2022. The increase reflects the impact from higher interest rates in 2022 and investment security purchases at higher yields. The purchases of $181.5 million were partially offset by investment security sales totaling $31.3 million and unrealized losses of $55.2 million during 2022.

The average balance of federal funds sold and interest-bearing bank balances decreased by $160.0 million from $258.8 million for 2021 to $98.8 million for 2022, due primarily to the deployment of cash into loans and investment securities. The related interest income increased by $421 thousand to $774 thousand for 2022 from $353 thousand for 2021. This increase was caused by the increase in the interest rate at the FRB as a result of multiple Fed Funds rate increases by the FOMC during 2022.

Interest expense on interest-bearing liabilities increased by $2.3 million year-over-year due to the increase in the cost of interest-bearing liabilities by 12 basis points from 0.33% for 2021 to 0.45% for 2022. This increase is due to deposit rate increases made in 2022, partially offset by the impact of a decrease in the average balance of interest-bearing deposits of $61.0 million that resulted from continued runoff of certificates of deposit and the zero balance in overnight borrowings for the majority of 2022 following repayment of overnight borrowings in the third quarter of 2021.

The average balance of interest-bearing deposits decreased by $35.5 million from $2.0 billion in 2021 to $1.9 billion 2022; however, the cost of funds increased by 12 basis points from 0.21% in 2021 to 0.33% in 2022. Average time deposits decreased $87.0 million, or 24%, in 2022, which decrease in volume reduced interest expense on time deposits by $654 thousand. The cost of time deposits declined by 13 basis points from 0.75% in 2021 to 0.62% in 2022 as higher yielding time deposits matured. Average interest-bearing demand deposits increased by $21.2 million in 2022. Interest expense for interest-bearing demand deposits increased by $3.0 million, with the cost of funds increasing from 0.09% in 2021 to 0.30% in 2022 as a result of deposit rate increases during 2022.

Interest expense on borrowings increased by $164 thousand in 2022 from 2021, despite the decrease of $24.9 million in the average balance of FHLB advances from $40.6 million in 2021 to $15.7 million in 2022. This was due primarily to the increase in interest rates on overnight borrowings during the fourth quarter of 2022.

2021 versus 2020

In 2021, net interest income increased by $3.4 million, or 4%, compared with 2020. Net interest income for 2021 on a taxable-equivalent basis increased by $3.4 million, or 4%, compared with 2020. The Company’s net interest spread decreased by twelve basis points to 3.17% for 2021 compared with 2020.

The taxable-equivalent yield on interest-earning assets and cost of interest-bearing liabilities both decreased from 2020 to 2021, reflecting a decreasing interest rate environment. Average commercial loans increased in 2021 due to SBA PPP loans and commercial loan production. Average balances in taxable investment securities declined as a result of sales and paydowns. Average interest-bearing liabilities declined due to decreased average balances in time deposits and overnight borrowings.

Taxable-equivalent interest income on loans decreased by $3.4 million, or 4%, from 2020 to 2021. The decline resulted from a decrease of 31 basis points in loan yield from 4.56% in 2020 to 4.25% in 2021 due to a decreasing interest rate environment. The impact of the reduced yield was partially offset by the increase in average loans of $56.9 million, or 3%, which was driven by SBA PPP and commercial loan production. Accretion of purchase accounting adjustments included in interest income was $2.3 million, $2.3 million, and $3.8 million in 2021, 2020 and 2019, respectively.

Taxable-equivalent interest income earned on investment securities decreased by $2.7 million, or 21%, from 2020 to 2021, with decreases in both average volume and yield. Average investment securities decreased by $32.3 million, or 7%, and

Table of Contents

the taxable-equivalent yield decreased by 40 basis points from 2.52% in 2020 to 2.12% in 2021. Sales of taxable securities of $148.4 million between the first and third quarters of 2021 contributed to the decrease in average investment securities. The Company purchased investment securities of $195.0 million during 2021; however, the timing and size of the purchases for the year led to a decrease in the average balance.

Interest expense on deposits and borrowings decreased by $9.3 million from 2020 to 2021, despite an increase in the average balance of interest-bearing liabilities of $49.9 million, or 2%. The cost of interest-bearing liabilities declined by 47 basis points from 0.80% in 2020 to 0.33% in 2021 due to deposit rate reductions in the first and third quarters of 2021, combined with the continued maturity of higher yielding certificates of deposit and the repayment and maturities of overnight borrowings.

The average balance of interest-bearing deposits increased by $183.9 million, or 10%, from 2020 to 2021. Average interest-bearing demand deposits increased by $236.7 million, or 20%, in 2021. Interest expense for interest-bearing demand deposits decreased by $3.5 million, with the cost of funds decreasing from 0.41% in 2020 to 0.09% in 2021 as a result of deposit rate reductions during 2021, which resulted in a decrease in interest expense of $4.4 million. Average time deposits decreased $92.0 million, or 20%, in 2021, which reduced interest expense on time deposits by $1.4 million. The cost of time deposits declined by 80 basis points from 1.55% in 2020 to 0.75% in 2021 due to rate reductions.

Interest expense on all borrowings decreased by $1.5 million in 2021 from 2020 due primarily to reduced balances. The average balance of FHLB advances decreased by $138.9 million from 2020 to 2021 due to maturities and repayments, while the average balance of short-term borrowings increased by $4.8 million.

Provision for Loan Credit Losses

The Company recorded a provision for loan credit losses of $4.2 million $1.7 million, $4.2 million and $1.1 million in 2023, 2022 and $5.3 million in 2022, 2021, and 2020, respectively. In calculating On January 1, 2023, the provision for loan losses, both quantitative and qualitative factors, including Company adopted the Company's new accounting standard, referred to as CECL, which transitioned from the incurred loss model based on historical net charge-off data loss experience and economic and market conditions were considered. to the expected loss model. The CECL standard reflects expected credit losses over the expected life of the financial assets and commitments, primarily based on the DCF methodology for the majority of the loan segments, which applies the probability of default and loss given default factors to future cash flows, and adjusts to the net present value to derive the required reserve. Macroeconomic conditions are incorporated into the model for unemployment and gross domestic product, in addition to model assumptions for discount rate and prepayment and curtailment speeds.

In 2023, 2022 2021 and 2020, 2021, the provision for loan credit losses was driven primarily by increases in commercial loans, excluding SBA PPP loan growth. forgiveness activity, of $118.3 million, $299.9 million and $268.4 million, respectively, in addition to the overall increase in expected loss rates under CECL. The ACL to total loan ratio increased from 1.17% at December 31, 2022 to 1.25% at December 31, 2023, which is primarily due to the cumulative effect adjustment of $2.4 million recorded in connection with the adoption of CECL. During 2023, the *Delinquency and Classified Loan Trends* qualitative factor was increased for the commercial & industrial and owner-occupied commercial real estate loan classes, which was based on a trend of increases in loans downgraded to the special mention or classified risk rating. All other qualitative factors were unchanged from levels at adoption of CECL. During 2022, qualitative factors were unchanged, except for a reduction in the *National and Local Economic Conditions* factor, that reduced the provision by $726 thousand. The provision for loan losses during 2020 and 2021 was impacted by included a reversal of the effect of COVID-19 on the Company's loan portfolio as a new qualitative factor was created to address the potential associated risk. In 2020, the Company established a COVID-19 qualitative reserve of $2.7 million. , which was created in 2020 due to the potential impact from the COVID-19 pandemic. This reserve was fully reversed in 2021 based on the sustained performance of the impacted borrowers resulting in a decline in the provision for loan losses in 2021 compared to 2020.

Net charge-offs totaled $581 thousand in 2023, compared to net charge-offs of $162 thousand in 2022. The increase in net charge-offs was due primarily to three commercial and industrial relationships with partial charge-offs totaling $740 thousand during 2023, partially offset by the impact of recoveries. Nonaccrual loans were 1.11% of gross loans at December 31, 2023, compared with 0.96% of gross loans at December 31, 2022. Nonaccrual loans increased by $4.9 million from $20.6 million at December 31, 2022 to $25.5 million at December 31, 2023 due primarily to additions of $8.5 million and transfers to non-accrual of $931 thousand due to the treatment of PCD loans at the individual asset level under CECL, partially offset by payments of $3.6 million, charge-offs of $909 thousand and loans returned to accrual status of $401 thousand.

See further discussion in the “Asset Quality” and “Credit Risk Management” sections of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Noninterest Income

The following table compares noninterest income for 2023, 2022 2021 and 2020. 2021.

	2023	2023	2022	2021	$ Change 2023-2022
Service charges on deposit accounts					
Service charges on deposit accounts					
Service charges on deposit accounts	$ 3,949	$ $ 3,826	$ $ 3,047	$ $ 123	$ $ 779

		2022	2021	2020	$ Change 2022-2021	$ Change 2021-2020	% Change 2022-2021	% Change 2021-2020
Service charges on deposit accounts	Service charges on deposit accounts	$ 3,826	$ 3,047	$ 2,874	$ 779	$ 173	25.6 %	6.0 %
Interchange income	Interchange income	4,055	4,129	3,423	(74)	706	(1.8)	20.6
Other service charges, commissions and fees	Other service charges, commissions and fees	788	646	683	142	(37)	22.0	(5.4)
Swap fee income	Swap fee income	2,632	293	847	2,339	(554)	798.3	(65.4)
Trust and investment management income	Trust and investment management income	7,631	7,896	6,912	(265)	984	(3.4)	14.2

Brokerage income	Brokerage income	**3,620**	3,571	2,821	**49**	750	**1.4**	26.6										
Mortgage banking activities	Mortgage banking activities	**407**	5,909	5,274	**(5,502)**	635	**(93.1)**	12.0										
Gains on sale of portfolio loans		**—**	—	2,803	**—**	(2,803)	**—**	(100.0)										
Income from life insurance																		
Income from life insurance																		
Income from life insurance	Income from life insurance	**2,339**	2,273	2,261	**66**	12	**2.9**	0.5										
Other income																		
Other income																		
Other income	Other income	**1,814**	750	427	**1,064**	323	**141.9**	75.6										
Subtotal before securities (losses) gains	Subtotal before securities (losses) gains	**27,112**	28,514	28,325	**(1,402)**	189	**(4.9)**	0.7										
Investment securities (losses) gains	Investment securities (losses) gains	**(160)**	638	(16)	**(798)**	654	**(125.1)**	4,087.5										
Total noninterest income	Total noninterest income	**$26,952**	$29,152	$28,309	**$(2,200)**	$ 843	**(7.5)%**	3.0 %	Total noninterest income	**$25,652**	$	$26,952	$	$29,152	**$**	**$(1,300)**	$	$(2,200)

2023 versus 2022

Noninterest income decreased by $1.3 million from 2022 to 2023. The following were significant factors in the net decrease:

- Other service charges, commissions and fees increased by $129 thousand, or 16%, due primarily to increases of $58 thousand in credit card fee income and $51 thousand in loan fees charged to clients for loan workout and forbearance agreements.
- Swap fee income decreased by $1.6 million, or 61%, as swap fee income will fluctuate based on market conditions and client demand.
- Mortgage banking income increased by $184 thousand, or 45%, from 2022 to 2023 due to a decline in the fair value losses on the Bank's held-for-sale loans caused by a significant increase in mortgage interest rates during 2022 compared to the fluctuation during the current year. The fair value mark declined $323 thousand in 2023 compared to a decrease of $1.3 million in 2022. However, market conditions and elevated interest rates continued to hinder mortgage production during 2023. Most mortgage production remains in adjustable-rate products, which are held in portfolio, and thus have resulted in a reduction in the residential mortgage loan pipeline and secondary market sales. Mortgage loans sold totaled $23.8 million during 2023 compared to $76.2 million during 2022.
- Other income decreased by $306 thousand, or 17%, from 2022 to 2023 primarily due to distribution of $964 thousand from investments in non-housing limited partnerships, gains on the sales of two SBA loans totaling $306 thousand and tax credits of $102 thousand recognized from the Bank's investment in solar energy renewable energy partnerships during 2022, partially offset by a gain of $1.1 million from the sale of the Bank's Path Valley branch during 2023.
- Investment securities losses declined by $113 thousand due primarily to a loss of $171 thousand during 2022 recorded on one non-agency CMO security, which was called at a price below par. During 2023, the Company sold three U.S. Treasury securities with a principal balance of $19.9 million for a nominal gain and six securities issued by state and political subdivisions with a principal balance of $2.2 million for a net loss of $44 thousand. During the year ended December 31, 2022, the Company sold 19 securities with a principal balance of $31.3 million for a net gain of $32 thousand.

2022 versus 2021

Noninterest income decreased by $2.2 million from 2021 to 2022. The following were significant factors in that the net decrease:

- Service charges on deposit accounts increased by $779 thousand, or 26%, due to higher customer transaction activity as the economy continued to recover from the COVID-19 pandemic during 2022 and changes to the deposit fee structure that took effect in April 2022.
- Other service charges, commissions and fees increased by $142 thousand, or 22%, due primarily to increases of $49 thousand in letters of credit fees, ATM fees of $41 thousand and credit card fee income of $38 thousand.
- Swap fee income increased by $2.3 million, or 798%, which fluctuates based on market conditions and client demand.
- Mortgage banking income decreased by $5.5 million, or 93%, from 2021 to 2022 due to a significant decline in the gains on sale and fair value of the held-for-sale mortgages caused by market conditions, which included rapidly rising interest rates and lower housing inventory during 2022. In addition, the difficult mortgage market caused a slowdown in residential mortgage loan production, thereby causing corresponding reductions in the residential mortgage loan pipeline and secondary market

sales year-over-year. The fair value on the held-for-sale mortgages, principally construction-to-permanent loans, decreased by $1.3 million from a gain of $181 thousand in 2021 to a loss of $1.2 million in 2022. Mortgage loans sold totaled $76.2 million in 2022 compared to $200.8 million in 2021. In addition, the Company recorded an MSR valuation reserve reversal of $79 thousand during 2022 compared to a reversal of $987 thousand in 2021, which were due to increases in market rates.

- Other income increased by $1.1 million, or 142%, from 2021 to 2022 primarily due to distributions of $964 thousand from investments in non-housing limited partnerships and an increase in gains on sale of SBA loans of $283 thousand, partially offset by a decrease of $128 thousand in tax credits recognized from the Bank's investment in solar energy renewable energy partnerships.

- Investment securities losses totaled $160 thousand in 2022 compared to investment securities gains of $638 thousand in 2021. During 2022, the Company recorded a loss of $171 thousand on one non-agency CMO security which was called at a price below par. This realized loss was partially offset by the sale of $31.3 million of municipal securities, which resulted in a gain of $32 thousand. During 2021, the Company sold $148.4 million of commercial mortgage-backed securities and asset-backed securities for a net gain of $609 thousand.

Table of Contents

2021 versus 2020

Noninterest income increased by $843 thousand from 2020 to 2021. The Company continues to focus on growth in relationship fee-based revenue for commercial and retail clients. The following were significant factors in that net increase:

- Service charges on deposit accounts increased by $173 thousand due to the lifting of fee waivers implemented in 2020 due to the COVID-19 pandemic and increased deposit account activity associated with the re-opening of the economy in the second quarter of 2021.
- Interchange income increased by $706 thousand due to increased consumer spending upon the re-opening of the economy, expanded distribution of debit cards by the Bank and increased usage by consumers.
- Swap fee income decreased by $554 thousand due to reduced demand from potential clients in a low interest rate environment.
- Wealth management income, which includes both trust and investment management income and brokerage income, grew to $11.5 million, an increase of $1.7 million, from 2020 to 2021. Strong market conditions and the addition of new clients continue to drive growth in the wealth management business. Assets under management increased by $149.1 million to $1.9 billion at December 31, 2021 from $1.7 billion at December 31, 2020.
- Mortgage banking income increased by $635 thousand from 2020 to 2021 due primarily to mortgage servicing right valuation allowance reversals in 2021, partially offset by reduced gains on sale in 2021. There was higher refinancing activity during 2020 and into the first half of 2021. Due to market conditions, the margins and production declined, which resulted in a reduced pipeline at December 31, 2021. Mortgage loans sold totaled $200.8 million in 2021 compared with $205.2 million in 2020, and as of December 31, 2021, the Bank serviced $502.5 million of residential mortgage loans, which was up by $61.4 million from December 31, 2020.
- Gains on sale of portfolio loans decreased by $2.8 million from 2020 to 2021. During 2020, the Bank recorded $2.8 million in gains due to the sale of $10.9 million of classified loans for a net gain of $2.5 million and the sale of an $11.0 million portfolio of recreational vehicle loans for a gain of $314 thousand.
- Other income increased by $323 thousand from 2020 to 2021, primarily due to gains recorded on the sales of two shuttered properties in 2021.
- Investment securities gains increased by $654 thousand from 2020 to 2021. During 2021, the Company recorded net investment securities gains of $638 thousand from the sales of $148.4 million of commercial mortgage-backed securities and asset-backed securities. There were no sales of debt securities during 2020.

Table of Contents

Noninterest Expenses

The following table compares noninterest expenses for 2023, 2022 2021 and 2020. 2021.

					$ Change		% Change		
									2023
		2022	2021	2020	2022-2021	2021-2020	2022-2021	2021-2020	
Salaries and employee benefits									
Salaries and employee benefits									
Salaries and employee benefits	Salaries and employee benefits	$ 48,004	$ 44,002	$ 43,350	$ 4,002	$ 652	9.1 %	1.5 %	$ 50,983
Occupancy	Occupancy	4,729	4,731	4,760	(2)	(29)	—	(0.6)	
Furniture and equipment	Furniture and equipment	5,083	5,115	4,756	(32)	359	(0.6)	7.5	

Data processing	Data processing	4,560	4,061	3,574	499	487	12.3	13.6	
Automated teller machine and interchange fees	Automated teller machine and interchange fees	1,287	1,202	1,057	85	145	7.1	13.7	
Automated teller machine and interchange fees									
Automated teller machine and interchange fees									
Advertising and bank promotions	Advertising and bank promotions	2,264	2,178	1,660	86	518	3.9	31.2	
FDIC insurance	FDIC insurance	1,083	816	686	267	130	32.7	19.0	
Other professional services		3,254	2,555	3,120	699	(565)	27.4	(18.1)	
Professional services									
Professional services									
Professional services									
Directors' compensation	Directors' compensation	938	865	921	73	(56)	8.4	(6.1)	
Taxes other than income	Taxes other than income	1,391	1,321	1,144	70	177	5.3	15.5	
Taxes other than income									
Taxes other than income									
Intangible asset amortization	Intangible asset amortization	1,105	1,275	1,569	(170)	(294)	(13.3)	(18.7)	
Merger-related expenses									
Merger-related expenses									
Merger-related expenses									
Provision for legal settlement	Provision for legal settlement	13,000	—	—	13,000	—	100.0	—	
Restructuring expenses	Restructuring expenses	3,155	—	1,310	3,155	(1,310)	100.0	(100.0)	
Insurance claim (recovery) receivable write off		—	—	(486)	—	486	—	(100.0)	
Other operating expenses									
Other operating expenses									
Other operating expenses	Other operating expenses	5,953	6,020	6,659	(67)	(639)	(1.1)	(9.6)	
Total noninterest expenses	Total noninterest expenses	$ 95,806	$ 74,141	$ 74,080	$ 21,665	$ 61	29.2 %	0.1 %	Total noninterest expenses

2023 versus 2022

Noninterest expenses decreased by $12.0 million from 2022 to 2023. The following were significant factors in the net decrease:

- Salaries and employee benefits expense increased by $3.0 million, or 6%, due primarily to staff additions that filled vacancies, merit-based and incentive compensation increases, higher employee benefit costs from increased claims volume and employee severance costs.
- Occupancy expense decreased by $387 thousand, or 8%, due primarily to operating efficiencies from branch closures in 2022.
- Data processing expense increased by $353 thousand, or 8%, due primarily to an increase in core system costs and investments in new technology as the Company focused on the evolving needs of its clients.
- FDIC insurance expense increased by $877 thousand, or 81%, due to increases in the assessment rate caused by an annualized two-basis point increase assessed by the FDIC to increase its deposit insurance fund and increases commercial loans and total assets.
- Professional services decreased by $349 thousand, or 11%, due primarily to a reduction in legal expenses following the settlement of outstanding litigation.

- Taxes other than income decreased by $341 thousand, or 25%, due to a decrease in the Pennsylvania Bank Shares Tax expense, which was driven by a decrease in the Bank's total equity balance from the increase in unrealized losses on investment securities and charges in the third quarter of 2022 for a legal settlement and restructuring expenses.

- Intangible asset amortization decreased by $152 thousand, or 14%, due to amortization of the core deposit intangible assets on an accelerated basis.
- During the fourth quarter of 2023, the Company announced it entered into an agreement to merge with Codorus Valley. Merger-related expenses totaled $1.1 million, which included due diligence costs, legal expenses and a fairness opinion.
- The Company agreed to settle a litigation matter, which resulted in a provision for legal settlement of $13.0 million recorded in the third quarter of 2022.
- During the third quarter of 2022, the Company announced that five branch locations would be closing and staffing model adjustments would be made to drive long-term growth and improve operating efficiencies in 2023 and forward. As a result of these initiatives, the Company recorded a restructuring charge of $3.2 million.

2022 versus 2021

Noninterest expenses increased by $21.7 million from 2021 to 2022. The following were significant factors within that the net increase:

- Salaries and employee benefit expense increased by $4.0 million, or 9%, due primarily to merit-based and incentive compensation increases, the filling of several vacancies in key positions and higher healthcare costs.
- Data processing expense increased by $499 thousand, or 12%, due primarily to an increase in core system costs and investments in new technology as the Company focuses on the evolving needs of its clients.
- FDIC insurance expense increased by $267 thousand, or 33%, due primarily to an increase in the assessment rate driven by commercial loan growth and a lower deduction from SBA PPP loans due to loan forgiveness.
- Professional services increased by $699 thousand, or 27%, due primarily to an increase in compliance and technology consulting services resulting from vacancies in compliance and technology staff and higher legal expenses partially associated with outstanding litigation.
- Intangible asset amortization decreased by $170 thousand, or 13%, due to amortization of the core deposit intangible assets on an accelerated basis.
- During 2022, the Company agreed to settle a litigation matter, which resulted in a provision for legal settlement of $13.0 million. There were no similar charges in 2021.
- During 2022, the Company announced that five branch locations would be closing and staffing model adjustments would be made to drive long-term growth and improve operating efficiencies in 2023 and forward. As a result of these initiatives, the Company recorded a pre-tax restructuring charge of $3.2 million. There were no similar charges in 2021.

Table of Contents

2021 versus 2020

Noninterest expenses increased by $61 thousand from 2020 to 2021. The following were significant factors within that net increase:

- Salaries and employee benefit expense increased by $652 thousand due primarily to performance-based incentive compensation earned from strong individual production, the Company exceeding targets and other employee incentives. There were also additions to staff in 2021. The impact of these items was partially offset by a decrease in employee medical benefits that resulted from favorable claims history.
- Data processing expense increased by $487 thousand due primarily to increased core system costs, investments in new technology and trust data processing activity.
- Advertising and bank promotions increased by $518 thousand due to increased marketing efforts to promote our commitment to the new round of SBA PPP funding in early 2021, followed by increased advertising and promotions in the post-pandemic environment.
- FDIC insurance expense increased by $130 thousand due to increases in the FDIC assessment base driven by the rise in the Bank's average total assets in 2021, an increase in the assessment rate due to commercial loan growth and credits received in 2020 that did not recur in 2021.
- Professional services decreased by $565 thousand due to higher legal costs incurred in 2020 in connection with the reimbursement of the Company's underwriters in connection with the SEPTA litigation.
- Taxes other than income increased by $177 thousand due to an increase in the Pennsylvania Bank Shares Tax expense that was impacted by an increase in the Bank's total equity balance.
- Intangible asset amortization decreased by $294 thousand principally due to the elimination of a customer intangible associated with the discontinuance of Wheatland on July 31, 2020 and full amortization of a covenant not to compete in 2020.
- Restructuring expenses were $1.3 million in 2020 related to the branch and loan production office consolidations. There were no similar charges in 2021.
- In 2020, the Company recorded $486 thousand of refunds received from an insurance company related to a 2018 cyber security incident. There were no such refunds in 2021.
- Other operating expenses decreased by $639 thousand from 2020 to 2021. The reserve for unfunded commitments was reduced by $454 thousand in 2021 due to reductions in qualitative factors, which were previously elevated due to the COVID-19 pandemic. Also in 2021, certain loss rate assumptions were reduced following a

review of historical loss and line utilization experience. In 2020, there was a write-down of $544 thousand in the carrying value of a property held for sale and an impairment charge of $152 thousand on a customer list intangible asset due to the discontinuance of Wheatland. These did not recur in 2021. Partially offsetting these expense reductions was a loss of $514 thousand in 2021 as compared to a gain of $226 thousand in 2020 from the termination of cash flow hedge derivatives. Other normal fluctuations are in the ordinary course of business.

Income Taxes

Income tax expense totaled $4.6 million $9.4 million, $4.6 million and $8.0 million for 2023, 2022 and $6.0 million for 2022, 2021, and 2020, respectively. The effective tax rate for 2022 2023 was 17.2% 20.8% compared with 17.2% for 2022 and 19.6% for 2021 and 18.6% for 2020. 2021. Generally, the Company's effective tax rate is less than the 21% federal statutory rate due to tax-exempt income, including interest earned on tax-exempt loans and investment securities, income from life insurance policies and tax credits. credits, partially offset by disallowed interest expense and state income taxes. The difference in the effective tax rate in 2022 2023 from prior years was primarily due to a decrease an increase in taxable income resulting from the legal settlement and restructuring charge in 2022. In addition, the effective tax rate was increased by the portion of interest expense disallowed as a deduction against earnings under the TEFRA and an increase in tax-exempt interest state taxes as a result of a greater percentage of taxable income on loans and investment securities due to the rising interest rate environment, and additional tax credits. earned in a state with a state income tax.

Note 7, 8, Income Taxes, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," includes a reconciliation of our federal statutory tax rate to the Company's effective tax rate, which is a meaningful comparison between years and measures income tax expense as a percentage of pretax income.

Financial Condition

Management devotes substantial time to overseeing the investment in and cost of funds in costs to fund loans and investment securities and through deposits and borrowings as well as the formulation of and adherence to policies directed toward the enhancing profitability and management of managing the risks associated with these investments.

Table of Contents

Investment Securities

The Company utilizes available-for-sale AFS securities to manage interest rate risk, to enhance income through interest and dividend income, to provide liquidity and to collateralize certain deposits and borrowings. The AFS securities may also serve as a liquidity source as needed.

The Company has established investment policies and an asset management policy to assist in administering its investment portfolio. Decisions to purchase or sell these securities are based on economic conditions and management's strategy to respond to changes in interest rates, liquidity, pledges to secure deposits and repurchase agreements and other factors while trying to maximize return on the investments. The Company may segregate its investment portfolio into three categories: "securities held-to-maturity," "trading securities" and "securities available-for-sale." At December 31, 2022 December 31, 2023 and 2021, 2022, management has classified the entire investment securities portfolio as available-for-sale, AFS, which is accounted for at current market value with unrealized non-credit losses and gains and losses excluded from earnings and reported in OCI, net of income taxes. On January 1, 2023, the Company adopted the new CECL standard in accordance with ASU 2016-13, which changed the accounting framework by replacing the OTTI assessment with the recognition of an ACL.

The Company's investment securities portfolio includes debt investments that are subject to varying degrees of credit and market risks, which arise from general market conditions, and factors impacting specific industries, as well as news that may impact specific issues. Management monitors its debt securities, using various indicators in determining whether a debt security is other-than-temporarily impaired, including unrealized losses on debit securities are credit-related and require an ACL. These indicators include the amount of time the security has been in an unrealized loss position, and the cause and extent of the unrealized loss. loss and the credit quality of the issuer and underlying assets. In addition, management assesses whether it is likely we the Company will have to sell the security prior to recovery, or if we are it expects to be able to hold the security until the price recovers. For those debt The Company determined that the declines in market value were due to increases in interest rates and market movements, and not due to credit factors. The Company does not intend to sell these securities in with unrealized losses and it is more likely than not that the Company will not be required to sell them before recovery of their amortized cost basis, which management concludes may be maturity. Therefore, the security is other-than-temporarily impaired, it recognizes Company has concluded that the credit component of unrealized losses on the AFS securities do not require an ACL at December 31, 2023. Under the prior OTTI impairment in earnings and framework, the remaining portion in OCI. The Company did not have record any cumulative OTTI expense in 2022, 2021 or 2020. at December 31, 2022 and 2021.

The following table summarizes the fair value of available-for-sale AFS securities at December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2022	2021	2020			
	2023				2023	2022	2021
U.S. Treasury	U.S. Treasury	**$ 17,291**	$ 19,702	$ —			
U.S. Government Agencies	U.S. Government Agencies	**5,135**	—	—			
States and political subdivisions	States and political subdivisions	**197,414**	193,370	112,670			
States and political subdivisions							

States and political subdivisions				
GSE residential MBS	GSE residential MBS	**59,402**	40,726	4,293
GSE commercial MBS				
GSE residential CMOs	GSE residential CMOs	**68,378**	65,922	58,011
Non-agency CMOs	Non-agency CMOs	**39,758**	29,698	16,918
Private label commercial CMOs		**—**	—	62,236
Asset-backed				
Asset-backed				
Asset-backed	Asset-backed	**125,973**	122,621	211,966
Other	Other	**377**	399	371
Total investment securities	Total investment securities	**$513,728**	$472,438	$466,465

At December 31, 2023, AFS securities totaled $513.5 million, a decrease of $209 thousand, from $513.7 million at December 31, 2022. During 2023, the Company purchased investment securities totaling $45.6 million, which included $19.8 million of U.S. Treasury securities, $15.3 million of agency MBS and CMO securities, $8.9 million of non-agency CMO securities and $972 thousand in asset-backed securities. During 2023, the Company sold three U.S. Treasury securities with a total principal balance of $19.9 million for a nominal gain and six securities issued by state and political subdivisions with a total principal balance of $2.2 million for a net loss of $44 thousand. The sale of the securities issued by state and political subdivisions in net unrealized loss position was to redeploy funds from the lower yielding investment securities to higher yielding assets. The balance of investment securities included net unrealized losses of $35.6 million at December 31, 2023 compared to net unrealized losses of $49.6 million at December 31, 2022 for a reduction in unrealized losses of $14.0 million. The decrease in net unrealized losses was primarily due to lower treasury rates and contracting credit spreads during 2023 compared to 2022. The Company increased has sufficient access to liquidity such that management does not believe it would be necessary to sell any of its investment securities at a loss to offset any unexpected deposit outflows. Management believes the structure of the Company's investment securities portfolio in 2022 is appropriately aligned with the average balance remainder of the investment balance sheet to protect against volatile interest rate environments and to generate steady earnings.

At December 31, 2022, AFS securities increasing totaled $513.7 million, an increase of $41.3 million, from $462.0 million for the year ended $472.4 million at December 31, 2021 to $509.6 million for the year ended December 31, 2022.

During 2022, the Company purchased investment securities totaling $181.5 million, which included mortgage-backed securities $73.7 million of $75.3 million, municipal securities, $47.5 million of $73.7 million, agency MBS and CMO securities, $27.9 million of non-agency CMO securities, $27.6 million of asset-backed securities and $4.9 million of $27.6 million, and a U.S. government agency security of $4.9 million, and security. During 2022, the Company sold $31.3 million of 19 municipal securities which were with a principal balance of $31.3 million for a net gain of $32 thousand and replaced by with the purchases of aforementioned higher yielding investment securities. At December 31, 2022, the The Company recognized recorded a loss of $171 thousand on the a call of a non-agency CMO security at a price below its par value of $14.7 million. The realized loss was included in securities gains and losses in noninterest income in for the consolidated statements of income. year ended December 31, 2022. The balance of investment securities included net unrealized losses of $49.6 million compared to net unrealized gains of $5.6 million at December 31, 2021. This change was due to significant increases in market interest rate increases in 2022. rates and

In 2021, the Company sold $148.4 million of commercial MBS rates and asset-backed securities, which were offset by purchases of GSE residential MBS, non-agency CMOs, municipal securities and United States Treasury notes of $195.0 million. Due to improvements in the capital markets, the Company strategically exited its private label commercial CMO portfolio. The external environment, with tightening wider credit spreads, presented an opportunity to execute these sales in March 2021. Proceeds from the sales were deployed into agency-backed securities and taxable municipal bonds given the elevated level of liquidity. In September 2021, the Company sold certain asset-backed securities to reduce the risk profile of the investment portfolio and improve yields based on the market conditions and interest rate environment. spreads.

Table of Contents

The following table shows the maturities of investment securities at book value at December 31, 2022 December 31, 2023, and weighted average yields of such investment securities. Yields are shown on a tax equivalent basis, assuming a 21% federal income tax rate.

	Within 1 year	After 1 year but within 5 years	After 5 years but within 10 years	After 10 years	Total
U.S. Treasury securities					
Book value	$ —	$ —	$ 20,070	$ —	$ 20,070
Yield	— %	— %	1.05 %	— %	1.05 %
Average maturity (years)	—	—	5.3	—	5.3
U. S. Government Agencies					
Book value	$ —	$ —	$ 4,907	$ —	$ 4,907
Yield	— %	— %	6.03 %	— %	6.03 %
Average maturity (years)	—	—	9.0	—	9.0
States and political subdivisions					
Book value	$ —	$ 6,403	$ 58,371	$ 161,051	$ 225,825
Yield	— %	3.57 %	2.87 %	2.72 %	2.79 %
Average maturity (years)	—	4.6	8.3	20.4	16.8
GSE residential mortgage-backed securities					
Book value	$ —	$ —	$ —	$ 63,778	$ 63,778
Yield	— %	— %	— %	3.87 %	3.87 %

	Within 1 year	After 1 year but within 5 years	After 5 years but within 10 years	After 10 years	Total
U.S. Treasury securities					
Book value					
Yield	— %	1.05 %	— %	— %	1.05 %
Average maturity (years)	—	4.3	—		4.3
U. S. Government Agencies					
Book value					
Yield	— %	— %	7.05 %	— %	7.05 %
Average maturity (years)	—	—	8.0	—	8.0
States and political subdivisions					
Book value					
Yield	— %	2.61 %	2.86 %	2.78 %	2.79 %
Average maturity (years)	—	4.0	7.5	19.5	15.9
GSE residential mortgage-backed securities					
Book value					
Yield	— %	— %	— %	4.56 %	4.56 %

Average maturity (years)	Average maturity (years)	—	—	—	42.4	42.4	Average maturity (years)	—		—	41.9	
GSE commercial mortgage-backed securities												
Book value												
Book value												
Book value												
Yield							Yield	— %	— %	— %	7.36 %	7.36 %
Average maturity (years)							Average maturity (years)	—		—	0.2	
GSE residential CMOs	GSE residential CMOs											
Book value												
Book value												
Book value	Book value	$ —	$ —	$ —	$ 75,446	$ 75,446						
Yield	Yield	— %	— %	— %	3.01 %	3.01 %	Yield	— %	— %	— %	3.64 %	3.64 %
Average maturity (years)	Average maturity (years)	—	—	—	26.9	26.9	Average maturity (years)	—		—	28.0	
Non-agency CMOs	Non-agency CMOs											
Book value												
Book value												
Book value	Book value	$ —	$ 14,171	$ —	$ 28,127	$ 42,298						
Yield	Yield	— %	6.12 %	— %	4.28 %	4.90 %	Yield	— %	7.05 %	7.57 %	4.61 %	5.59 %
Average maturity (years)	Average maturity (years)	—	3.2	—	34.3	23.9	Average maturity (years)	—	2.0	7.8	32.1	20.7
Asset-backed	Asset-backed											
Asset-backed												
Asset-backed												
Book value												
Book value												
Book value	Book value	$ —	$ —	$ —	$ 130,577	$ 130,577						
Yield	Yield	— %	— %	— %	5.12 %	5.12 %	Yield	— %	— %	6.70 %	6.36 %	6.37 %
Average maturity (years)	Average maturity (years)	—	—	—	21.8	21.8	Average maturity (years)	—	—	9.9	21.3	21.2
Other	Other											
Book value	Book value	$ 249	$ —	$ —	$ 128	$ 377						
Book value												
Book value												
Yield	Yield	2.45 %	— %	— %	— %	1.62 %	Yield	— %	— %	— %	— %	— %

Average maturity (years)	Average maturity (years)	0.4	—	—	—	0.3	Average maturity (years)	—				—
Total	Total											
Book value	Book value	$ 249	$ 20,574	$ 83,348	$ 459,107	$ 563,278						
Book value												
Book value												
Yield	Yield	2.45 %	5.33 %	2.62 %	3.71 %	3.60 %	Yield	— %	3.45 %	3.43 %	4.23 %	4.08 %
Average maturity (years)	Average maturity (years)	0.4	3.6	7.6	25.8	22.7	Average maturity (years)	—	3.5	7.6	25.5	21.6

The average maturity is based on the contractual terms of the debt or mortgage-backed securities, and does not factor in required repayments or anticipated prepayments. At December 31, 2022 December 31, 2023, the weighted average estimated life is 34 33 years for mortgage-backed and CMO securities, and 22 21 years for asset-backed securities, based on current interest rates and anticipated prepayment speeds. The overall duration of the Company's investment security portfolio is 4.3 years at December 31, 2023.

[Table of Contents](#)

The following table summarizes the credit ratings and collateral associated with the Company's available-for-sale AFS investment securities portfolio, excluding equity securities, at December 31, 2022 December 31, 2023:

Sector	Sector	Portfolio Mix	Amortized Book	Fair Value	Credit Enhancement	AAA	AA	A	BBB	NR	Collateral / Guarantee Type
Sector											
Sector											
Unsecured ABS											
Unsecured ABS											
Unsecured ABS	Unsecured ABS	1 %	$ 4,899	$ 4,319	30 %	— %	— %	— %	— %	100 %	Unsecured Consumer Debt
Student Loan ABS	Student Loan ABS	1	6,900	6,658	26	—	—	—	—	100	Seasoned Student Loans
Student Loan ABS											
Student Loan ABS											
Federal Family Education Loan ABS											
Federal Family Education Loan ABS											
Federal Family Education Loan ABS	Federal Family Education Loan ABS	20	114,685	110,723	8	89	11	—	—	—	Federal Family Education Loan (1)
PACE Loan ABS	PACE Loan ABS	—	2,685	2,467	6	100	—	—	—	—	PACE Loans (4)
PACE Loan ABS											
PACE Loan ABS											
Non-Agency RMBS											
Non-Agency RMBS											
Non-Agency RMBS	Non-Agency RMBS	3	16,948	14,926	14	100	—	—	—	—	Reverse Mortgages (2)
Non-Agency CMBS	Non-Agency CMBS	4	21,226	21,267	18	—	—	—	—	100	Commercial Real Estate
Non-Agency CMBS											
Non-Agency CMBS											
Municipal - General Obligation											
Municipal - General Obligation											
Municipal - General Obligation	Municipal - General Obligation	19	105,055	92,961		4	90	6	—	—	

Municipal - Revenue	Municipal - Revenue	21	120,770	104,453	—	82	12	—	6	
Municipal - Revenue										
Municipal - Revenue										
SBA ReRemic (5)										
SBA ReRemic (5)										
SBA ReRemic (5)	SBA ReRemic (5)	1	5,532	5,371	—	100	—	—	—	SBA Guarantee (3)
Small Business Administration	Small Business Administration	1	4,907	5,135	—	100	—	—	—	SBA Guarantee (3)
Small Business Administration										
Small Business Administration										
Agency MBS										
Agency MBS										
Agency MBS	Agency MBS	25	139,224	127,780	—	100	—	—	—	Residential Mortgages (3)
U.S. Treasury securities	U.S. Treasury securities	4	20,070	17,291	—	100	—	—	—	U.S. Government Guarantee (3)
Bank CDs		—	249	249	—	—	—	—	100	FDIC Insured CD
U.S. Treasury securities										
U.S. Treasury securities										
		100 %	$ 563,150	$ 513,600	23 %	67 %	3 %	— %	7 %	
		100								
		100								
		100								

(1) 97% guaranteed by U.S. government

(1) 97% guaranteed by U.S. government

(2) Non-agency reverse mortgages with current structural credit enhancements

(3) Guaranteed by U.S. government or U.S government agencies

(4) PACE acronym represents Property Assessed Clean Energy loans

(1) 97% guaranteed by U.S. government

(1) 97% guaranteed by U.S. government

(2) PACE acronym represents Property Assessed Clean Energy loans

(2) PACE acronym represents Property Assessed Clean Energy loans

(2) PACE acronym represents Property Assessed Clean Energy loans

(3) Non-agency reverse mortgages with current structural credit enhancements

(3) Non-agency reverse mortgages with current structural credit enhancements

(3) Non-agency reverse mortgages with current structural credit enhancements

(4) Guaranteed by U.S. government or U.S government agencies

(4) Guaranteed by U.S. government or U.S government agencies

(4) Guaranteed by U.S. government or U.S government agencies

(5) SBA ReRemic acronym represents Re-Securitization of Real Estate Mortgage Investment Conduits

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Note: Ratings in table are the lowest of the six rating agencies (Standard & Poor's, Moody's, Morningstar, DBRS, KBRA and Fitch). Standard & Poor's rates U.S. government obligations at AA+

Note: Ratings in table are the lowest of the six rating agencies (Standard & Poor's, Moody's, Fitch, Morningstar, DBRS, and Kroll Bond Rating Agency). Standard & Poor's rates U.S. government obligations at AA+.

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Loan Portfolio

The Company offers a variety of products to meet the credit needs of its borrowers, principally commercial real estate loans, commercial and industrial loans, retail loans secured by residential properties, and to a lesser extent, installment loans. No loans are extended to non-domestic borrowers or governments.

Generally, the Bank is permitted under applicable law to make loans to single borrowers (including certain related persons and entities) in aggregate amounts of up to 15% of the sum of total capital and excess ALL ACL not included in Tier 2 capital. The Company's policy has established an internal lending limit of $25.0 million to one borrower, of $25.0 million except for commercial real estate loans, which the Company reduced the internal lending limit to $15.0 million on a per project basis beginning in 2023. Credit exposure may be aggregated if loans are under common control or ownership or with common guarantors, for which the internal lending limit is $40.0 million, an amount that is but not permitted to exceed the regulatory lending limit. These amounts are below its the Bank's regulatory lending limit of $43.3 million $47.5 million at December 31, 2022 December 31, 2023. No borrower had an outstanding exposure exceeding the Bank's legal lending limit at year-end.

The risks associated with lending activities differ among loan segments and classes and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans and general economic conditions. Any of these factors may adversely impact a borrower’s ability to repay loans, and also impact the associated collateral. A further discussion on the Company's loan segments and classes of loans the Company makes and related risks is and the Company's implementation of the new account standard for expected credit losses, referred to as CECL, and FDM are included in Note 1, Summary of Significant Accounting Policies, and Note 3, 4, Loans and Allowance for Loan Credit Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Table of Contents

The following table presents the loan portfolio, excluding residential LHFS, by segments and classes at December 31 of each of the years set forth below.

		2022	2021	2020	2019	2018					
2023							2023	2022	2021	2020	2019
Commercial real estate:	Commercial real estate:										
Owner-occupied											
Owner-occupied											
Owner-occupied	Owner-occupied	**$ 315,770**	$ 238,668	$ 174,908	$ 170,884	$ 129,650					
Non-owner occupied	Non-owner occupied	**608,043**	551,783	409,567	361,050	252,794					
Multi-family	Multi-family	**138,832**	93,255	113,635	106,893	78,933					
Non-owner occupied residential	Non-owner occupied residential	**104,604**	106,112	114,505	120,038	100,367					
Acquisition and development:	Acquisition and development:										
1-4 family residential construction	1-4 family residential construction	**25,068**	12,279	9,486	15,865	7,385					
1-4 family residential construction											
1-4 family residential construction											

Commercial and land development	Commercial and land development	**158,308**	93,925	51,826	41,538	42,051
Commercial and industrial (1)	Commercial and industrial (1)	**357,774**	485,728	647,368	214,554	160,964
Municipal	Municipal	**12,173**	14,989	20,523	47,057	50,982
Residential mortgage:	Residential mortgage:					
First lien	First lien	**229,849**	198,831	244,321	336,372	235,296
First lien						
First lien						
Home equity – term	Home equity – term	**5,505**	6,081	10,169	14,030	12,208
Home equity – lines of credit	Home equity – lines of credit	**183,241**	160,705	157,021	165,314	143,616
Installment and other loans	Installment and other loans	**12,065**	17,630	26,361	50,735	33,411
Total loans	Total loans	**$2,151,232**	$1,979,986	$1,979,690	$1,644,330	$1,247,657

(1) Includes $13.8 5.7 million, $13.8 million, $189.9 million, $403.3 million and $403.3 million zero of SBA PPP loans, net of deferred fees and costs, as of December 31, 2022 December 31, 2023, 2022, 2021, 2020 and 2020, 2019, respectively.

Total loans increased by $147.1 million to $2.3 billion at December 31, 2023 from $2.2 billion at December 31, 2022. The increase was due to growth in the commercial real estate loan segment of $146.9 million, residential mortgages of $39.2 million and commercial and industrial loans of $9.3 million, partially offset by a decrease in the acquisition and development loan segment of $43.6 million. The decrease in the acquisition and development loan segment includes construction-to-permanent loans for which construction has been completed or there is a certificate of occupancy, which allows for the transfer of the loan classification to a permanent loan class secured by real estate. Overall loan growth, excluding SBA PPP forgiveness activity of $8.1 million, was $155.2 million or 7% for the year ended December 31, 2023 compared to 2022.

The loan portfolio at December 31, 2022 increased by $171.2 million to $2.2 billion from $2.0 billion at December 31, 2021 due primarily to commercial loan and residential mortgage production, which was offset by SBA PPP loan forgiveness activity of $176.1 million and reductions in installment and other loans in 2022. Overall loan growth, excluding SBA PPP loans, loan forgiveness activity, was $349.0 million or 20% for the year ended December 31, 2022 compared to 2021.

The loan portfolio at December 31, 2021 increased by $296 thousand from December 31, 2020 due primarily to commercial loan production, which was offset by SBA PPP loan forgiveness of $442.8 million and reductions in mortgage loans and installment and other loans of $54.6 million in 2021. Overall loan growth, excluding SBA PPP loans, was $213.7 million, or 14% in 2021.

From 2019 to 2020, the increase in total loans was due primarily to the origination of SBA PPP loans, which was partially offset by a reduction in mortgage loans resulting from significant refinancing activity in the low interest rate environment. The increase in the loan portfolio from 2018 to 2019 was approximately 75% attributable to loans acquired in the Hamilton transaction. The Mercersburg acquisition in 2018 and Hamilton acquisition in 2019 increased the loan portfolio, principally in the residential mortgage - first lien and commercial real estate - owner and non-owner occupied classes.

The Company's organic growth has occurred principally in commercial real estate, commercial and industrial loans and home equity lines of credit, excluding SBA PPP loans, as we focused on increasing diversification in the portfolio. The growth in installment and other loans in 2019 was principally attributable to purchased automobile financing loans at higher returns than comparable cash flows in the investment securities portfolio.

Table of Contents

In addition to monitoring the loan portfolio by loan class as noted above, the Company also monitors concentrations by segment. The Bank's lending policy reports segment concentrations that exceed 20% of the Bank's total risk-based capital ("RBC"). The following segments met this criterion at December 31, 2022. December 31, 2023:

		Balance	**% of Total Loans**	**% of Total RBC**
Office Space	Office Space	**$241,126**	**11.2%**	**82.3%**
1-4 Family Rentals	1-4 Family Rentals	**104,604**	**4.9**	**35.7**
Hotels & Motels (including B&B)		**62,493**	**2.9**	**21.3**

	Balance	**Balance**		**% of Total Loans**	**% of Total RBC**
Office Space		**$ 226,504**	**9.9%**	**9.9%**	**70.6%**
1-4 Family Rentals		**95,040**	**4.1**	**4.1**	**29.6**

Loans outside of market area		178,429	8.3	60.9					
Multi-Family CRE		149,683	7.0	51.1					
Hotels & Motels (including Bed & Breakfast)					Hotels & Motels (including Bed & Breakfast)	71,810		3.1	22.4
Loans Outside of Market Area					Loans Outside of Market Area	199,829		8.7	62.3
Multi-Family					Multi-Family	150,675		6.6	47.0
Purchased Participation	Purchased Participation	111,141	5.2	37.9	Purchased Participation	149,328	6.5	6.5	46.6
Senior Housing and Care	Senior Housing and Care	126,399	5.9	43.1					
Strip centers (retail)		122,688	5.7	41.9					
Senior Housing and Care									
Senior Housing and Care						153,672		6.7	47.9
Strip Centers (Retail)					Strip Centers (Retail)	124,432		5.4	38.8
Warehouse	Warehouse	104,442	4.9	35.7	Warehouse	133,337	5.8	5.8	41.6

Management regularly analyzes the commercial real estate portfolio, which includes the review of occupancy, cash flows, expenses and expiring leases, as well as the location of the real estate. At December 31, 2023, the Company had $226.5 million in loans related to office space, which had a weighted average loan-to-value ratio of 56% and a weighted average debt coverage ratio of 1.77x. Management believes that the office space portfolio is well-diversified and includes only limited exposure to properties located in major metropolitan markets (approximately 2% of the total commercial real estate loan balance as of December 31, 2023).

The following table presents expected maturities of loan classes by fixed rate or adjustable-rate categories at December 31, 2022 December 31, 2023.

		Due In												
		One Year or Less	One Year Through Five Years	Five Years Through 15 Years	After 15 Years	Total	% of Total					One Year Through Five Years		
		One Year or Less												
		One Year or Less												
		One Year or Less												
Commercial real estate:	Commercial real estate:													
Owner occupied	Owner occupied													
Owner occupied														
Owner occupied														
Fixed rate														
Fixed rate														
Fixed rate	Fixed rate	$6,184	$ 29,781	$83,618	$8,531	$128,114	41 %	$	3,581	$		$43,627	$	
Adjustable and floating rate	Adjustable and floating rate	8,130	47,166	125,756	6,606	187,657	59 %	Adjustable and floating rate	18,899	50,702			50,702	147,17
		14,314	76,946	209,373	15,137	315,770	100 %							
	22,480									22,480				94,329
Non-owner occupied	Non-owner occupied													

Fixed rate	Fixed rate	5,965	71,559	95,250	—	172,774	28 %					
Fixed rate												
Fixed rate									7,241		92,826	
Adjustable and floating rate	Adjustable and floating rate	14,944	53,576	356,418	10,331	435,269	72 %	Adjustable and floating rate	8,279	75,164	75,164	422,87
		20,909	125,135	451,668	10,331	608,043	100 %					
	15,520									15,520		167,990
Multi-family	Multi-family											
Fixed rate	Fixed rate	7,088	36,255	10,187	65	53,595	39 %					
Fixed rate												
Fixed rate									2,119		31,800	
Adjustable and floating rate	Adjustable and floating rate	113	35,479	45,745	3,901	85,237	61 %	Adjustable and floating rate	1,945	56,868	56,868	43,16
		7,201	71,733	55,932	3,966	138,832	100 %					
	4,064									4,064		88,668
Non-owner occupied residential	Non-owner occupied residential											
Fixed rate	Fixed rate	975	10,865	9,223	1,748	22,812	22 %					
Adjustable and floating rate		2,131	13,306	63,224	3,130	81,792	78 %					
		3,106	24,171	72,447	4,879	104,604	100 %					
Acquisition and development:												
1-4 family residential construction												
Fixed rate												
Fixed rate	Fixed rate	—	544	5,948	2,213	8,706	35 %	1,591	11,160		11,160	5,789
Adjustable and floating rate	Adjustable and floating rate	12,296	2,375	150	1,541	16,362	65 %	Adjustable and floating rate	1,378	12,662	12,662	60,74
	2,969									2,969		23,822
(continued)												(continued)
		12,296	2,919	6,098	3,754	25,068	100 %					

[Table of Contents](#)

	Due In					
	One Year or Less	One Year Through Five Years	Five Years Through 15 Years	After 15 Years	Total	% of Total
	Due In					
	One Year or Less					
	One Year or Less					
	One Year or Less					One Year Through Five Years
Acquisition and development:						
1-4 family residential construction						
1-4 family residential construction						
1-4 family residential construction						

Fixed rate													
Fixed rate													
Fixed rate									—		—		
Adjustable and floating rate								Adjustable and floating rate	15,806		2,016		
	15,806									15,806			2,0
Commercial and land development	Commercial and land development												
Fixed rate	Fixed rate	257	463	10,933	117	11,770	7 %						
Fixed rate													
Fixed rate									1,434		1,912		
Adjustable and floating rate	Adjustable and floating rate	34,706	48,929	37,135	25,768	146,538	93 %	Adjustable and floating rate	24,911	46,847		46,847	
		34,963	49,392	48,068	25,885	158,308	100 %						
	26,345									26,345			48,7
Commercial and industrial	Commercial and industrial												
Fixed rate	Fixed rate	3,557	117,751	44,283	977	166,568	47 %						
Fixed rate													
Fixed rate									3,752		118,323		
Adjustable and floating rate	Adjustable and floating rate	82,965	46,804	57,815	3,621	191,206	53 %	Adjustable and floating rate	68,058	62,136		62,136	
		86,522	164,555	102,098	4,598	357,774	100 %						
	71,810									71,810			180,4
Municipal	Municipal												
Fixed rate	Fixed rate	365	2,954	2,770	—	6,089	50 %						
Fixed rate													
Fixed rate									—		1,715		
Adjustable and floating rate	Adjustable and floating rate	—	0	4,139	1,945	6,084	50 %	Adjustable and floating rate	—	—		—	
		365	2,954	6,909	1,945	12,173	100 %						
	—									—			1,7
Residential mortgage:	Residential mortgage:												
First lien	First lien												
First lien													
First lien													
Fixed rate													
Fixed rate													
Fixed rate	Fixed rate	130	2,015	34,380	120,919	157,444	68 %		107	4,402	4,402	29,294	
Adjustable and floating rate	Adjustable and floating rate	287	319	9,154	62,645	72,405	32 %	Adjustable and floating rate	1	537		537	
		417	2,334	43,534	183,564	229,849	100 %						

	108										108		4,9
Home equity - term	Home equity - term												
Fixed rate	Fixed rate	47	680	3,495	815	5,037	92 %						
Fixed rate													
Fixed rate										15		860	
Adjustable and floating rate	Adjustable and floating rate	3	56	63	346	468	8 %	Adjustable and floating rate	100	63		63	
		50	736	3,558	1,161	5,505	100 %						
	115										115		9
Home equity - lines of credit	Home equity - lines of credit												
Fixed rate	Fixed rate	51	9,009	45,620	13,954	68,634	37 %						
Fixed rate													
Fixed rate										76		8,993	
Adjustable and floating rate	Adjustable and floating rate	18,056	188	1,300	95,063	114,607	63 %	Adjustable and floating rate	13,737	140		140	
		18,107	9,197	46,920	109,017	183,241	100 %						
	13,813										13,813		9,1
Installment and other loans	Installment and other loans												
Fixed rate	Fixed rate	766	4,936	329	10	6,041	50 %						
Fixed rate													
Fixed rate										676		2,058	
Adjustable and floating rate	Adjustable and floating rate	3,842	—	2,158	24	6,024	50 %	Adjustable and floating rate	4,006	—		—	
		4,608	4,936	2,487	34	12,065	100 %						
		$202,857	$ 535,010	$1,049,093	$364,272	$2,151,232							
	4,682										4,682		2,0
	$												

The final maturity is used in the determination of maturity of acquisition and development loans that convert from construction to permanent status. Variable rate loans shown above include semi-fixed loans that contractually will adjust with prime or another variable rate index after the interest lock period, which may be up to 10 years. At December 31, 2022 December 31, 2023, these semi-fixed loans totaled $529.8 million $542.7 million.

Asset Quality

Risk Elements

The Company's loan portfolio is subject to varying degrees of credit risk. Credit risk is managed through the Company's underwriting standards, on-going credit reviews, and monitoring of asset quality measures. Additionally, loan portfolio

Table of Contents

diversification, which limits exposure to a single industry or borrower, and collateral requirements also mitigate the Company's risk of credit loss.

The loan portfolio consists principally of loans to borrowers in south central Pennsylvania and the greater Baltimore, Maryland region. As the majority of loans are concentrated in these geographic regions, a substantial portion of the borrowers' ability to honor their obligations may be affected by the level of economic activity in the market areas.

Nonperforming assets include nonaccrual loans and foreclosed real estate. In addition, loan modifications to borrowers experiencing financial difficulty and loans past due 90 days or more and still accruing are also deemed to be risk assets. For all loan classes, the accrual of interest income on loans, including individually evaluated loans, ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, full collection is unlikely. Interest will continue to accrue on loans past due 90 days or more if the collateral is adequate to cover principal and interest, and the loan is in the process of collection. Interest accrued, but not collected, as of the date of placement on nonaccrual status, is generally reversed and charged against interest income, unless fully collateralized. Subsequent payments received are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal. Loans are returned to accrual status, for all loan classes, when all the principal and interest amounts contractually due are brought current, the loans have performed in accordance with the contractual terms of the note for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is reasonably assured. Past due status is based on contract terms of the loan.

Prior to the adoption of ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"), loans, the terms of which are modified, were classified as TDRs if a concession was granted for legal or economic reasons related to a borrower's financial difficulties. Concessions granted under a TDR typically involved a temporary deferral of scheduled loan payments, an extension of a loan's stated maturity date, temporary reduction in interest rates, or below market rates. If a modification occurred while the loan is on accruing status, it would continue to accrue interest under the modified terms. Nonaccrual TDRs were restored to accrual status if scheduled principal and interest payments, under the modified terms, were current for six months after modification, and the borrower continues to demonstrate its ability to meet the modified terms. TDRs were evaluated individually for impairment if they have been restructured during the most recent calendar year, or if they are not performing according to their modified terms.

ASU 2022-02 eliminated the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty, if the modification results in a more-than-insignificant direct change in the contractual cash flows and if the modified terms represent a new loan or a continuation of an existing loan, which the Company refers to these loans as "financial difficulty modifications" or "FDMs."

The following table presents the Company's risk elements and relevant asset quality ratios at December 31 of each of the years set forth below.

		2022	**2021**	**2020**	**2019**	**2018**					
	2023						**2023**	**2022**	**2021**	**2020**	**2**
Nonaccrual loans	Nonaccrual loans	**$ 20,583**	$ 6,449	$ 10,310	$ 10,657	$ 5,165					
OREO	OREO	**—**	—	—	197	130					
Total nonperforming assets	Total nonperforming assets	**20,583**	6,449	10,310	10,854	5,295					
Restructured loans still accruing		**682**	804	934	979	1,132					
Loans past due 90 days or more and still accruing (1)		**439**	1,201	554	2,232	57					
FDM / TDR still accruing (1)											
Loans past due 90 days or more and still accruing (2)											
Total nonperforming and other risk assets	Total nonperforming and other risk assets	**$ 21,704**	$ 8,454	$ 11,798	$ 14,065	$ 6,484					
Loans 30-89 days past due	Loans 30-89 days past due	**$ 7,311**	$ 5,925	$ 10,291	$ 17,527	$ 5,186					
Loans 30-89 days past due											
Loans 30-89 days past due											
Asset quality ratios:	Asset quality ratios:										
Total nonperforming loans to total loans											
Total nonperforming loans to total loans											

Total nonperforming loans to total loans	Total nonperforming loans to total loans	**0.96 %**	0.33 %	0.52 %	0.65 %	0.41 %		**1.11 %**	0.96 %	0.33 %	0.52 %	0.65 %
Total nonperforming assets to total assets	Total nonperforming assets to total assets	**0.70 %**	0.23 %	0.37 %	0.46 %	0.27 %	Total nonperforming assets to total assets	**0.83 %**	0.70 %	0.23 %	0.37 %	0.46 %
Total nonperforming assets to total loans and OREO	Total nonperforming assets to total loans and OREO	**0.96 %**	0.33 %	0.52 %	0.66 %	0.42 %	Total nonperforming assets to total loans and OREO	**1.11 %**	0.96 %	0.33 %	0.52 %	0.66 %
Total risk assets to total loans and OREO	Total risk assets to total loans and OREO	**1.01 %**	0.43 %	0.60 %	0.86 %	0.52 %	Total risk assets to total loans and OREO	**1.11 %**	1.01 %	0.43 %	0.60 %	0.86 %
Total risk assets to total assets	Total risk assets to total assets	**0.74 %**	0.30 %	0.43 %	0.59 %	0.34 %	Total risk assets to total assets	**0.84 %**	0.74 %	0.30 %	0.43 %	0.59 %
Allowance for loan losses to total loans		**1.17 %**	1.07 %	1.02 %	0.89 %	1.12 %						
Allowance for loan losses to nonperforming loans		**122.32 %**	328.42 %	195.45 %	137.52 %	271.33 %						
Allowance for loan losses to nonperforming loans and restructured loans still accruing		**118.40 %**	292.02 %	179.22 %	125.95 %	222.55 %						
ACL to total loans							ACL to total loans	**1.25 %**	1.17 %	1.07 %	1.02 %	0.89 %
ACL to nonperforming loans							ACL to nonperforming loans	**112.44 %**	122.32 %	328.42 %	195.45 %	137.52 %
ACL to nonperforming loans and FDMs / TDRs still accruing							ACL to nonperforming loans and FDMs / TDRs still accruing	**112.40 %**	118.40 %	292.02 %	179.22 %	125.95 %
Net charge-offs (recoveries) to total average loans							Net charge-offs (recoveries) to total average loans	**0.03 %**	0.01 %	— %	(0.01)%	0.02 %

(1) During 2023, the Company modified terms for two loans totaling $1.4 million, including one existing nonaccrual loan of $1.4 million, which met the FDM criteria in accordance with ASU 2022-02.

(2) Includes zero, $307 thousand, $214 thousand, $456 thousand $2.0 million and zero, $2.0 million, respectively, of purchased credit impaired PCI loans at December 31, 2022 December 31, 2023, 2022, 2021, 2020 and 2019 in accordance with ASU 310-30. Upon adoption of the CECL standard, PCD loans were evaluated on an individual loan level and 2018. reported on an individual loan basis under ASU 310-20, Nonrefundable Fees and Other Assets. As of December 31, 2021, there was one loan for $891 thousand, which was in the process of collection and guaranteed by the SBA, and was subsequently collected during the first quarter of 2022.

The following table provides detail of impaired loans at December 31, 2022 and 2021.

	2022			2021		
	Nonaccrual Loans	**Restructured Loans Still Accruing**	**Total**	**Nonaccrual Loans**	**Restructured Loans Still Accruing**	**Total**
Commercial real estate:						
Owner occupied	**$ 2,767**	**$ —**	**$ 2,767**	$ 3,763	$ —	$ 3,763
Non-owner occupied residential	**81**	**—**	**81**	122	—	122
Acquisition and development						

Commercial and land development	**15,426**	**—**	**15,426**	—	—	—
Commercial and industrial	**31**	**—**	**31**	250	—	250
Residential mortgage:						
First lien	**1,838**	**682**	**2,520**	1,831	804	2,635
Home equity – term	**5**	**—**	**5**	7	—	7
Home equity – lines of credit	**395**	**—**	**395**	436	—	436
Installment and other loans	**40**	**—**	**40**	40	—	40
	$ 20,583	**$ 682**	**$ 21,265**	$ 6,449	$ 804	$ 7,253

Nonperforming assets include nonaccrual loans and foreclosed real estate. Risk assets, which include nonperforming assets, and restructured FDMs still accruing and loans past due 90 days or more and still accruing, totaled $21.7 million $25.6 million at December 31, 2022, an

Table of Contents

increase of $13.3 million or 157%, from $8.5 million at December 31, 2021. Nonaccrual loans totaled $20.6 million at December 31, 2022 December 31, 2023, an increase of $14.1 million $3.9 million from $6.4 million $21.7 million at December 31, 2021 December 31, 2022. Nonaccrual loans increased by $4.9 million from $20.6 million at December 31, 2022 to $25.5 million at December 31, 2023 due primarily to additions in of $8.5 million, due primarily to two commercial real estate clients with loans placed on totaling $4.3 million and one commercial and industrial client totaling $1.0 million, and transfers to non-accrual status of $16.4 million, $931 thousand due to the treatment of PCD loans at the individual asset level under CECL, partially offset by payments of $3.6 million, charge-offs of $909 thousand and loans returning returned to accrual status of $401 thousand.

The following table presents the amortized cost basis of nonaccrual loans, according to loan class, with and payment activity without reserves on individually evaluated loans at December 31, 2023, as compared to nonaccrual loans at December 31, 2022. At December 31, 2023, there was a specific reserve of $724 $49 thousand on nonaccrual loans compared to no specific reserve on nonaccrual loans at December 31, 2022.

	December 31, 2023				December 31, 2022
	Nonaccrual loans with a related ACL	Nonaccrual loans with no related ACL	Total nonaccrual loans	Loans Past Due 90+ Accruing	Total nonaccrual loans
Commercial real estate:					
Owner-occupied	$ —	$ 15,786	$ 15,786	$ —	$ 2,767
Non-owner occupied	—	240	240	—	—
Multi-family	—	1,233	1,233	—	—
Non-owner occupied residential	—	2,572	2,572	—	81
Acquisition and development:					
1-4 family residential construction	—	—	—	—	—
Commercial and land development	—	1,361	1,361	—	15,426
Commercial and industrial	68	604	672	—	31
Municipal	—	—	—	—	—
Residential mortgage:					
First lien	—	2,309	2,309	66	1,838
Home equity – term	—	3	3	—	5
Home equity – lines of credit	—	1,312	1,312	—	395
Installment and other loans	3	36	39	—	40
Total	$ 71	$ 25,456	$ 25,527	$ 66	$ 20,583

During the second quarter of 2023, the underlying project for a construction-to-permanent loan on nonaccrual status received its certificate of occupancy, which resulted in the recharacterization of the loan from commercial and $1.5 million, respectively. land development to owner-occupied commercial real estate. The additions in loans placed on non-accrual status was primarily due to one commercial construction construction-to-permanent loan with an had a current outstanding balance of $13.4 million and $15.4 million that at December 31, 2023 and 2022, respectively.

The information presented above in the nonaccrual loan table and the collateral-dependent table are not required for periods prior to the adoption of CECL. The following table, which excludes accruing PCI loans, presents the most comparable required information at December 31, 2022, which summarizes impaired loans by segment and class, segregated by those for which a specific allowance was downgraded to substandard. The loan required and those for which a specific allowance was not past due required at December 31, 2022; however, management determined. The recorded investment in loans excludes accrued interest receivable. Related allowances established generally pertain to those loans in which loan forbearance agreements were in the process of being negotiated or updated appraisals were pending, and any partial charge-off will be recorded when final information is received.

	2022		
	Nonaccrual Loans	Restructured Loans Still Accruing	Total
Commercial real estate:			
Owner occupied	$ 2,767	$ —	$ 2,767
Non-owner occupied residential	81	—	81
Acquisition and development			
Commercial and land development	15,426	—	15,426
Commercial and industrial	31	—	31
Residential mortgage:			
First lien	1,838	682	2,520
Home equity – term	5	—	5
Home equity – lines of credit	395	—	395
Installment and other loans	40	—	40
	$ 20,583	$ 682	$ 21,265

The following table presents our exposure to relationships that it was appropriate are individually evaluated for impairment and the partial charge-offs taken to place date and specific reserves established on those relationships at December 31, 2023 and 2022. Accruing PCI loans are excluded from loans individually analyzed for impairment at December 31, 2022. Prior to the adoption of CECL, acquired loans that met the criteria for impairment or nonaccrual of interest prior to the acquisition could be considered performing upon acquisition, regardless of whether the client is contractually delinquent, if the Company expected to fully collect the new carrying value (i.e., fair value) of the loans. As such, the Company may have no longer considered the loan on non-accrual status due to other relevant factors. At this time, management deems the value be nonperforming in accordance with guidance in ASC 310-30. Upon adoption of underlying collateral sufficient to cover any potential losses on this loan. Management does not believe that this credit is indicative of overall stress in the loan portfolio. The increase in nonaccrual loan amounts also impacted other asset quality ratios detailed above.

The ALL totaled $25.2 million at December 31, 2022, a $4.0 million increase from $21.2 million at December 31, 2021, resulting from a provision for loan losses of $4.2 million and net charge-offs of $162 thousand for 2022. At December 31, 2022, the ALL is higher as a percentage of the total loan portfolio at 1.17% compared to 1.07% in 2021 and 1.02% in 2020.

The ALL increased primarily as a result of commercial loan growth, which receives a higher reserve allocation compared to consumer loans, for the year ended December 31, 2022. During 2022, qualitative factors were unchanged, except for a reduction in the *National and Local Economic Conditions* factor, that reduced the reserve by $726 thousand. This factor had been increased previously for economic concerns in the commercial real estate portfolio associated with the COVID-19 pandemic. The additional allocation was removed during 2022 as these concerns had subsided. The increase in provision for loan losses from 2020 to 2021 was due primarily to the impact of COVID-19 on the Company's loan portfolio as a new qualitative factor was created to address the potential associated risk. The COVID-19 qualitative reserve of $2.7 million was fully reversed in 2021 based on the sustained performance of the impacted borrowers. In addition, qualitative factors were reduced during 2021 in the *Classified Loans Trends* and *National and Local Economic Conditions* categories, due in part to improved conditions from the pandemic, which were partly offset by an increase in the qualitative factor for Concentrations of Credit caused by significant growth in commercial real estate loans.

From December 31, 2021 to December 31, 2022, special mention loans decreased by $16.2 million and substandard loans increased by $14.0 million. The decrease in special mention loans was due to continued improvements in economic conditions following the COVID-19 pandemic. The increase in substandard loans is due primarily to the aforementioned commercial construction loan with an outstanding balance of $15.4 million that was placed on non-accrual status.

For the years ended December 31, 2022, 2021 and 2020, gross recoveries of $248 thousand, $1.1 million and $1.2 million, respectively, were credited to the ALL. These recoveries on previously charged-off relationships are the result of successful loan monitoring and workout solutions. Recoveries are difficult to predict, and any additional recoveries that CECL, the Company receives will elected to account for its PCD loans under ASC 310-20, which required that acquired loans be used evaluated on an individual asset level. The election resulted in PCD loans totaling $931 thousand transferred to replenish nonaccrual and included with loans individually evaluated under the ALL. Recoveries favorably impact historical charge-off factors, and contribute to changes in the quantitative and qualitative factors used in our allowance adequacy analysis. However, as the loan portfolio continues to grow, future provisions for loan losses may result. CECL methodology.

	# of Relationships	Recorded Investment	Partial Charge-offs to Date	Specific Reserves
December 31, 2023				
Relationships greater than $1 million	**4**	**$ 20,363**	**$ —**	**$ —**
Relationships greater than $500 thousand but less than $1 million	**1**	**616**	**388**	**—**
Relationships greater than $250 thousand but less than $500 thousand	**1**	**257**	**—**	**—**
Relationships less than $250 thousand	**78**	**4,472**	**214**	**77**
	84	**$ 25,708**	**$ 602**	**$ 77**

December 31, 2022				
Relationships greater than $1 million	2	$ 17,774	$ —	$ —
Relationships greater than $500 thousand but less than $1 million	—	—	—	—
Relationships greater than $250 thousand but less than $500 thousand	1	260	—	—
Relationships less than $250 thousand	60	3,231	320	28
	63	$ 21,265	$ 320	$ 28

The Company takes partial charge-offs on collateral-dependent loans when carrying value exceeds estimated fair value, as determined by the most recent appraisal adjusted for current (within the quarter) conditions, less costs to dispose. Impairment Specific reserves remain in place if updated appraisals are pending, and represent management's estimate of potential loss.

Management believes its coverage ratios are adequate for the risk profile of the loan portfolio given ongoing monitoring of the portfolio and its quantitative and qualitative analysis performed at December 31, 2022. As new information is learned about borrowers or updated appraisals on real estate with lower fair values are obtained, the Company may experience an increase in impaired loans. Despite generally favorable delinquency and nonperforming loan data, excluding the one commercial construction loan placed on non-accrual status during the fourth quarter of 2022, the impact of current economic conditions may result in the need for additional provisions for loan losses in future quarters.

Table of Contents

The following table presents exposure to relationships with an impaired loan balance, which excludes accruing PCI loans, and the partial charge-offs taken to date and specific reserves established on those relationships at December 31, 2022 and 2021.

	# of Relationships	Recorded Investment	Partial Charge-offs to Date	Specific Reserves
December 31, 2022				
Relationships greater than $1 million	**2**	**$ 17,774**	**$ —**	**$ —**
Relationships greater than $500 thousand but less than $1 million	**—**	**—**	**—**	**—**
Relationships greater than $250 thousand but less than $500 thousand	**1**	**260**	**—**	**—**
Relationships less than $250 thousand	**60**	**3,231**	**320**	**28**
	63	**$ 21,265**	**$ 320**	**$ 28**
December 31, 2021				
Relationships greater than $1 million	1	$ 2,535	$ —	$ —
Relationships greater than $500 thousand but less than $1 million	1	602	17	—
Relationships greater than $250 thousand but less than $500 thousand	2	601	—	—
Relationships less than $250 thousand	63	3,515	303	28
	67	$ 7,253	$ 320	$ 28

Internal loan reviews are completed annually on all commercial relationships secured by commercial real estate with a committed loan balance in excess of $1.0 million, which review includes confirmation of risk rating by an independent credit officer. In addition, all commercial relationships greater than $500 thousand rated Substandard, Doubtful or Loss are reviewed and corresponding risk ratings are reaffirmed by the Bank's Problem Loan Committee, with subsequent reporting to the Management ERM Committee.

In its individual evaluated loan impairment analysis, the Company determines the extent of any full or partial charge-offs that may be required, or any reserves that may be needed. The determination of the Company's charge-offs or impairment reserve include an evaluation of the outstanding loan balance and the related collateral securing the credit. Through a combination of collateral securing the loans and partial charge-offs taken to date, the Company believes that it has adequately provided for the potential losses that it may incur on these relationships at December 31, 2022 December 31, 2023. However, over time, additional information may result in increased reserve allocations or, alternatively, it may be deemed that the reserve allocations exceed those that are needed.

The Company's foreclosed real estate balance at both December 31, 2022 and 2021 was zero for both residential and commercial properties. During 2022, no expense was recorded for the write-down of other real estate owned properties.

In an effort to assist clients, who were negatively impacted by the COVID-19 pandemic, the Bank offered various mitigation options, including a loan payment deferral program. Under this program, most commercial deferrals were for a 90-day period, while most consumer deferrals were for a 180-day period. The Company had a consumer loan under this deferral program of $56 thousand for which the deferral period subsequently expired in 2022. There were no loans under this deferral program as of December 31, 2022.

Credit Risk Management

Allowance for Loan Credit Losses

The Company maintains the ALL ACL at a level deemed adequate by management for probable incurred expected credit losses. As disclosed in Note 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Credit Losses, on January 1, 2023 the Company implemented CECL and increased the ACL, previously the ALL, with a cumulative-effect adjustment to the ACL of $2.4 million. In addition, the Company recorded a cumulative-effect adjustment to the ACL for off-balance sheet exposures of $100 thousand. The ALL Company's ACL is established and maintained through a calculated quarterly, with any adjustment recorded to the provision for loan credit losses which in the consolidated statement of income. A comprehensive analysis of the ACL is charged to earnings. On performed by the Company on a quarterly basis, management assesses basis. Management evaluates the adequacy of the ALL ACL utilizing a defined methodology to determine if it properly addresses the current and expected risks in the loan portfolio, which considers the performance of borrowers and specific credit evaluation of

Table of Contents

impaired individually evaluated loans, including historical loss experience experiences, trends in delinquencies, nonperforming loans and other risk assets, and the qualitative factors. Risk factors are continuously reviewed and adjusted, as needed, by management when conditions support a change. Management believes its approach properly addresses the requirements for loans individually identified as impaired, loans collectively evaluated for impairment, relevant accounting and other bank regulatory guidance in its assessment. for loans both collectively and individually evaluated. The results of the comprehensive analysis, including recommended changes, are governed by the Company's Reserve Adequacy Committee, whose members were also a part of the Company's CECL Committee, and are subsequently presented to the Enterprise Risk Management Committee of the Board of Directors.

The ALL ACL is evaluated based on a review of the collectability of loans in light of historical experience; the nature and volume of the loan portfolio; adverse situations that may affect a borrower's ability to repay; estimated value of any underlying collateral; and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. A description of the methodology for establishing the allowance and provision for loan credit losses and related procedures in establishing the appropriate level of reserve is included in Note 3, 4, Loans and Allowance for Loan Credit Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Table

The following table presents the amortized cost basis of Contents

the loan portfolio, by year of origination, loan class, and credit quality, as of December 31, 2023. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan and payment activity. Residential mortgage and installment and other consumer loans are presented below based on payment performance: performing or nonperforming. During 2023, commercial and land development loans and 1-4 family residential construction loans totaling $109.3 million and $18.2 million, respectively, were recharacterized to a permanent amortizing loan secured by real estate class upon the completion of construction or receiving a certificate of occupancy.

	Term Loans Amortized Cost Basis by Origination Year								
As of December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Basis	Revolving Loans Converted to Term	Total
Commercial Real Estate:									
Owner-occupied:									
Risk rating									
Pass	$ 50,829	$ 103,192	$ 69,888	$ 21,232	$ 21,251	$ 62,634	$ 4,941	$ —	$ 333,967
Special mention	—	—	2,517	1,176	—	1,314	—	—	5,007
Substandard - Non-IEL	—	9,923	—	6,075	—	2,687	312	—	18,997
Substandard - IEL	—	—	—	13,366	—	2,420	—	—	15,786
Total owner-occupied loans	$ 50,829	$ 113,115	$ 72,405	$ 41,849	$ 21,251	$ 69,055	$ 5,253	$ —	$ 373,757
Current period gross charge offs - owner-occupied	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-owner occupied:									
Risk rating									
Pass	$ 82,879	$ 102,212	$ 235,031	$ 83,652	$ 63,176	$ 120,696	$ 509	$ —	$ 688,155
Special mention	—	—	—	524	—	2,112	—	—	2,636
Substandard - Non-IEL	—	—	—	—	—	2,739	—	868	3,607
Substandard - IEL	—	—	—	—	—	240	—	—	240
Total non-owner occupied loans	$ 82,879	$ 102,212	$ 235,031	$ 84,176	$ 63,176	$ 125,787	$ 509	$ 868	$ 694,638
Current period gross charge offs - non-owner occupied	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Multi-family:									
Risk rating									

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Basis	Revolving Loans Converted to Term	Total
Pass	$ 2,701	$ 61,805	$ 28,541	$ 12,694	$ 7,437	$ 33,895	$ 117	$ —	$ 147,190
Special mention	—	—	—	—	244	2,008	—	—	2,252
Substandard - Non-IEL	—	—	—	—	—	—	—	—	—
Substandard - IEL	—	—	—	—	—	1,233	—	—	1,233
Total multi-family loans	$ 2,701	$ 61,805	$ 28,541	$ 12,694	$ 7,681	$ 37,136	$ 117	$ —	$ 150,675
Current period gross charge offs - multi-family	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-owner occupied residential:									
Risk rating									
Pass	$ 10,075	$ 20,473	$ 16,947	$ 7,974	$ 6,444	$ 28,319	$ 1,130	$ —	$ 91,362
Special mention	—	—	—	—	—	731	—	—	731
Substandard - Non-IEL	—	—	—	—	—	375	—	—	375
Substandard - IEL	2	—	192	1,461	—	917	—	—	2,572
Total non-owner occupied residential loans	$ 10,077	$ 20,473	$ 17,139	$ 9,435	$ 6,444	$ 30,342	$ 1,130	$ —	$ 95,040
Current period gross charge offs - non-owner occupied residential	$ —	$ —	$ —	$ —	$ —	$ 12	$ —	$ —	$ 12

(continued)

	Term Loans Amortized Cost Basis by Origination Year								
As of December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Basis**	**Revolving Loans Converted to Term**	**Total**
Acquisition and development:									
1-4 family residential construction:									
Risk rating									
Pass	$ 18,820	$ 5,400	$ —	$ —	$ —	$ —	$ —	$ —	$ 24,220
Special mention	222	—	74	—	—	—	—	—	296
Substandard - Non-IEL	—	—	—	—	—	—	—	—	—
Substandard - IEL	—	—	—	—	—	—	—	—	—
Total 1-4 family residential construction loans	$ 19,042	$ 5,400	$ 74	$ —	$ —	$ —	$ —	$ —	$ 24,516
Current period gross charge offs - 1-4 family residential construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and land development:									
Risk rating									
Pass	$ 28,829	$ 48,453	$ 9,847	$ 9,927	$ 110	$ 1,774	$ 6,574	$ 6,936	$ 112,450
Special mention	—	—	—	1,001	—	437	—	—	1,438
Substandard - Non-IEL	—	—	—	—	—	—	—	—	—
Substandard - IEL	—	—	—	—	—	1,361	—	—	1,361
Total commercial and land development loans	$ 28,829	$ 48,453	$ 9,847	$ 10,928	$ 110	$ 3,572	$ 6,574	$ 6,936	$ 115,249
Current period gross charge offs - commercial and land development	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and Industrial:									
Risk rating									
Pass	$ 67,735	$ 69,670	$ 67,117	$ 24,580	$ 10,753	$ 20,775	$ 86,475	$ 1,522	$ 348,627
Special mention	—	4,251	4,364	11	552	356	2,258	—	11,792
Substandard - Non-IEL	—	—	4,682	—	5	225	1,082	—	5,994
Substandard - IEL	—	69	—	7	—	455	141	—	672
Total commercial and industrial loans	$ 67,735	$ 73,990	$ 76,163	$ 24,598	$ 11,310	$ 21,811	$ 89,956	$ 1,522	$ 367,085

Current period gross charge offs - commercial and industrial	$ —	$ 161	$ 106	$ —	$ —	$ 8	$ 473	$ —	$ 748
Municipal:									
Risk rating									
Pass	$ —	$ —	$ 3,403	$ —	$ —	$ 6,409	$ —	$ —	$ 9,812
Total municipal loans	$ —	$ —	$ 3,403	$ —	$ —	$ 6,409	$ —	$ —	$ 9,812
Current period gross charge offs - municipal	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential mortgage:									
First lien:									
Payment performance									
Performing	$ 43,641	$ 71,311	$ 34,704	$ 8,056	$ 7,465	$ 97,943	$ —	$ 638	$ 263,758
Nonperforming	—	—	—	—	120	2,361	—	—	2,481
Total first lien loans	$ 43,641	$ 71,311	$ 34,704	$ 8,056	$ 7,585	$ 100,304	$ —	$ 638	$ 266,239
Current period gross charge offs - first lien	$ —	$ —	$ —	$ —	$ —	$ 58	$ —	$ —	$ 58

(continued)

	Term Loans Amortized Cost Basis by Origination Year								
As of December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Basis**	**Revolving Loans Converted to Term**	**Total**
Home equity - term:									
Payment performance									
Performing	$ 607	$ 732	$ 90	$ 426	$ 115	$ 3,105	$ —	$ —	$ 5,075
Nonperforming	—	—	—	—	—	3	—	—	3
Total home equity - term loans	$ 607	$ 732	$ 90	$ 426	$ 115	$ 3,108	$ —	$ —	$ 5,078
Current period gross charge offs - home equity - term	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Home equity - lines of credit:									
Payment performance									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 107,967	$ 77,171	$ 185,138
Nonperforming	—	—	—	—	—	—	1,296	16	1,312
Total residential real estate - home equity - lines of credit loans	$ —	$ —	$ —	$ —	$ —	$ —	$ 109,263	$ 77,187	$ 186,450
Current period gross charge offs - home equity - lines of credit	$ —	$ —	$ —	$ —	$ —	$ —	$ 40	$ —	$ 40
Installment and other loans:									
Payment performance									
Performing	$ 758	$ 413	$ 332	$ 106	$ 670	$ 947	$ 6,500	$ —	$ 9,726
Nonperforming	3	—	—	—	33	12	—	—	48
Total Installment and other loans	$ 761	$ 413	$ 332	$ 106	$ 703	$ 959	$ 6,500	$ —	$ 9,774
Current period gross charge offs - installment and other	$ 181	$ 24	$ —	$ —	$ 4	$ 10	$ 28	$ —	$ 247

The information presented in the table above is not required for periods prior to the adoption of CECL. The following table summarizes the Company's loan portfolio ratings based on its internal risk ratings rating system at December 31, 2022, which presents the most comparable required information. Prior to the adoption of CECL, PCD loans were classified as PCI loans and 2021.

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
December 31, 2022							

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
Commercial real estate:							
Owner-occupied	**$ 305,159**	**$ 2,109**	**$ 3,532**	**$ 2,767**	**$ —**	**$ 2,203**	**$ 315,770**
Non-owner occupied	**601,244**	**4,243**	**2,273**	**—**	**—**	**283**	**608,043**
Multi-family	**130,851**	**7,739**	**242**	**—**	**—**	**—**	**138,832**
Non-owner occupied residential	**102,674**	**810**	**482**	**81**	**—**	**557**	**104,604**
Acquisition and development:							
1-4 family residential construction	**25,068**	**—**	**—**	**—**	**—**	**—**	**25,068**
Commercial and land development	**142,424**	**458**	**—**	**15,426**	**—**	**—**	**158,308**
Commercial and industrial	**331,103**	**17,579**	**7,013**	**31**	**—**	**2,048**	**357,774**
Municipal	**12,173**	**—**	**—**	**—**	**—**	**—**	**12,173**
Residential mortgage:							
First lien	**222,849**	**—**	**215**	**2,520**	**—**	**4,265**	**229,849**
Home equity – term	**5,485**	**—**	**—**	**5**	**—**	**15**	**5,505**
Home equity – lines of credit	**182,801**	**—**	**45**	**395**	**—**	**—**	**183,241**
Installment and other loans	**12,017**	**—**	**—**	**40**	**—**	**8**	**12,065**
	$ 2,073,848	**$ 32,938**	**$ 13,802**	**$ 21,265**	**$ —**	**$ 9,379**	**$ 2,151,232**

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
December 31, 2021							
Commercial real estate:							
Owner-occupied	$ 219,250	$ 7,239	$ 6,087	$ 3,763	$ —	$ 2,329	$ 238,668
Non-owner occupied	528,010	23,297	166	—	—	310	551,783
Multi-family	84,414	8,238	603	—	—	—	93,255
Non-owner occupied residential	102,588	1,065	1,153	122	—	1,184	106,112
Acquisition and development:							
1-4 family residential construction	12,279	—	—	—	—	—	12,279
Commercial and land development	92,049	1,385	491	—	—	—	93,925
Commercial and industrial	470,579	7,917	4,720	250	—	2,262	485,728
Municipal	14,989	—	—	—	—	—	14,989
Residential mortgage:							
First lien	191,386	—	225	2,635	—	4,585	198,831
Home equity – term	6,058	—	—	7	—	16	6,081
Home equity – lines of credit	160,203	20	46	436	—	—	160,705
Installment and other loans	17,584	—	—	40	—	6	17,630
	$ 1,899,389	$ 49,161	$ 13,491	$ 7,253	$ —	$ 10,692	$ 1,979,986

accounted for under ASC 310-30. In accordance with the CECL standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the adoption date. At December 31, 2023, the amortized cost of the PCD loans was $8.6 million.

Non-impaired substandard loans are performing loans, which have characteristics that cause management concern over the ability of the borrower to perform under present loan repayment terms and which may result in the reporting of these loans as nonperforming, or impaired, loans in the future. Generally, management feels that substandard loans that are currently

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
December 31, 2022							
Commercial real estate:							
Owner-occupied	$ 305,159	$ 2,109	$ 3,532	$ 2,767	$ —	$ 2,203	$ 315,770
Non-owner occupied	601,244	4,243	2,273	—	—	283	608,043
Multi-family	130,851	7,739	242	—	—	—	138,832
Non-owner occupied residential	102,674	810	482	81	—	557	104,604
Acquisition and development:							
1-4 family residential construction	25,068	—	—	—	—	—	25,068

Commercial and land development	142,424	458	—	15,426	—	—	158,308
Commercial and industrial	331,103	17,579	7,013	31	—	2,048	357,774
Municipal	12,173	—	—	—	—	—	12,173
Residential mortgage:							
First lien	222,849	—	215	2,520	—	4,265	229,849
Home equity – term	5,485	—	—	5	—	15	5,505
Home equity – lines of credit	182,801	—	45	395	—	—	183,241
Installment and other loans	12,017	—	—	40	—	8	12,065
	$ 2,073,848	$ 32,938	$ 13,802	$ 21,265	$ —	$ 9,379	$ 2,151,232

Table of Contents

performing and not considered impaired result in some doubt as to the borrower's ability to continue to perform under the terms of the loan, and represent potential problem loans. Non-impaired substandard loans totaled $13.8 million at December 31, 2022, an increase of $311 thousand compared to $13.5 million at December 31, 2021.

Additionally, the The Special Mention classification is intended to be a temporary classification reflective of loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Company's position at some future date. Special mention loans represent an elevated risk, but their weakness does not yet justify a more severe, or classified, rating. These loans require inquiry by lenders on the cause of the potential weakness and, once analyzed, the loan classification may be downgraded to Substandard or, alternatively, could be upgraded to Pass. From December 31, 2021 to December 31, 2022, special

Special mention loans decreased by $16.2 million and substandard loans increased $8.7 million from $32.9 million at December 31, 2022 to $24.2 million at December 31, 2023 due to repayments of $22.7 million partially offset by net downgrades of $14.0 million. The increase in substandard loans is due primarily to the aforementioned commercial construction loan with an outstanding balance of $15.4 million that was placed on non-accrual status. These risk rating downgrades were to Special Mention primarily consisted of 8 clients with loans spread across various commercial classes.

Non-IEL substandard loans are performing loans, which have characteristics that cause management concern over the ability of the borrower to perform under present loan repayment terms and which may result in the reporting of these loans as nonperforming, or individually evaluated, loans in the future. Generally, management feels that substandard loans that are currently performing and not considered impaired result in some doubt as to the borrower's ability to continue to perform under the terms of the loan, and represent potential problem loans. Non-IEL substandard loans totaled $29.3 million at December 31, 2023, an increase of $15.5 million, compared to $13.8 million at December 31, 2022 due to net downgrades of $19.3 million, partially offset by continued improvements in economic conditions resulting in upgrades repayments of $3.8 million. The risk rating downgrades to the non-IEL substandard category primarily consisted of four clients with loans spread across various commercial classes.

The Substandard-IEL category increased by $4.4 million from $21.3 million at December 31, 2022 to $25.7 million at December 31, 2023 due to net downgrades of $7.8 million partially offset by repayments of $3.3 million. The risk rating downgrades to the substandard-IEL category primarily consisted of three clients with loans spread across various commercial classes.

Despite the aforementioned downgrades, management does not believe that the other commercial loans. Any loans with second modifications in these categories have risk characteristics similar to those that are COVID-19 related are classified as special mention.

The following tables, which excludes accruing PCI loans, summarize led to the average recorded investment in impaired loans and interest income recognized, on a cash basis, and interest income earned but not recognized for years ended December 31, 2022, 2021, 2020, 2019 and 2018.

	Average Impaired Balance	**Interest Income Recognized**	**Interest Earned But Not Recognized**
December 31, 2022			
Commercial real estate:			
Owner-occupied	**$ 3,050**	**$ —**	**$ 94**
Non-owner occupied residential	**96**	**—**	**8**
Acquisition and development:			
Commercial and land development	**1,187**	**—**	**9**
Commercial and industrial	**109**	**—**	**4**
Residential mortgage:			
First lien	**2,389**	**33**	**48**
Home equity – term	**6**	**—**	**—**
Home equity – lines of credit	**405**	**—**	**19**
Installment and other loans	**44**	**—**	**—**
	$ 7,286	**$ 33**	**$ 182**
December 31, 2021			
Commercial real estate:			
Owner-occupied	$ 3,825	$ 1	$ 1

Non-owner occupied	—	—	20
Non-owner occupied residential	225	—	24
Acquisition and development:			
Commercial and land development	187	—	—
Commercial and industrial	3,030	—	36
Residential mortgage:			
First lien	2,539	43	73
Home equity – term	11	—	—
Home equity – lines of credit	521	—	—
Installment and other loans	25	—	—
	$ 10,363	$ 44	$ 154

Table of Contents

	Average Impaired Balance	Interest Income Recognized	Interest Earned But Not Recognized
December 31, 2020			
Commercial real estate:			
Owner-occupied	$ 4,636	$ 1	$ 172
Non-owner occupied	83	—	—
Multi-family	205	—	—
Non-owner occupied residential	388	—	21
Acquisition and development:			
Commercial and land development	641	—	23
Commercial and industrial	1,196	—	20
Residential mortgage:			
First lien	2,995	48	92
Home equity – term	11	—	1
Home equity – lines of credit	692	1	36
Installment and other loans	25	—	1
	$ 10,872	$ 50	$ 366
December 31, 2019			
Commercial real estate:			
Owner-occupied	$ 2,455	$ 2	$ 387
Non-owner occupied	46	—	—
Multi-family	152	—	24
Non-owner occupied residential	217	—	21
Acquisition and development:			
Commercial and land development	21	—	—
Commercial and industrial	683	—	130
Residential mortgage:			
First lien	2,582	50	91
Home equity – term	13	—	1
Home equity – lines of credit	750	2	64
Installment and other loans	13	—	2
	$ 6,932	$ 54	$ 720
December 31, 2018			
Commercial real estate:			
Owner-occupied	$ 1,495	$ 2	$ 156
Non-owner occupied	1,842	—	236

Multi-family	148	—	20
Non-owner occupied residential	346	—	36
Acquisition and development:			
1-4 family residential construction	181	—	—
Commercial and land development	1	—	1
Commercial and industrial	322	—	29
Residential mortgage:			
First lien	3,234	59	130
Home equity – term	19	—	2
Home equity – lines of credit	657	2	52
Installment and other loans	4	—	5
	$ 8,249	$ 63	$ 667

downgrades.

Table of Contents

The following table summarizes activity in the ACL, including the impact of adopting CECL, for the year ended December 31, 2023, and the activity in the ALL for years ended December 31, 2022, 2021, 2020 2019 and 2018. 2019.

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
December 31, 2023										
Balance, beginning of year										
Balance, beginning of year										
Balance, beginning of year										
Impact of adopting ASC 326 - CECL										
Provision for credit losses										
Charge-offs										
Recoveries										
Balance, end of year										
December 31, 2022										
Balance, beginning of year	$ 12,037	$ 2,062	$ 3,814	$ 30	$17,943	$ 2,785	$ 215	$3,000	$ 237	$21,180
Balance, beginning of year										
Balance, beginning of year										
Provision for loan losses										
Provision for loan losses										
Provision for loan losses	1,489	1,142	640	(6)	3,265	669	218	887	8	4,160
Charge-offs	—	—	—	—	—	(50)	(360)	(410)	—	(410)
Recoveries	32	10	51	—	93	40	115	155	—	248
Balance, end of year	$ 13,558	$ 3,214	$ 4,505	$ 24	$21,301	$ 3,444	$ 188	$3,632	$ 245	$25,178

Commercial Real Estate
Commercial Consumer
Commercial Real Estate | Acquisition and Development | Commercial and Industrial | Municipal | Total | Residential Mortgage | Installment and Other | Total

December 31, 2021	**December 31, 2021**										
Balance, beginning of year											
Balance, beginning of year											
Balance, beginning of year	Balance, beginning of year	$ 11,151	$ 1,114	$ 3,942	$ 40	$16,247	$ 3,362	$ 324	$3,686	$ 218	$20,151
Provision for loan losses	Provision for loan losses	710	938	23	(10)	1,661	(517)	(73)	(590)	19	1,090
Charge-offs	Charge-offs	(293)	—	(663)	—	(956)	(92)	(70)	(162)	—	(1,118)
Recoveries	Recoveries	469	10	512	—	991	32	34	66	—	1,057
Balance, end of year	Balance, end of year	$ 12,037	$ 2,062	$ 3,814	$ 30	$17,943	$ 2,785	$ 215	$3,000	$ 237	$21,180
December 31, 2020	**December 31, 2020**										
Balance, beginning of year	Balance, beginning of year	$ 7,634	$ 959	$ 2,356	$ 100	$11,049	$ 3,147	$ 319	$3,466	$ 140	$14,655
Balance, beginning of year											
Balance, beginning of year											
Provision for loan losses	Provision for loan losses	2,745	146	2,096	(60)	4,927	203	117	320	78	5,325
Charge-offs	Charge-offs	(3)	—	(748)	—	(751)	(114)	(146)	(260)	—	(1,011)
Recoveries	Recoveries	775	9	238	—	1,022	126	34	160	—	1,182
Balance, end of year	Balance, end of year	$ 11,151	$ 1,114	$ 3,942	$ 40	$16,247	$ 3,362	$ 324	$3,686	$ 218	$20,151
December 31, 2019	**December 31, 2019**										
Balance, beginning of year	Balance, beginning of year	$ 6,876	$ 817	$ 1,656	$ 98	$ 9,447	$ 3,753	$ 244	$3,997	$ 570	$14,014
Provision for loan losses		515	139	841	2	1,497	(347)	180	(167)	(430)	900
Charge-offs		(25)	—	(299)	—	(324)	(386)	(155)	(541)	—	(865)
Recoveries		268	3	158	—	429	127	50	177	—	606
Balance, end of year		$ 7,634	$ 959	$ 2,356	$ 100	$11,049	$ 3,147	$ 319	$3,466	$ 140	$14,655
December 31, 2018											
Balance, beginning of year											
Balance, beginning of year	Balance, beginning of year	$ 6,763	$ 417	$ 1,446	$ 84	$ 8,710	$ 3,400	$ 211	$3,611	$ 475	$12,796
Provision for loan losses	Provision for loan losses	(442)	396	209	14	177	363	165	528	95	800
Charge-offs	Charge-offs	(17)	(7)	—	—	(24)	(148)	(292)	(440)	—	(464)
Recoveries	Recoveries	572	11	1	—	584	138	160	298	—	882
Balance, end of year	Balance, end of year	$ 6,876	$ 817	$ 1,656	$ 98	$ 9,447	$ 3,753	$ 244	$3,997	$ 570	$14,014

The following table summarizes asset quality ratios for years ended December 31, 2022 December 31, 2023, 2022, 2021, 2020 2019 and 2018. 2019.

	2022	2021	2020	2019	2018
Provision for loan losses to net charge-offs (recoveries)	**2,568 %**	1,787 %	(3,114)%	347 %	(191)%
Ratio of ALL to total loans outstanding at December 31	**1.17 %**	1.07 %	1.02 %	0.89 %	1.12 %

	2023	2022	2021	2020	2019
Provision for credit losses to net charge-offs (recoveries)	**290 %**	2,568 %	1,787 %	(3,114)%	347 %
Ratio of ACL to total loans outstanding at December 31	**1.25 %**	1.17 %	1.07 %	1.02 %	0.89 %

The following table details net charge-offs (recoveries) to average loans outstanding by loan category for the years ended December 31, 2022 December 31, 2023 and 2021. 2022.

		2022	2021				
	2023				2023	2022	2021
Commercial real estate:	**Commercial real estate:**						
Net recoveries							
Net recoveries							
Net recoveries	Net recoveries	**$ (32)**	$ (176)				
Average loans for the year	Average loans for the year	**$1,069,392**	$ 880,458				
Net recoveries/average loans	Net recoveries/average loans	**— %**	(0.02)%	Net recoveries/average loans	**(0.01)%**	— %	(0.02) %
Acquisition and development:	**Acquisition and development:**						
Net recoveries	Net recoveries	**(10)**	(10)				
Net recoveries							
Net recoveries							
Average loans for the year	Average loans for the year	**147,364**	74,786				
Net recoveries/average loans	Net recoveries/average loans	**(0.01)%**	(0.01)%	Net recoveries/average loans	**— %**	(0.01)%	(0.01) %
Commercial and industrial:	**Commercial and industrial:**						
Net (recoveries) charge-offs		**(51)**	151				
Net charge-offs (recoveries)							
Net charge-offs (recoveries)							
Net charge-offs (recoveries)							
Average loans for the year	Average loans for the year	**408,995**	604,651				
Net (recoveries) charge-offs/average loans		**(0.01)%**	0.02 %				
Net charge-offs (recoveries)/average loans				Net charge-offs (recoveries)/average loans	**0.17 %**	(0.01)%	0.02 %
Municipal:	**Municipal:**						
Net charge-offs (recoveries)							
Net charge-offs (recoveries)							
Net charge-offs (recoveries)	Net charge-offs (recoveries)	**—**	—				
Average loans for the year	Average loans for the year	**13,486**	16,566				
Net charge-offs (recoveries)/average loans	Net charge-offs (recoveries)/average loans	**— %**	— %	Net charge-offs (recoveries)/average loans	**— %**	— %	— %
Residential mortgage:	**Residential mortgage:**						
Net (recoveries) charge-offs							
Net (recoveries) charge-offs							
Net (recoveries) charge-offs							

Average loans for the year							
Net (recoveries) charge-offs /average loans				Net (recoveries) charge-offs /average loans	**(0.02)** **%**	— %	0.02 %
Installment and other loans:							
Net charge-offs	Net charge-offs	**10**	60				
Average loans for the year		**389,048**	379,802				
Net charge-offs /average loans		**— %**	0.02 %				
Installment and other loans:							
Net charge-offs							
Net charge-offs	Net charge-offs	**245**	36				
Average loans for the year	Average loans for the year	**14,732**	21,706				
Net charge-offs/average loans	Net charge-offs/average loans	**1.66 %**	0.17 %	Net charge-offs/average loans	**1.19 %**	1.66 %	0.17 %
Total loans:	**Total loans:**						
Net charge-offs	Net charge-offs	**$ 162**	$ 61				
Net charge-offs							
Net charge-offs							
Average loans for the year	Average loans for the year	**$2,043,017**	$1,977,969				
Net charge-offs/average loans	Net charge-offs/average loans	**0.01 %**	— %	Net charge-offs/average loans	**0.03 %**	0.01 %	— %

(1) Average loans exclude loans held for sale.

The Company recorded ACL totaled $28.7 million at December 31, 2023, a $3.5 million increase from $25.2 million at December 31, 2022, resulting from a cumulative-effect adjustment from the adoption of CECL of $2.4 million, a provision for loan credit losses of $4.2 million, $1.1 million, $5.3 million, $900 thousand $1.7 million and $800 net charge-offs of $581 thousand for 2022, 2021, 2020, 2019 2023. At December 31, 2023, the ACL as a percentage of the total loan portfolio was 1.25% compared to 1.17% at December 31, 2022 and 2018, respectively. 1.07% at December 31, 2021. The ACL increased in 2023 primarily due to the impact from implementing CECL, which required the transition from an incurred loss model based on historical loss experience to an expected credit loss model based on the contractual life of the loan.

In addition, in certain cases, loans were successfully worked out with smaller charge-offs than the reserve established on them. During 2023 and 2022, the increase in the provision for loan credit losses was due driven primarily by increases in commercial loans, excluding SBA PPP loan forgiveness activity, of $118.3 million and $299.9 million, respectively, in addition to the overall increase in expected loss rates under CECL. During 2023, the *Delinquency and Classified Loan Trends* qualitative factor was increased for the commercial & industrial and owner-occupied commercial real estate loan growth, partially offset by classes, which was based on a trend of increases in loans downgraded to the special mention or classified risk rating. All other qualitative factors were unchanged from levels established at the adoption of CECL. During 2022, qualitative factors were unchanged, except for a reduction in the *National and Local Economic Conditions* qualitative factor, that reduced the reserve provision by $726 thousand. In 2021, the provision This factor had been increased previously for loan loss was caused by commercial loan growth and an associated increase economic concerns in the qualitative factor for *Concentrations of Credit* due to significant growth in commercial real estate loans, offset by reductions totaling $2.9 million in portfolio associated with the COVID-19 pandemic. The additional allocation was removed during 2022 as these concerns had subsided.*Classified Loans Trends,National*

For the years ended December 31, 2023 and Local Economic Conditions2022, gross recoveries of $524 thousand and *COVID-19* categories due in part $248 thousand, respectively, were credited to improved conditions from the pandemic. In 2020, ACL. These recoveries on previously charged-off relationships are the severe economic result of successful loan monitoring and workout solutions. Recoveries are difficult to predict, and any additional recoveries that the Company receives will be used to replenish the ACL. Recoveries favorably impact of COVID-19 on the loan portfolio drove an increase in qualitative assumptions, which were reversed in 2021 as sustained performance was demonstrated after the impacted loans were removed from deferral status or the forbearance period ended. In 2018 historical charge-off factors, and 2019, our continued organic loan portfolio growth was a key factor contribute to changes in the quantitative and qualitative considerations factors used in our allowance adequacy analysis. However, as the loan portfolio continues to grow, future provisions for credit losses may result.

The Company takes partial charge-offs on collateral-dependent loans when carrying value exceeds estimated fair value, as determined by management the most recent appraisal adjusted for current (within the quarter) conditions, less costs to dispose. Specific reserves remain in place if updated appraisals are pending, and represent management's estimate of potential loss. In addition to the determination reserve allocations on individually evaluated loans noted above, six loans, with aggregate outstanding principal balances of $348 thousand, have had cumulative partial charge-offs to the provision expense required ACL totaling $602 thousand at December 31, 2023. As updated appraisals were received on collateral-dependent loans, partial charge-offs were taken to maintain an adequate allowance for loan losses. These variations resulted in the fluctuations in extent the ratios presented in the tables above.

Table of Contents

See further discussion in the "Provision for Loan Losses" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. Also, see Note 3, Loans and Allowance for Loan Losses, in the Notes to Consolidated Financial Statements for additional information. loans' principal balance exceeded their fair value.

The following table shows the allocation of the ACL by loan class, as well as the percent of each loan class in relation to the total loan balance at December 31, 2023, and the allocation of the ALL by loan class, as well as the percent of each loan class in relation to the total loan balance at December 31, 2022, 2021, 2020 2019 and 2018. 2019.

	2022		2021		2020		2019		2018	
	ALL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	% of Loan Type to Total Loans
Commercial real estate:										
Owner-occupied	$ 3,618	15 %	$ 2,752	12 %	$ 2,072	9 %	$ 1,539	10 %	$ 1,491	10 %
Non-owner occupied	7,473	28 %	7,244	28 %	6,049	21 %	3,965	22 %	3,683	20 %
Multi-family	1,355	6 %	870	5 %	1,846	6 %	974	7 %	792	6 %
Non-owner occupied residential	1,112	5 %	1,171	5 %	1,184	6 %	1,156	7 %	910	8 %
Acquisition and development:										
1-4 family residential construction	376	1 %	188	1 %	144	— %	239	1 %	104	1 %
Commercial and land development	2,838	7 %	1,874	5 %	970	3 %	720	3 %	713	3 %
Commercial and industrial	4,505	17 %	3,814	24 %	3,942	32 %	2,356	13 %	1,656	13 %
Municipal	24	1 %	30	1 %	40	1 %	100	3 %	98	4 %
Residential mortgage:										
First lien	1,600	11 %	1,188	10 %	1,627	12 %	1,635	20 %	2,002	19 %
Home equity - term	32	— %	31	— %	63	1 %	59	1 %	109	1 %
Home equity - lines of credit	1,812	8 %	1,566	8 %	1,672	8 %	1,453	10 %	1,642	12 %
Installment and other loans	188	1 %	215	1 %	324	1 %	319	3 %	244	3 %
Unallocated	245		237		218		140		570	
	$25,178	100 %	$21,180	100 %	$20,151	100 %	$14,655	100 %	$14,014	100 %

	2023		2022		2021	
	ACL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	% of Loan Type to Total Loans	ALL Amount by Loan Class	
Commercial real estate:						
Owner-occupied	$ 5,090	16 %	$3,618	15 %	$ 2,752	1
Non-owner occupied	9,587	30 %	7,473	28 %	7,244	
Multi-family	2,540	7 %	1,355	6 %	870	
Non-owner occupied residential	656	4 %	1,112	5 %	1,171	
Acquisition and development:						
1-4 family residential construction	397	1 %	376	1 %	188	
Commercial and land development	1,844	5 %	2,838	7 %	1,874	
Commercial and industrial	5,806	16 %	4,505	17 %	3,814	
Municipal	157	0 %	24	1 %	30	
Residential mortgage:						
First lien	1,580	12 %	1,600	11 %	1,188	
Home equity - term	23	0 %	32	0 %	31	
Home equity - lines of credit	821	8 %	1,812	8 %	1,566	
Installment and other loans	201	0 %	188	1 %	215	
	$ 28,702	100 %	$ 25,178	100 %	$21,180	

Table of Contents

The information presented in the table below is not required for periods subsequent to the adoption of CECL. The following table summarizes the ending loan balance ALL allocation for loans individually or and collectively evaluated for impairment by loan class and the ALL allocation for each at December 31, 2022 and 2021.

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
December 31, 2022										
Loans allocated by:										
Individually evaluated for impairment	$ 2,848	$ 15,426	$ 31	$ —	$ 18,305	$ 2,920	$ 40	$ 2,960	$ —	$ 21,265
Collectively evaluated for impairment	1,164,401	167,950	357,743	12,173	1,702,267	415,675	12,025	427,700	—	2,129,967
	$ 1,167,249	$ 183,376	$ 357,774	$ 12,173	$ 1,720,572	$ 418,595	$ 12,065	$ 430,660	$ —	$ 2,151,232
Allowance for loan losses allocated by:										
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28	$ —	$ 28
Collectively evaluated for impairment	13,558	3,214	4,505	24	21,301	3,416	188	3,604	245	25,150
	$ 13,558	$ 3,214	$ 4,505	$ 24	$ 21,301	$ 3,444	$ 188	$ 3,632	$ 245	$ 25,178
December 31, 2021										
Loans allocated by:										
Individually evaluated for impairment	$ 3,885	$ —	$ 250	$ —	$ 4,135	$ 3,078	$ 40	$ 3,118	$ —	$ 7,253
Collectively evaluated for impairment	985,933	106,204	485,478	14,989	1,592,604	362,539	17,590	380,129	—	1,972,733
	$ 989,818	$ 106,204	$ 485,728	$ 14,989	$ 1,596,739	$ 365,617	$ 17,630	$ 383,247	$ —	$ 1,979,986
Allowance for loan losses allocated by:										
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28	$ —	$ 28
Collectively evaluated for impairment	12,037	2,062	3,814	30	17,943	2,757	215	2,972	237	21,152
	$ 12,037	$ 2,062	$ 3,814	$ 30	$ 17,943	$ 2,785	$ 215	$ 3,000	$ 237	$ 21,180

In addition to the reserve allocations on impaired loans noted above, nine loans, with aggregate outstanding principal balances of $370 thousand, have had cumulative partial charge-offs to the ALL totaling $320 thousand segment at December 31, 2022. As updated appraisals were received on collateral-dependent Accruing PCI loans partial charge-offs were taken to the extent the loans' principal balance exceeded their fair value. are excluded from loans individually evaluated for impairment.

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
December 31, 2022										
Loans allocated by:										
Individually evaluated for impairment	$ 2,848	$ 15,426	$ 31	$ —	$ 18,305	$ 2,920	$ 40	$ 2,960	$ —	$ 21,265
Collectively evaluated for impairment	1,164,401	167,950	357,743	12,173	1,702,267	415,675	12,025	427,700	—	2,129,967
	$ 1,167,249	$ 183,376	$ 357,774	$ 12,173	$ 1,720,572	$ 418,595	$ 12,065	$ 430,660	$ —	$ 2,151,232
Allowance for credit losses allocated by:										
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28	$ —	$ 28
Collectively evaluated for impairment	13,558	3,214	4,505	24	21,301	3,416	188	3,604	245	25,150
	$ 13,558	$ 3,214	$ 4,505	$ 24	$ 21,301	$ 3,444	$ 188	$ 3,632	$ 245	$ 25,178

Management believes the allocation of the ALL between ACL among the various loan classes adequately reflects the probable incurred life expected credit losses in each portfolio loan class and is based on the methodology outlined in Note 3, 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Loan Credit Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." Management re-evaluates and makes certain enhancements to its reserve methodology used to establish a reserve to better reflect the risks inherent in the different segments of the portfolio, particularly in light of increased charge-offs, with noticeable differences between the different loan classes. Management believes these enhancements to the ALL ACL methodology improve the accuracy of quantifying probable incurred the expected credit losses inherent in the portfolio. Management charges actual loan losses to the reserve and bases the provision for loan credit losses on its overall analysis.

The largest component of the ALL for the years presented has been allocated to the commercial real estate segment, particularly the non-owner occupied loan class. The higher allocations in this segment as compared with the other segments is consistent with the inherent risk associated with these loans, as well as generally higher levels of impaired and criticized loans for the periods presented. There has generally been a decrease in the ALL, as the level of classified assets decline, and historical loss rates have improved as a result of improving economic and market conditions; however, the significant increase in commercial loan production had the effect of increasing provision expense in 2022 and 2021. These increases were partially offset in 2022 and 2021 by adjustments to certain qualitative factors, which reduced the reserve by $726 thousand and $2.9 million, respectively, in these periods.

The unallocated portion of the ALL reflects estimated inherent losses within the portfolio that have not been detected, as well as the risk of error in the specific and general reserve allocation, other potential exposure in the loan portfolio, variances in management's assessment of national and local economic conditions and other factors management believes appropriate at the time. The unallocated portion of the allowance increased from $237 thousand, or 1.1% of the ALL, at December 31, 2021 to

Table of Contents

$245 thousand, or 1.0% of the ALL, at December 31, 2022. The Company monitors the unallocated portion of the ALL, and by policy, has determined it should not exceed 3% of the total reserve. Future negative provisions for loan losses may result if the unallocated portion was to increase, and management determined the reserves were not required for the anticipated risk in the portfolio.

Management believes the Company's ALL ACL is adequate based on information currently available. available information. Future adjustments to the ALL ACL and enhancements to the methodology may be necessary due to changes in economic conditions, regulatory guidance, or management's assumptions as to future delinquencies or loss rates.

Deposits

Total deposits grew by $11.3 million $82.6 million, or less than 1% 3%, to $2.6 billion at December 31, 2023 from $2.5 billion at December 31, 2022. During 2023, time deposits increased $155.5 million from $251.0 million at December 31, 2022 to $406.5 million at December 31, 2023 due to competitive pricing, including promotional offerings of up to 18-month terms. In addition, money market deposits and interest-bearing demand deposits increased by $36.5 million and $13.5 million, respectively, which increases were partially offset by decreases of $71.0 million in noninterest-bearing demand deposits and $51.9 million in savings deposits. The declines in noninterest-bearing deposit and savings deposits were primarily due to clients shifting to higher-yielding products within the Bank. During 2023, the Bank was successful at retaining many of those deposits and driving inflows from new clients as well. At December 31, 2023, deposits that are uninsured and not collateralized totaled $442.7 million, or 17%, of total deposits.

In 2022, total deposits increased by $11.3 million and remained consistent with a balance of $2.5 billion at both December 31, 2022 and 2021. The increase of $108.0 million, or 5%, from 2020 to 2021 was primarily due to deposits generated through the SBA PPP originations combined with clients continuing to maintain deposit balances in excess of historical norms. Similarly in 2020, the increase in deposits was due to deposits generated through the SBA PPP and government stimulus.

During the fourth quarter of 2022, the Bank announced that it had entered into a Purchase and Assumption Agreement providing for the sale of its Path Valley branch, and including associated deposit liabilities. liabilities, building and land. At December 31, 2022, deposits of approximately $31.3 million are were expected to be conveyed in the branch sale, sale. These deposits are reported within total deposits at cost and are comprised of $23.5 million in interest-bearing deposits and $7.8 million in non-interest bearing deposits. The transaction is expected to close sale was completed on May 12, 2023. This sale included deposits of approximately $18.7 million comprised of $14.4 million in interest-bearing deposits and $4.3 million in noninterest-bearing deposits, which were sold at a premium of 6%. These deposits were reported at cost as deposits held for assumption in connection with sale of bank branch within total deposits in the second quarter of 2023. consolidated balance sheets.

The following table presents average deposits for years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2022	**2021**	**2020**			
	2023				**2023**	**2022**	**2021**
Demand deposits	Demand deposits	**$ 557,142**	$ 542,952	$ 381,869			
Interest-bearing demand deposits	Interest-bearing demand deposits	**1,414,177**	1,392,996	1,156,292			
Savings deposits	Savings deposits	**232,660**	202,371	163,133			
Time deposits	Time deposits	**273,276**	360,264	452,298			
Total deposits	Total deposits	**$2,477,255**	$2,498,583	$2,153,592			

Average total deposits decreased by $21.3 million, or 1%, primarily due to a decrease in average time deposits of $87.0 million, or 24%, from 2021 to 2022, partially offset by increases in all other deposit types. The decrease in average time deposits is due to maturities.

Management evaluates its utilization of brokered deposits, taking into consideration the Bank's policies, the interest rate curve and regulatory views on non-core funding sources, and balances this funding source with its funding needs based on growth initiatives. The Company anticipates that loan growth will be funded through deposit generation by offering competitive rates, as well as reliance on FHLB borrowings. The Bank's brokered money market deposit balances were $20.1 million and $1.0 million at December 31, 2023 and 2022, respectively. The Bank's brokered time deposit balances, including the average balance, remained at zero at December 31, 2022 December 31, 2023 and 2021. 2022.

The Company had time deposits that meet met or exceed exceeded the FDIC insurance limit of $250,000 of $76.4 million and $36.5 million at December 31, 2023 and $44.0 million at December 31, 2022 and 2021, 2022, respectively. Time deposits held for conveyance in the pending branch sale totaled $2.2 million at December 31, 2022. At December 31, 2022 December 31, 2023, the scheduled maturities of time deposits that meet met or exceed exceeded the FDIC insurance limit or otherwise uninsured were as follows:

Three months or less	$	**14,027 22,928**
Over three months through six months		**4,662 18,101**
Over six months through one year		**11,638 35,094**
Over one year		**6,190 291**
Total	$	**36,517 76,414**

[Table of Contents](#)

Borrowings

In addition to deposit products, deposits, the Company uses short-term borrowing sources to meet liquidity needs and for temporary funding. Sources of short-term borrowings include the FHLB of Pittsburgh, federal funds purchased and to a lesser extent, the FRB discount window. Short-term borrowings also may include securities sold under agreements to repurchase with deposit clients, in which a client sweeps a portion of a deposit balance into a repurchase agreement, which is a secured borrowing with a pool of securities pledged against the balance.

The Company also utilizes long-term debt, consisting principally of FHLB fixed and amortizing advances, to fund its balance sheet with original maturities greater than one year. The Prior to entering into long-term borrowings, the Company evaluates its funding needs, interest rate movements, the cost of options, and the availability of attractive structures when considering the timing and extent of when it enters into long-term borrowings. structures.

FHLB advances and other borrowings increased by $104.2 million $31.4 million to $137.5 million at December 31, 2023 compared to $106.1 million at December 31, 2022 compared to $1.9 million at December 31, 2021. Due to The increase in borrowings during 2023 included long-term fixed-rate advances from the utilization of excess liquidity by individuals FHLB totaling $40.0 million. With the continued strength in loan fundings and businesses, increased competition for deposits, and seasonal deposit declines, the Bank's deposit balances started Bank elected to decline slightly replace some of its overnight borrowings with lower cost term advances during the fourth first quarter of 2022. 2023. The Bank opted tested its various sources of funding during 2023 to borrow funds to provide additional liquidity to meet the credit needs of its clients. ensure accessibility.

In December 2018, the Company issued unsecured subordinated notes payable totaling $32.5 million, which mature on December 30, 2028, and the proceeds of which were designated for general corporate use, including funding of cash consideration for mergers and acquisitions. The subordinated notes have had a fixed interest rate of 6.0% through December 30, 2023, which then converts converted to a variable rate, equivalent to the LIBOR 90-day average fallback rate, or any replacement reference SOFR rate plus 3.16%, through maturity. At December 31, 2023, the interest rate on the subordinated debt was 8.78%.

For additional information about borrowings, refer to Note 12, 13, Short-Term Borrowings, Note 13, 14, Long-Term Debt, and Note 14, 15, Subordinated Notes, to the Consolidated Financial Statements appearing in Part II, Item 8, "Financial Statements and Supplementary Data."

Shareholders' Equity

Capital management in a regulated financial services industry must properly balance return on equity to its shareholders while maintaining sufficient levels of capital and related risk-based regulatory capital ratios to satisfy statutory regulatory requirements. The Company's capital management strategies have been developed to provide attractive rates of returns to its shareholders, while maintaining a "well-capitalized" position of regulatory strength.

Shareholders' equity totaled $228.9 million $265.1 million at December 31, 2022 December 31, 2023, a decrease an increase of $42.8 million $36.2 million, or 16%, from $271.7 million $228.9 million at December 31, 2021 December 31, 2022. The decrease increase in 2022 2023 was primarily attributable to net income of $35.7 million and other comprehensive losses income of $44.4 million $11.4 million, partially offset by dividends paid of $8.5 million, the cumulative-effect adjustment from the adoption of CECL that decreased retained earnings by $2.0 million and share-based compensation costs of $471 thousand. Other comprehensive income generated during 2023 was due to after-tax net unrealized gains on AFS securities and cash flow hedges of $10.9 million and $532 thousand, respectively, primarily caused by a decline in treasury rates and contracting credit spreads during 2023.

For the year ended December 31, 2023, total comprehensive income was $47.1 million, an increase of $69.4 million, from total comprehensive loss of $22.3 million for the same period in 2022. This increase was due to a reduction in unrealized losses on AFS securities and interest rate swaps designated as cash flow hedges, caused by a substantial increase in market interest rates, as well as dividends paid of $8.3 million and share-based compensation costs of $12.2 million, partially offset by net income of $22.0 million.

For the year ended December 31, 2022, total comprehensive loss was $22.3 million, a decrease of $56.3 million, from total comprehensive income of $34.0 million for the same period in 2021. This decrease was primarily due to an increase in unrealized losses on AFS securities, net of taxes, of $43.7 million $54.5 million of $1.3 million, respectively, and a decrease an increase in net income of $10.8 million $13.6 million.

At December 31, 2023, due partially to the provision for legal settlement of $10.3 million and a restructuring charge of $2.5 million, both on an after-tax basis, book value per common share was $24.98 per share compared to the same period in 2021. The unrealized losses included in the consolidated statements of comprehensive (loss) income are the $21.45 per share at December 31, 2022. Tangible book value per share also increased from $19.47 per share at December 31, 2022 to $23.03 per share at December 31, 2023, as a result of the significant increase in market interest rates. shareholders' equity driven by earnings and other comprehensive income during 2023. See “Supplemental Reporting of Non-GAAP Measures.”

In September 2015, the Board of Directors authorized a stock repurchase program, which is more fully described in Item 5 under Issuer Purchases of Equity Securities. Subsequently on April 19, 2021, the Board of Directors authorized the additional future repurchase of up to 562,000 shares of its outstanding common stock. The maximum number of shares that may yet be purchased under the plan is 159,059 28,467 shares at December 31, 2022 December 31, 2023.

Table of Contents

The following table includes additional information for shareholders’ equity for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

2023									2023		
		2022		2021		2020					
Average shareholders’ equity											
Average shareholders’ equity											
Average shareholders’ equity	Average shareholders’ equity	$ 244,281		$ 262,159		$ 226,900					
Net income	Net income	22,037		32,881		26,463					
Cash dividends paid	Cash dividends paid	8,264		8,280		7,610					
Average equity to average assets ratio	Average equity to average assets ratio	8.59	%	9.06	%	8.58	%	Average equity to average assets ratio	8.11	%	8.59 %
Dividend payout ratio	Dividend payout ratio	36.39	%	24.68	%	28.12	%	Dividend payout ratio	23.19	%	36.39 %
Return on average equity	Return on average equity	9.02	%	12.54	%	11.66	%	Return on average equity	14.66	%	9.02 %

Capital Adequacy and Regulatory Matters

Capital management in a regulated financial services industry must properly balance return on equity to its shareholders while maintaining sufficient levels of capital and related risk-based regulatory capital ratios to satisfy statutory and regulatory requirements. The Company’s capital management strategies have been developed to provide attractive rates of returns to its shareholders, while maintaining a “well capitalized” position of regulatory strength.

Effective with the third quarter of 2018, the FRB raised the consolidated asset limit on small bank holding companies from $1 billion to $3 billion, and a company with assets under the revised limits is not subject to the FRB consolidated capital rules. A company with consolidated assets under the revised limit may continue to file reports that include capital amounts and ratios. The Parent Company has elected to continue to file those reports.

The Parent Company and the Bank both have met all capital adequacy requirements to which they are subject at December 31, 2022 December 31, 2023 and 2021. 2022. At December 31, 2022 December 31, 2023 and 2021, 2022, the Parent Company and the Bank was were considered well capitalized under applicable banking regulations.

Tables presenting the Parent Company’s and the Bank’s capital amounts and ratios at December 31, 2022 and 2021 are included in Note 16, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements appearing in Part II, Item 8, "Financial Statements and Supplementary Data."

The Company routinely evaluates its capital levels in light of its risk profile to assess its capital needs. In addition to the minimum capital ratio requirement and minimum capital ratio to be well capitalized presented in the tables in Note 16, 17, we must maintain a capital conservation buffer as noted in Item 1 - Business under the topic Basel III Capital Rules. At December 31, 2022 December 31, 2023, the Parent Company's and the Bank's capital conservation buffer, based on the most restrictive capital ratio, was 4.3% 4.8% and 4.3% 4.8%, respectively, which are above the regulatory requirement of 2.50% at December 31, 2022 December 31, 2023.

Tables presenting the Parent Company's and the Bank's capital amounts and ratios at December 31, 2023 and 2022 are included in Note 17, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements appearing in Part II, Item 8, "Financial Statements and Supplementary Data."

Liquidity and Rate Sensitivity

Liquidity. The primary function of asset/liability management is to ensure adequate liquidity and manage the Company's sensitivity to changing interest rates. Liquidity management involves the ability to meet the cash flow requirements of clients who may be either depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. The Company's primary sources of funds consist of deposit inflows, loan repayments, borrowings from the FHLB of Pittsburgh and maturities and prepayments of investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company's maximum borrowing capacity from the FHLB is $1.0 billion at December 31, 2022.

The Company regularly adjusts its investments in liquid assets based upon its assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and investment securities and the objectives of its asset/liability management policy. The Company's most liquid assets are cash and cash equivalents. The level of these assets depends on the Company's operating, financing, lending and investing activities during any given period.

At December 31, 2023, cash and cash equivalents totaled $65.2 million, compared with $60.8 million at December 31, 2022, which included net income of $35.7 million, increases in deposits and borrowings of $82.6 million and $23.9 million, respectively, and proceeds from investment securities maturities, calls and repayments, net of purchases of $11.4 million, offset primarily by the deployment of cash into higher yielding loans of $147.1 million. Unencumbered investment securities totaled $73.8 million and the Company had $17.4 million of investment securities pledged at the FRB Discount Window with no associated borrowings outstanding at December 31, 2023. The Company's maximum borrowing capacity from the FHLB of Pittsburgh was $1.1 billion, of which $138.1 million in advances and letters of credit were outstanding. The Company's ability to borrow from the FHLB is dependent on having sufficient qualifying collateral, which generally consists of mortgage loans. In addition, the Company had $20.0 million in available unsecured lines of credit with other banks at December 31, 2023. The Bank tested its various sources of funding during 2023 to ensure accessibility.

At December 31, 2022 December 31, 2023, outstanding loan commitments totaled $863.8 million $892.0 million, which included $206.1 million $172.9 million in undisbursed loans, $296.2 million $337.5 million in unused home equity lines of credit, $338.3 million $357.1 million in commercial lines of credit, and $23.2 million $24.5 million in performance standby letters of credit. Time deposits due within one year after December 31, 2022 December 31, 2023 totaled $179.0 million $381.9 million, or 71% 94% of time deposits, which includes both clients with longer-term time deposits nearing maturity and the more recent time deposit offerings with terms of 18 months or less. If these maturing deposits do not remain with the Company, it may be required to seek other sources of funds, including other time deposits and lines of credit. Due to current market

Table of Contents

conditions, the Company has paid higher rates on such deposits during 2022 2023 than it paid in 2021. 2022. The Company has the ability to attract and retain deposits by adjusting the interest rates it offers.

The Company's most liquid assets are cash and cash equivalents. The levels of these assets depend on the Company's operating, financing, lending and investing activities during any given period. At December 31, 2022, cash and cash equivalents totaled $60.8 million, compared with $208.7 million at December 31, 2021, which the decrease is due to the deployment of cash into higher yielding loans and investment securities. Available-for-sale securities, net of securities pledged to maintain liquidity facilities at the FHLB, provide additional sources of liquidity, and totaled $116.9 million at December 31, 2022. Also, at December 31, 2022, the Company had the ability to borrow up to a total of $1.0 billion from the FHLB of Pittsburgh, of which $108.3 million in advances and letters of credit were outstanding. The Company's ability to borrow from the FHLB is dependent on having sufficient qualifying collateral, which generally consists of mortgage loans. In addition, the Company had $30.0 million in available unsecured lines of credit with other banks at December 31, 2022.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and interest on its borrowings. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from the Bank. Restrictions on the Bank's ability to dividend funds to the Company are described in Note 16, 17, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Interest Rate Sensitivity. Interest rate sensitivity management requires the maintenance of an appropriate balance between interest sensitive assets and liabilities. Management, through its asset/liability management process, attempts to manage the level of repricing and maturity mismatch so that fluctuations in net interest income are maintained within policy limits in current and expected market conditions. For further discussion, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Contractual Obligations

The Company enters into contractual obligations in the normal course of business to fund loan growth, for asset/liability management purposes, to meet required capital needs and for other corporate purposes. The following table presents significant fixed and determinable contractual obligations of principal by payment date at December 31, 2022 December 31, 2023. In addition, at December 31, 2022, deposits of approximately $31.3 million are expected to be conveyed in connection with the Purchase and Assumption Agreement providing for the sale of the Bank's Path Valley branch. The transaction is expected to close in the second quarter of 2023.

Further discussion of the nature of each obligation is in the referenced Note to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data" referenced in the following table.

	Payments Due		**Payments Due**	

		Note Reference	Less than 1 year	2-3 years	4-5 years	More than 5 years	Total
Time deposits							
Time deposits							
Time deposits	Time deposits	10	$179,009	$63,298	$7,231	$ 1,463	$251,001
Short-term borrowings	Short-term borrowings	12	121,935	—	—	—	121,935
Long-term debt	Long-term debt	13	462	993	—	—	1,455
Subordinated notes	Subordinated notes	14	—	—	—	32,500	32,500
Operating lease obligations	Operating lease obligations	5	1,153	2,380	2,500	8,187	14,220
Total	Total		$302,559	$66,671	$9,731	$42,150	$421,111

The contractual obligations table above does not include off-balance sheet commitments to extend credit that are detailed in the following section. These commitments generally have fixed expiration dates and many will expire without being drawn upon, therefore the total commitment does not necessarily represent future cash requirements and is excluded from the contractual obligations table.

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit.

Table of Contents

The following table details significant commitments at December 31, 2022 December 31, 2023.

		Contract or Notional Amount
Commitments to fund:		
Home equity lines of credit	$	296,213 337,460
1-4 family residential construction loans		49,538 40,330
Commercial real estate, construction and land development loans		156,560 132,607
Commercial, industrial and other loans		338,286 357,099
Standby letters of credit		23,229 24,529

A discussion of the nature, business purpose, and guarantees that result from the Company's off-balance sheet arrangements is included in Note 18, 19, Financial Instruments with Off-Balance Sheet Risk, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Recently Adopted and Recently Issued Accounting Standards

Recently adopted and recently issued accounting standards are described in Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Supplemental Reporting of Non-GAAP Measures

Management believes providing certain "non-GAAP" information will assist investors in their understanding of the effect on recent financial results from non-recurring charges.

As a result of prior acquisitions, the Company had intangible assets consisting of goodwill and core deposit and other intangible assets totaling $21.1 million and $21.8 million at December 31, 2023 and $22.9 million at December 31, 2022 and 2021, 2022, respectively. During the year ended December 31, 2023, the Company incurred $1.1 million in merger-related expenses in connection with the proposed merger with Codorus Valley. Additionally, the Company incurred $3.2 million and $13.0 million in restructuring charges and a provision for legal settlement, respectively, during the year ended December 31, 2022.

Management believes providing certain "non-GAAP" information will assist investors in their understanding of the effect on recent financial results from non-recurring charges.

Tangible book value per common share and the impact of the merger-related expenses, restructuring charge and legal settlement on net income and associated ratios, as used by the Company in this supplemental reporting presentation, are determined by methods other than in accordance with GAAP. While the Company's management believes this information is a useful supplement to the GAAP-based measures reported in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, readers are cautioned that this non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for financial measures determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of our results and financial condition as reported under GAAP, nor are such measures necessarily comparable to non-GAAP performance measures that may be presented by other companies. This supplemental presentation should not be construed as an inference that our future results will be unaffected by similar adjustments to be determined in accordance with GAAP.

The decrease increase in tangible book value per share in 2023 compared to 2022 was primarily caused by the increases in net income of $13.6 million and total comprehensive income of $11.4 million during 2023 compared to total comprehensive losses of $44.4 million during 2022 compared to total comprehensive income of $1.1 million during 2021. 2022. This decrease increase was primarily due to an increase a decrease in unrealized losses on AFS securities caused by the significant increase a decline in market interest Treasury rates.

[Table of Contents](#)

The following tables present the computation of each non-GAAP based measure shown together with its most directly comparable GAAP-based measure.

(Dollars, except per share amounts, and shares in thousands)	*(Dollars, except per share amounts, and shares in thousands)*	**2022**	**2021**	**2020**	*(Dollars, except per share amounts, and shares in thousands)*	**2023**	**2022**	**2021**
Tangible book value per common share	**Tangible book value per common share**							
Shareholders' equity (most directly comparable GAAP-based measure)								
Shareholders' equity (most directly comparable GAAP-based measure)								
Shareholders' equity (most directly comparable GAAP-based measure)	Shareholders' equity (most directly comparable GAAP-based measure)	**$ 228,896**	$ 271,656	$ 246,249				
Less: Goodwill	Less: Goodwill	**18,724**	18,724	18,724				
Other intangible assets	Other intangible assets	**3,078**	4,183	5,458				
Related tax effect	Related tax effect	**(646)**	(878)	(1,146)				
Tangible common equity (non-GAAP)	Tangible common equity (non-GAAP)	**$ 207,740**	$ 249,627	$ 223,213				
Common shares outstanding	Common shares outstanding	**10,671**	11,183	11,201				
Common shares outstanding								
Common shares outstanding								
Book value per share (most directly comparable GAAP based measure)								
Book value per share (most directly comparable GAAP based measure)								

Book value per share (most directly comparable GAAP based measure)	Book value per share (most directly comparable GAAP based measure)	**$**	**21.45**	$	24.29	$	21.98
Intangible assets per share	Intangible assets per share		**1.98**		1.97		2.05
Tangible book value per share (non-GAAP)	Tangible book value per share (non-GAAP)	**$**	**19.47**	$	22.32	$	19.93

Adjusted Net Income and Adjusted Diluted Earnings Per Share		**December 31,**
(Dollars, except per share amounts, and shares in thousands)		**2022**
Net income (most directly comparable GAAP based measure)	**$**	**22,037**
Plus: Restructuring charges		**3,155**
Plus: Provision for legal settlement		**13,000**
Less: Related tax effect		**(3,393)**
Adjusted net income (non-GAAP)	**$**	**34,799**
Weighted average shares - diluted (most directly comparable GAAP-based measure)		**10,706**
Diluted earnings per share (most directly comparable GAAP-based measure)		**2.06**
Weighted average shares - diluted (non-GAAP)		**10,706**
Diluted earnings per share, adjusted (non-GAAP)	**$**	**3.25**

Adjusted Net Income and Adjusted Diluted Earnings Per Share		**December 31,**				
(Dollars, except per share amounts, and shares in thousands)		**2023**		**2022**		**2020**
Net income (most directly comparable GAAP based measure)	**$**	**35,663**	$	22,037	$	32,881
Plus: Merger-related charges		**1,059**		—		—
Plus: Provision for legal settlement		**—**		13,000		—
Plus: Restructuring charges		**—**		3,155		—
Less: Related tax effect		**(79)**		(3,393)		—
Adjusted net income (non-GAAP)	**$**	**36,643**	$	34,799	$	32,881
Weighted average shares - diluted (most directly comparable GAAP-based measure)		**10,435**		10,706		11,106
Diluted earnings per share (most directly comparable GAAP-based measure)		**3.42**		2.06		2.96
Weighted average shares - diluted (non-GAAP)		**10,435**		10,706		11,106
Diluted earnings per share, adjusted (non-GAAP)	**$**	**3.51**	$	3.25	$	2.96

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk comprises exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market rate or price risks. In the banking industry, a major risk exposure is changing interest rates. The primary objective of monitoring our interest rate sensitivity, or risk, is to provide management the tools necessary to manage the balance sheet to minimize adverse changes in net interest income as a result of changes in the direction and level of interest rates. FRB monetary control efforts, the effects of deregulation, economic uncertainty and legislative changes have been significant factors affecting the task of managing interest rate sensitivity positions in recent years.

Interest Rate Risk

Interest rate risk is the exposure to fluctuations in the Company's Bank's future earnings (earnings at risk) and value (value at risk) resulting from changes in interest rates. This exposure results from differences between the amounts of interest-earning assets and interest-bearing liabilities that reprice within a specified time period as a result of scheduled maturities, scheduled and unscheduled repayments, the propensity of borrowers and depositors to react to changes in their economic interests, and loan contractual interest rate changes.

We attempt to manage the level of repricing and maturity mismatch through our asset/liability management process so that fluctuations in net interest income are maintained within policy limits across a range of market conditions, while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent, appropriate and necessary to ensure the Company's Bank's profitability. Thus, the goal of interest rate risk management is to evaluate the amount of reward for taking risk and adjusting both the size and composition of the balance sheet relative to the level of reward available for taking risk.

Table of Contents

Management endeavors to control the exposure to changes in interest rates by understanding, reviewing and making decisions based on its risk position. The Company Bank primarily uses its securities portfolio, FHLB advances, interest rate swaps and brokered deposits to manage its interest rate risk position. Additionally, pricing, promotion and product development activities are directed in an effort to emphasize the loan and deposit term or repricing characteristics that best meet current interest rate risk objectives.

We use simulation analysis to assess earnings at risk and net present value analysis to assess value at risk. These methods allow management to regularly monitor both the direction and magnitude of our interest rate risk exposure. These analyses require numerous assumptions including, but not limited to, changes in balance sheet mix, prepayment rates on loans and securities, cash flows and repricing of all financial instruments, changes in volumes and pricing, future shapes of the yield curve, relationship of market interest rates to each other (basis risk), credit spread and deposit sensitivity. Assumptions are based on management's best estimates, but may not accurately reflect actual results under certain changes in interest rate due to the timing, magnitude and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and providing a relative gauge of our interest rate risk position over time.

Our asset/liability committee operates under management policies, approved by the Board of Directors, which define guidelines and limits on the level of risk. The committee meets regularly and reviews our interest rate risk position and monitors various liquidity ratios to ensure a satisfactory liquidity position. By utilizing our analyses, we can determine changes that may need to be made to the asset and liability mixes to mitigate the change in net interest income under various interest rate scenarios. Management continually evaluates the condition of the economy, the pattern of market interest rates and other economic data to inform the committee on the selection of investment securities. Regulatory authorities also monitor our interest rate risk position along with other liquidity ratios.

Net Interest Income Sensitivity

Simulation analysis evaluates the effect of upward and downward changes in market interest rates on future net interest income. The analysis involves changing the interest rates used in determining net interest income over the next twelve months. The resulting percentage change in net interest income in various rate scenarios is an indication of our short-term interest rate risk. The analysis assumes recent pricing trends in new loan and deposit volumes will continue while balances remain constant. Additional assumptions are applied to modify pricing under the various rate scenarios.

The simulation analysis results are presented in the table below. At December 31, 2022 December 31, 2023, the results indicated the Company could experience decrease in net interest income pressure as in the up 200 basis points rising interest rates continue to rise. This rate scenario is due to the fact result of the assumption that interest-bearing liabilities funding costs will begin repricing increase faster than interest-earning the yields on interest earning assets. The faster liability repricing combined with Results in the composition falling interest rate scenario project a decrease in net interest income as a result of long-term fixed rate funding added to the balance sheet in 2023. Additionally, in the model at December 31, 2023, funding pressure is not expected to abate within the first twelve months of a rates falling scenario, while the model at December 31, 2022 assumed faster repricing between fixed- and floating-rate assets has led those periods. The Bank is currently liability sensitive according to the Company becoming more liability sensitive model as interest rates have risen. As such, if certain model assumptions occur, further increases in bearing liabilities are expected to reprice faster than interest rates in a flat balance sheet scenario could negatively impact earning assets. If interest bearing liabilities reprice slower than modeled, the Company's pressure on net interest income. income may be reduced.

Economic Value

Net present value analysis provides information on the risk inherent in the balance sheet that might not be considered in the simulation analysis due to the short time horizon used in that analysis. The net present value of the balance sheet incorporates the discounted present value of expected asset cash flows minus the discounted present value of expected liability cash flows. The analysis involves changing the interest rates used in determining the expected cash flows and in discounting the cash flows. The resulting percentage change in net present value in various rate scenarios is an indication of the longer-term repricing risk and options embedded in the balance sheet.

The results at December 31, 2022 December 31, 2023 and 2022 reflect the impact of the FOMC's interest rate increases in effect at the end of each period. Funding cost and repricing speed will continue to date. As the federal funds rate increases further, the increase in asset yields is countered by the model's acceleration be a factor in the cost results of liabilities as compared the model. The behavior of the business and retail clients also varies across the rate scenarios, which is reflected in the results. For the December 31, 2023 modeling, enhancements were implemented to provide a slower realized pace so far in this more granular analysis, which reflects the business and retail accounts experience different rate cycle. sensitivities and average lives. To improve the comparability across periods, the Company Bank strives to follow best practices related to the assumption setting and maintains the size and mix of the period end balance sheet; thus, the results do not reflect actions management may take through the normal course of business that would impact results.

Table of Contents

Earnings at Risk	Earnings at Risk	Value at Risk	Earnings at Risk	Value at Risk
	% Change in Net Interest Income	% Change in Market Value		

		% Change in Net Interest Income									% Change in Net Interest Income			% Change in Market Value
Change in Market Interest Rates	Change in Market Interest Rates	December 31, 2022	December 31, 2021	Change in Market Interest Rates	December 31, 2022	December 31, 2021	Change in Market Interest Rates		December 31, 2023	December 31, 2022	Change in Market Interest Rates		December 31, 2023	December 31, 2022
(200)							**(200)**		**(5.9)%**	4.7 %	**(200)**		**(15.6)%**	(27.7)%
(100)	**(100)**	**4.8 %**	(1.4)%	**(100)**	**(9.3)%**	(43.8)%	**(100)**	**(3.6)**	**(3.6)%**	4.8 %	**(100)**	**(4.3)**	**(4.3)%**	(9.3)%
100	**100**	**(2.6)%**	3.7 %	**100**	**3.8 %**	25.8 %	**100**	**0.1**	**0.1 %**	(2.6)%	**100**	**0.1**	**0.1 %**	3.8 %
200	**200**	**(6.1)%**	6.7 %	**200**	**4.0 %**	41.2 %	**200**	**(1.0)**	**(1.0)%**	(6.1)%	**200**	**(2.2)**	**(2.2)%**	4.0 %

Further discussion related to the quantitative and qualitative disclosures about market risk is included under the heading of Liquidity and Rate Sensitivity in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table presents unaudited quarterly results of operations for years ended December 31.

		2022 Quarter Ended				**2021 Quarter Ended**				**2023 Quarter Ended**				**2022 Quarter Ended**			
	December									**December**	**September**	**June**	**March**	**December**	**September**	**June**	**March**
		December	**September**	**June**	**March**	**December**	**September**	**June**	**March**								
Interest income																	
Interest income																	
Interest income	Interest income	**$32,095**	**$27,419**	**$25,350**	**$23,790**	$23,919	$22,191	$23,656	$23,929								
Interest expense	Interest expense	**4,611**	**1,964**	**1,232**	**1,217**	1,322	1,571	1,755	2,074								
Net interest income	Net interest income	**27,484**	**25,455**	**24,118**	**22,573**	22,598	20,620	21,901	21,855								
Provision for loan losses		**585**	**1,500**	**1,775**	**300**	1,100	365	625	(1,000)								
Net interest income after provision for loan losses		**26,899**	**23,955**	**22,343**	**22,273**	21,498	20,255	21,276	22,855								
Investment securities gains (losses)		**3**	**(14)**	**(3)**	**(146)**	3	479	11	145								
Provision for credit losses																	
Net interest income after provision for credit losses																	
Investment securities (losses) gains																	

Other noninterest income	Other noninterest income	**6,223**	**6,072**	**7,197**	**7,620**	7,290	7,172	6,653	7,399
Merger-related expenses									
Provision for legal settlement									
Restructuring expenses	Restructuring expenses	**—**	**3,155**	**—**	**—**	—	—	—	—
Provision for legal settlement		**—**	**13,000**	**—**	**—**	—	—	—	—
Other noninterest expenses	Other noninterest expenses	**21,236**	**20,257**	**18,794**	**19,364**	20,290	19,035	17,033	17,783
Income (loss) before income tax expense	Income (loss) before income tax expense	**11,889**	**(6,399)**	**10,743**	**10,383**	8,501	8,871	10,907	12,616
Income tax expense (benefit)	Income tax expense (benefit)	**2,263**	**(1,571)**	**1,872**	**2,015**	1,795	1,679	2,131	2,409
Net income (loss)	Net income (loss)	**$ 9,626**	**$ (4,828)**	**$ 8,871**	**$ 8,368**	$ 6,706	$ 7,192	$ 8,776	$10,207
Per share information:	**Per share information:**								
Per share information:									
Per share information:									
Basic earnings (loss) per share (a)									
Basic earnings (loss) per share (a)									
Basic earnings (loss) per share (a)	Basic earnings (loss) per share (a)	**$ 0.93**	**$ (0.47)**	**$ 0.84**	**$ 0.77**	$ 0.61	$ 0.66	$ 0.80	$ 0.93
Diluted earnings (loss) per share (a)	Diluted earnings (loss) per share (a)	**0.91**	**(0.47)**	**0.83**	**0.76**	0.60	0.65	0.79	0.92
Dividends paid per share	Dividends paid per share	**0.19**	**0.19**	**0.19**	**0.19**	0.19	0.19	0.18	0.18

(a) Sum of the quarters may not equal the total year due to rounding.

(a) Sum of the quarters may not equal the total year due to rounding.

(a) Sum of the quarters may not equal the total year due to rounding.

Table of Contents

Index to Financial Statements and Supplementary Data

Table of Contents

Management's Report on Internal Control Over Financial Reporting

The management of Orrstown Financial Services, Inc., together with its consolidated subsidiaries (the "Company"), has the responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting. Management maintains a comprehensive system of internal control to provide reasonable assurance of the proper authorization of transactions, the safeguarding of assets and the reliability of the financial records. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees. The Company maintains an internal auditing program, under the supervision of the Audit Committee of the Board of Directors, which independently assesses the effectiveness of the system of internal control and recommends possible improvements.

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its internal control over financial reporting at December 31, 2022 December 31, 2023, using the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, management has concluded that, at December 31, 2022 December 31, 2023, the Company's internal control over financial reporting is effective based on the criteria established in *Internal Control-Integrated Framework (2013)*.

Crowe LLP, an independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, as stated in their report dated March 16, 2023 March 14, 2024.

/s/ Thomas R. Quinn, Jr.	/s/ Neelesh Kalani
Thomas R. Quinn, Jr.	Neelesh Kalani
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

March 16, 2023 14, 2024

Table of Contents

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors of Orrstown Financial Services, Inc.
Shippensburg, Pennsylvania

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Orrstown Financial Services, Inc. (the "Company") as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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

Table of Contents

presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Credit Losses – Adjustments for Qualitative Factors

As more fully In accordance with ASU 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Company adopted Accounting Standards Codification ("ASC") 326 as of January 1, 2023 as described in Note Notes 1 and Note 3 to 4 of the consolidated financial statements, statements. See also the Company estimates and records an explanatory paragraph above. The allowance for credit losses (the "ACL") is an accounting estimate of expected credit losses over the life of loans. The ASU requires the Company's loan portfolio, measured at amortized cost, to be presented at the net amount expected to be collected. Estimates of expected credit losses for loans collectively evaluated for impairment by developing a loss rate are based on historical experience, current conditions and reasonable and supportable forecasts over the life of the loans. In order to estimate the expected credit losses, the Company replaced the incurred loss model under the previous standard with the lifetime expected loss model. The Company disclosed the impact of adoption of this standard on January 1, 2023 with a $2.4 million increase to the ACL and qualitative factors. Qualitative factors a $2.0 million decrease to retained earnings for the cumulative effect adjustment recorded upon adoption.

The Company measures expected credit losses based on loans collectively evaluated when similar risk characteristics exist primarily utilizing a discounted cash flow ("DCF") model. The DCF methodology applies the probability of default ("PD"), using a loss driver model and loss given default ("LGD"), to discount loan-level cash flows that are used to adjust historical loss rates considering relevant factors such as nature adjusted for prepayments and volume of loans; concentrations of credit and changes within credit concentrations; underwriting standards and recovery practices; delinquency trends; classified loan trends; experience, ability and depth of management/lending staff; quality of loan review; and national and local economic conditions. curtailments. The PD estimates are derived through the application of reasonable and supportable economic forecasts to the adjustments for regression models, which incorporates the Company's and peer loss-rate data, unemployment rate and GDP. The reasonable and supportable forecasts of the selected economic metrics are then input into the regression model to calculate an expected default rate. The Company adjusts its quantitative results through certain qualitative factors to reflect the extent current and expected conditions differ from the conditions that existed for the period over which historical loss rate calculation is subjective. information and reasonable and supportable economic forecast was evaluated.

The principal considerations for our determination that auditing Auditing the adjustments for qualitative factors is ACL was identified by us as a critical audit matter is the high degree of judgment involved in the assessment because of the risk of significant auditor judgment applied and significant audit effort required, including the need to involve our valuation services specialists, to evaluate the subjective and complex judgments made by management throughout the initial adoption and subsequent application processes, including the loss associated with each risk factor. Our audit procedures included both control and substantive testing estimation model, significant assumptions related to the adjustments for loss driver analysis, PD and LGD inputs into the DCF model and qualitative factors. Procedures included, among others:

The primary procedures performed to address the critical audit matter included:

- Testing the following controls: effectiveness of management's controls addressing:
  - Management's selection of the DCF model, including evaluation of the appropriateness of the loss driver analysis, PD and LGD curves input into the model.
  - Management's review of the accuracy relevance and reliability of data inputs used to adjust historical loss rates. in the DCF model and in determination of the qualitative factors.
  - Management's review over the evaluation of the appropriateness and adequacy of the adjustments to key assumptions and judgments used in the historical loss rates. determination of qualitative factors.

Table of Contents

  - Management's approval of the conclusions reached over the allowance for loan losses for loans collectively evaluated for impairment.
- Substantive tests testing included:
  - Data inputs used to adjust historical loss rates were agreed to source documentation. Evaluating the appropriateness of the Company's methodology applied in the adoption of ASC 326.
  - The adjustments to historical Evaluating the appropriateness of the loss rates were evaluated for reasonableness and appropriateness including both directional consistency driver analysis and the magnitude reasonableness of PD and LGD curves into the adjustments. DCF model, assisted by our valuation services specialists.
  - Analytical procedures were performed to evaluate changes that occurred Evaluating the relevance and reliability of data used in the allowance DCF model.
  - Evaluating the judgments for loan losses developing the qualitative framework and evaluating the relevance of data used in applying qualitative factors, including evaluating assumptions for loans collectively evaluated for impairment. reasonableness.

/s/ Crowe LLP

We have served as the Company's auditor since 2014.

Washington, D.C.

March 16, 2023 14, 2024

Table of Contents

Consolidated Balance Sheets

ORRSTOWN FINANCIAL SERVICES, INC.

		December 31,			December 31,	
(Dollars in thousands, except per share amounts)	*(Dollars in thousands, except per share amounts)*	**2022**	**2021**	*(Dollars in thousands, except per share amounts)*	**2023**	**2022**
Assets	**Assets**					
Cash and due from banks	Cash and due from banks	**$ 28,477**	$ 21,217			
Cash and due from banks						
Cash and due from banks						
Interest-bearing deposits with banks	Interest-bearing deposits with banks	**32,346**	187,493			
Cash and cash equivalents	Cash and cash equivalents	**60,823**	208,710			
Cash and cash equivalents						
Cash and cash equivalents						
Restricted investments in bank stocks	Restricted investments in bank stocks	**10,642**	7,252			
Securities available-for-sale (amortized cost of $563,278 and $466,806 at December 31, 2022 and 2021, respectively)		**513,728**	472,438			
Securities available-for-sale (amortized cost of $549,089 and $563,278 at December 31, 2023 and 2022, respectively)						
Loans held for sale, at fair value	Loans held for sale, at fair value	**10,880**	8,868			
Loans	Loans	**2,151,232**	1,979,986			
Less: Allowance for loan losses		**(25,178)**	(21,180)			
Loans						
Loans						
Less: Allowance for credit losses						
Net loans	Net loans	**2,126,054**	1,958,806			
Premises and equipment, net	Premises and equipment, net	**29,328**	34,045			
Cash surrender value of life insurance	Cash surrender value of life insurance	**71,760**	70,217			
Goodwill	Goodwill	**18,724**	18,724			
Other intangible assets, net	Other intangible assets, net	**3,078**	4,183			
Accrued interest receivable	Accrued interest receivable	**11,027**	8,234			
Deferred tax asset, net	Deferred tax asset, net	**24,031**	11,648			

Other assets	Other assets	**42,333**	31,440
Total assets	**Total assets**	**$2,922,408**	$2,834,565
Liabilities	**Liabilities**		
Deposits:	Deposits:		
Deposits:			
Deposits:			
Noninterest-bearing			
Noninterest-bearing			
Noninterest-bearing	Noninterest-bearing	**$ 494,131**	$ 553,238
Interest-bearing	Interest-bearing	**1,950,807**	1,911,691
Deposits held for assumption in connection with sale of bank branch	Deposits held for assumption in connection with sale of bank branch	**31,307**	—
Total deposits	Total deposits	**2,476,246**	2,464,929
Securities sold under agreements to repurchase		**17,251**	23,301
FHLB advances and other		**106,139**	1,896
Securities sold under agreements to repurchase and federal funds purchased			
FHLB advances and other borrowings			
Subordinated notes	Subordinated notes	**32,026**	31,963
Other liabilities	Other liabilities	**61,850**	40,820
Total liabilities	**Total liabilities**	**2,693,512**	2,562,909
Commitments and contingencies	Commitments and contingencies		
Commitments and contingencies			
Commitments and contingencies			
Shareholders' Equity			
Shareholders' Equity			
Shareholders' Equity	**Shareholders' Equity**		
Preferred stock, $1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding	Preferred stock, $1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding	**—**	—
Common stock, no par value—$0.05205 stated value per share 50,000,000 shares authorized; 11,229,242 shares issued and 10,671,413 outstanding at December 31, 2022; 11,258,167 shares issued and 11,183,050 outstanding at December 31, 2021		**584**	586

Preferred stock, $1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding			
Preferred stock, $1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding			
Common stock, no par value—$0.05205 stated value per share 50,000,000 shares authorized; 11,204,599 shares issued and 10,612,390 outstanding at December 31, 2023; 11,229,242 shares issued and 10,671,413 outstanding at December 31, 2022			
Additional paid—in capital	Additional paid—in capital	**189,264**	189,689
Retained earnings	Retained earnings	**92,473**	78,700
Accumulated other comprehensive (loss) income		**(39,913)**	4,449
Treasury stock— 557,829 and 75,117 shares, at cost, at December 31, 2022 and 2021, respectively		**(13,512)**	(1,768)
Accumulated other comprehensive loss			
Treasury stock—592,209 and 557,829 shares, at cost, at December 31, 2023 and 2022, respectively			
Total shareholders' equity	**Total shareholders' equity**	**228,896**	271,656
Total liabilities and shareholders' equity	**Total liabilities and shareholders' equity**	**$2,922,408**	$2,834,565

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated Statements of Income

ORRSTOWN FINANCIAL SERVICES, INC.

		Years Ended December 31,						
		Years Ended December 31,				**Years Ended December 31,**		
(Dollars in thousands, except per share amounts)	*(Dollars in thousands, except per share amounts)*	**2022**	**2021**	**2020**	*(Dollars in thousands, except per share amounts)*	**2023**	**2022**	**2021**
Interest income	**Interest income**							
Loans								
Loans								
Loans	Loans	**$93,528**	$84,227	$87,492				

Investment securities - taxable	Investment securities - taxable	**10,237**	6,622	10,458
Investment securities - tax-exempt	Investment securities - tax-exempt	**4,115**	2,493	1,566
Short term investments	Short term investments	**774**	353	115
Total interest income	Total interest income	**108,654**	93,695	99,631
Interest expense	**Interest expense**			
Deposits	Deposits	**6,337**	4,199	12,009
Securities sold under agreements to repurchase		**44**	31	85
Deposits				
Deposits				
Securities sold under agreements to repurchase and federal funds purchased				
FHLB advances and other borrowings	FHLB advances and other borrowings	**630**	482	1,924
Subordinated notes	Subordinated notes	**2,013**	2,009	2,006
Total interest expense	Total interest expense	**9,024**	6,721	16,024
Net interest income	Net interest income	**99,630**	86,974	83,607
Provision for loan losses		**4,160**	1,090	5,325
Net interest income after provision for loan losses		**95,470**	85,884	78,282
Provision for credit losses				
Net interest income after provision for credit losses				
Noninterest income	**Noninterest income**			
Service charges on deposit accounts	Service charges on deposit accounts	**3,826**	3,047	2,874
Service charges on deposit accounts				
Service charges on deposit accounts				
Interchange income	Interchange income	**4,055**	4,129	3,423
Other service charges and fees		**788**	646	683

Other service charges, commissions and fees				
Swap fee income	Swap fee income	**2,632**	293	847
Trust and investment management income	Trust and investment management income	**7,631**	7,896	6,912
Brokerage income	Brokerage income	**3,620**	3,571	2,821
Mortgage banking activities	Mortgage banking activities	**407**	5,909	5,274
Gain on sale of portfolio loans		**—**	—	2,803
Income from life insurance				
Income from life insurance				
Income from life insurance	Income from life insurance	**2,339**	2,273	2,261
Investment securities (losses) gains	Investment securities (losses) gains	**(160)**	638	(16)
Other income	Other income	**1,814**	750	427
Total noninterest income	Total noninterest income	**26,952**	29,152	28,309
Noninterest expenses	**Noninterest expenses**			
Salaries and employee benefits	Salaries and employee benefits	**48,004**	44,002	43,350
Salaries and employee benefits				
Salaries and employee benefits				
Occupancy	Occupancy	**4,729**	4,731	4,760
Furniture and equipment	Furniture and equipment	**5,083**	5,115	4,756
Data processing	Data processing	**4,560**	4,061	3,574
Automated teller and interchange fees	Automated teller and interchange fees	**1,287**	1,202	1,057
Automated teller and interchange fees				
Automated teller and interchange fees				
Advertising and bank promotions	Advertising and bank promotions	**2,264**	2,178	1,660
FDIC insurance	FDIC insurance	**1,083**	816	686
Professional services				
Professional services				
Professional services	Professional services	**3,254**	2,555	3,120
Directors' compensation	Directors' compensation	**938**	865	921
Taxes other than income	Taxes other than income	**1,391**	1,321	1,144

Taxes other than income				
Taxes other than income				
Intangible asset amortization	Intangible asset amortization	**1,105**	1,275	1,569
Merger-related expenses				
Merger-related expenses				
Merger-related expenses				
Provision for legal settlement	Provision for legal settlement	**13,000**	—	—
Restructuring expenses	Restructuring expenses	**3,155**	—	1,310
Insurance claim recovery		**—**	—	(486)
Other operating expenses				
Other operating expenses				
Other operating expenses	Other operating expenses	**5,953**	6,020	6,659
Total noninterest expenses	Total noninterest expenses	**95,806**	74,141	74,080
Income before income tax expense	Income before income tax expense	**26,616**	40,895	32,511
Income tax expense	Income tax expense	**4,579**	8,014	6,048
Net income	**Net income**	**$22,037**	$32,881	$26,463
Per share information:	**Per share information:**			
Basic earnings per share	Basic earnings per share	**$ 2.09**	$ 3.00	$ 2.42
Basic earnings per share				
Basic earnings per share				
Diluted earnings per share	Diluted earnings per share	**2.06**	2.96	2.40
Dividends paid per share	Dividends paid per share	**0.76**	0.74	0.68

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated Statements of Comprehensive Income (Loss) Income
ORRSTOWN FINANCIAL SERVICES, INC.

	Years Ended December 31,		
(Dollars in thousands)	**2022**	**2021**	**2020**
Net income	**$ 22,037**	$ 32,881	$ 26,463
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on securities available-for-sale arising during the period	**(55,342)**	804	6,057
Reclassification adjustment for losses (gains) realized in net income	**160**	(638)	16
Net unrealized (losses) gains on securities available-for-sale	**(55,182)**	166	6,073
Tax effect	**11,588**	(35)	(1,275)

Total other comprehensive (loss) income, net of tax and reclassification adjustments on securities available-for-sale	**(43,594)**	131	4,798
Unrealized (losses) gains on interest rate swaps used in cash flow hedges	**(972)**	473	(1,347)
Reclassification adjustment for losses realized in net income	**—**	757	117
Net unrealized (losses) gains on interest rate swaps used in cash flow hedges	**(972)**	1,230	(1,230)
Tax effect	**204**	(258)	258
Total other comprehensive (loss) gain, net of tax and reclassification adjustments on interest rate swaps used in cash flow hedges	**(768)**	972	(972)
Total other comprehensive (loss) income, net of tax and reclassification adjustments	**(44,362)**	1,103	3,826
Total comprehensive (loss) income	**$ (22,325)**	$ 33,984	$ 30,289

	Years Ended December 31,		
(Dollars in thousands)	2023	2022	2021
Net income	**$ 35,663**	$ 22,037	$ 32,881
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities available-for-sale arising during the period	**13,936**	(55,321)	775
Reclassification adjustment for losses (gains) realized in net income	**44**	139	(609)
Net unrealized gains (losses) on securities available-for-sale	**13,980**	(55,182)	166
Tax effect	**(3,075)**	11,588	(35)
Total other comprehensive income (loss), net of tax and reclassification adjustments on securities available-for-sale	**10,905**	(43,594)	131
Unrealized gains (losses) on interest rate swaps used in cash flow hedges	**682**	(972)	473
Reclassification adjustment for losses realized in net income	**—**	—	757
Net unrealized gains (losses) on interest rate swaps used in cash flow hedges	**682**	(972)	1,230
Tax effect	**(150)**	204	(258)
Total other comprehensive gain (loss), net of tax and reclassification adjustments on interest rate swaps used in cash flow hedges	**532**	(768)	972
Total other comprehensive income (loss), net of tax and reclassification adjustments	**11,437**	(44,362)	1,103
Total comprehensive income (loss)	**$ 47,100**	$ (22,325)	$ 33,984

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated Statements of Changes in Shareholders' Equity
ORRSTOWN FINANCIAL SERVICES, INC.

(Dollars in thousands, except per share amounts)	*(Dollars in thousands, except per share amounts)*	Years Ended December 31, 2022, 2021 and 2020					
		Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Shareholders' Equity
Balance, January 1, 2020		$ 584	$ 188,365	$ 35,246	$ (480)	$ (466)	$ 223,249
Balance, January 1, 2021							
Balance, January 1, 2021							
Balance, January 1, 2021							
Net income							
Net income							
Net income	Net income	—	—	26,463	—	—	26,463
Total other comprehensive income, net of taxes	Total other comprehensive income, net of taxes	—	—	—	3,826	—	3,826

(Dollars in thousands, except per share amounts)	Years Ended December 31, 2023, 2022 and 2021					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity

Cash dividends ($0.68 per share)		—	—	(7,610)	—	—	(7,610)
Share-based compensation plans:							
36,442 net common shares issued and 34,999 net treasury shares acquired, including compensation expense totaling $2,092		2	701	—	—	(382)	321
Balance, December 31, 2020		586	189,066	54,099	3,346	(848)	246,249
Net income		—	—	32,881	—	—	32,881
Total other comprehensive income, net of taxes							
Total other comprehensive income, net of taxes	Total other comprehensive income, net of taxes	—	—	—	1,103	—	1,103
Cash dividends ($0.74 per share)	Cash dividends ($0.74 per share)	—	—	(8,280)	—	—	(8,280)
Share-based compensation plans:	Share-based compensation plans:						
Share-based compensation plans:							
Share-based compensation plans:							
1,121 net common shares issued and 19,388 net treasury shares acquired, including compensation expense totaling $1,949							
1,121 net common shares issued and 19,388 net treasury shares acquired, including compensation expense totaling $1,949							
1,121 net common shares issued and 19,388 net treasury shares acquired, including compensation expense totaling $1,949	1,121 net common shares issued and 19,388 net treasury shares acquired, including compensation expense totaling $1,949	—	623	—	—	(920)	(297)
Balance, December 31, 2021	Balance, December 31, 2021	**586**	**189,689**	**78,700**	**4,449**	**(1,768)**	**271,656**
Balance, December 31, 2021							
Balance, December 31, 2021							
Net income							
Net income							
Net income	Net income	**—**	**—**	**22,037**	**—**	**—**	**22,037**
Total other comprehensive loss, net of taxes							
Total other comprehensive loss, net of taxes							
Total other comprehensive loss, net of taxes	Total other comprehensive loss, net of taxes	**—**	**—**	**—**	**(44,362)**	**—**	**(44,362)**

Cash dividends ($0.76 per share)	Cash dividends ($0.76 per share)	—	—	(8,264)	—	—	(8,264)
Share-based compensation plans:	Share-based compensation plans:						

Share-based compensation plans:

Share-based compensation plans:

28,925 net common shares acquired and 482,712 net treasury shares acquired, including compensation expense totaling $2,154

28,925 net common shares acquired and 482,712 net treasury shares acquired, including compensation expense totaling $2,154

28,925 net common shares acquired and 482,712 net treasury shares acquired, including compensation expense totaling $2,154	28,925 net common shares acquired and 482,712 net treasury shares acquired, including compensation expense totaling $2,154	(2)	(425)	—	—	(11,744)	(12,171)
Balance, December 31, 2022	**Balance, December 31, 2022**	$ 584	$ 189,264	$ 92,473	$ (39,913)	$ (13,512)	$ 228,896

Balance, December 31, 2022

Balance, December 31, 2022

Cumulative effect of change in accounting principle (Note 4)

Net income

Total other comprehensive income, net of taxes

Total other comprehensive income, net of taxes

Total other comprehensive income, net of taxes

Cash dividends ($0.80 per share)

Share-based compensation plans:

Share-based compensation plans:

Share-based compensation plans:

24,643 net common shares acquired and 34,380 net treasury shares acquired, including compensation expense totaling $2,356

24,643 net common shares acquired and 34,380 net treasury shares acquired, including compensation expense totaling $2,356

24,643 net common shares acquired and 34,380 net treasury shares acquired, including compensation expense totaling $2,356

Balance, December 31, 2023

Balance, December 31, 2023

Balance, December 31, 2023

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated Statements of Cash Flows
ORRSTOWN FINANCIAL SERVICES, INC.

		Years Ended December 31,		
(Dollars in thousands)	*(Dollars in thousands)*	**2022**	**2021**	**2020**
(Dollars in thousands)				
(Dollars in thousands)				
Cash flows from operating activities				
Cash flows from operating activities				
Cash flows from operating activities	**Cash flows from operating activities**			
Net income	Net income	**$ 22,037**	$ 32,881	$ 26,463
Net income				
Net income				
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:			
Net premium amortization (discount accretion)	Net premium amortization (discount accretion)	**1,893**	(436)	(4,481)
Net premium amortization (discount accretion)				
Net premium amortization (discount accretion)				
Depreciation and amortization expense	Depreciation and amortization expense	**4,620**	5,305	6,573
Impairment of intangibles		**—**	—	153
Provision for loan losses		**4,160**	1,090	5,325
Depreciation and amortization expense				
Depreciation and amortization expense				
Provision for credit losses				
Provision for credit losses				
Provision for credit losses				
Share-based compensation				
Share-based compensation				
Share-based compensation	Share-based compensation	**2,154**	1,949	2,092
Gains on sales of loans originated for sale	Gains on sales of loans originated for sale	**(1,283)**	(5,222)	(5,631)
Gains on sales of loans originated for sale				

Gains on sales of loans originated for sale				
Fair value adjustment on loans held for sale				
Fair value adjustment on loans held for sale				
Fair value adjustment on loans held for sale	Fair value adjustment on loans held for sale	**1,373**	255	(436)
Mortgage loans originated for sale	Mortgage loans originated for sale	**(82,708)**	(197,167)	(207,051)
Mortgage loans originated for sale				
Mortgage loans originated for sale				
Proceeds from sales of loans originated for sale				
Proceeds from sales of loans originated for sale				
Proceeds from sales of loans originated for sale	Proceeds from sales of loans originated for sale	**77,291**	204,102	208,987
Gains on sale of portfolio loans	Gains on sale of portfolio loans	**(306)**	—	(2,803)
Net (gain) loss on disposal of OREO and premises held for sale		**—**	(327)	152
Writedown of premises held for sale		**1,297**	—	544
Gains on sale of portfolio loans				
Gains on sale of portfolio loans				
Net gain on disposal of OREO and premises held for sale				
Net gain on disposal of OREO and premises held for sale				
Net gain on disposal of OREO and premises held for sale				
Writedown of OREO and premises held for sale				
Writedown of OREO and premises held for sale				
Writedown of OREO and premises held for sale				
Net loss on disposal of premises and equipment				
Net loss on disposal of premises and equipment				
Net loss on disposal of premises and equipment	Net loss on disposal of premises and equipment	**530**	22	2
Deferred income tax (benefit) expense	Deferred income tax (benefit) expense	**(591)**	942	(1,973)
Deferred income tax (benefit) expense				
Deferred income tax (benefit) expense				
Investment securities losses (gains)				
Investment securities losses (gains)				
Investment securities losses (gains)	Investment securities losses (gains)	**160**	(638)	16
Provision for legal settlement	Provision for legal settlement	**13,000**	—	—
Provision for legal settlement				
Provision for legal settlement				
Payment of legal settlement				
Payment of legal settlement				
Payment of legal settlement	Payment of legal settlement	**(13,000)**	—	—
Return on investments in limited partnerships	Return on investments in limited partnerships	**(976)**	—	—
Loss (gain) on derivative terminations		**—**	514	(226)

Return on investments in limited partnerships				
Return on investments in limited partnerships				
Net losses on derivatives				
Net losses on derivatives				
Net losses on derivatives				
Loss on derivative terminations				
Loss on derivative terminations				
Loss on derivative terminations				
Income from life insurance	Income from life insurance	**(2,339)**	(2,273)	(2,261)
(Increase) decrease in accrued interest receivable		**(2,793)**	693	(2,887)
Increase in other liabilities		**20,492**	1,167	953
Income from life insurance				
Income from life insurance				
Premium on branch sale				
Premium on branch sale				
Premium on branch sale				
Decrease (increase) in accrued interest receivable and other assets				
Decrease (increase) in accrued interest receivable and other assets				
Decrease (increase) in accrued interest receivable and other assets				
(Decrease) increase in accrued interest payable and other liabilities				
(Decrease) increase in accrued interest payable and other liabilities				
(Decrease) increase in accrued interest payable and other liabilities				
Other, net				
Other, net				
Other, net	Other, net	**(8,819)**	(2,046)	6,660
Net cash provided by operating activities	Net cash provided by operating activities	**36,192**	40,811	30,171
Net cash provided by operating activities				
Net cash provided by operating activities				
Cash flows from investing activities				
Cash flows from investing activities				
Cash flows from investing activities	**Cash flows from investing activities**			
Proceeds from sales of AFS securities	Proceeds from sales of AFS securities	**31,330**	149,038	—
Proceeds from sales of AFS securities				
Proceeds from sales of AFS securities				
Maturities, repayments and calls of AFS securities	Maturities, repayments and calls of AFS securities	**50,105**	39,082	56,239
Maturities, repayments and calls of AFS securities				
Maturities, repayments and calls of AFS securities				
Purchases of AFS securities				
Purchases of AFS securities				
Purchases of AFS securities	Purchases of AFS securities	**(181,529)**	(195,049)	(26,691)

Net (purchases) redemptions of restricted investments in bank stocks	Net (purchases) redemptions of restricted investments in bank stocks	**(3,390)**	3,311	5,621
Net (purchases) redemptions of restricted investments in bank stocks				
Net (purchases) redemptions of restricted investments in bank stocks				
Net distributions from investments in limited partnerships				
Net distributions from investments in limited partnerships				
Net distributions from investments in limited partnerships	Net distributions from investments in limited partnerships	**1,410**	—	—
Net (increase) decrease in loans	Net (increase) decrease in loans	**(172,607)**	1,396	(349,947)
Net (increase) decrease in loans				
Net (increase) decrease in loans				
Proceeds from sales of portfolio loans	Proceeds from sales of portfolio loans	**4,443**	385	22,665
Proceeds from sales of portfolio loans				
Proceeds from sales of portfolio loans				
Investment in limited partnerships				
Investment in limited partnerships				
Investment in limited partnerships				
Purchases of bank premises and equipment				
Purchases of bank premises and equipment				
Purchases of bank premises and equipment	Purchases of bank premises and equipment	**(895)**	(1,254)	(1,303)
Proceeds from disposal of OREO and premises held for sale	Proceeds from disposal of OREO and premises held for sale	**—**	1,078	4,096
Proceeds from disposal of OREO and premises held for sale				
Purchases of bank owned life insurance		**—**	—	(3,636)
Proceeds from disposal of OREO and premises held for sale				
Proceeds from disposal of bank premises and equipment				
Proceeds from disposal of bank premises and equipment				
Proceeds from disposal of bank premises and equipment				
Net cash paid in branch sale				
Net cash paid in branch sale				
Net cash paid in branch sale				
Death benefit proceeds from life insurance contracts	Death benefit proceeds from life insurance contracts	**142**	—	391
Death benefit proceeds from life insurance contracts				
Death benefit proceeds from life insurance contracts				
Other				
Other				
Other				

Net cash used in investing activities

Net cash used in investing activities

Net cash used in investing activities	Net cash used in investing activities	**(270,991)**	(2,013)	(292,565)
(continued)			(continued)	

(continued)

(continued)

Table of Contents

(Dollars in thousands)	Years Ended December 31, **2022**	**2021**	**2020**
Cash flows from financing activities			
Net increase in deposits	**11,307**	108,020	481,277
Net increase (decrease) in borrowings with original maturities less than 90 days	**98,634**	3,835	(135,402)
Proceeds from FHLB advances and other borrowings	**—**	—	126,599
Payments on FHLB advances and other borrowings	**(441)**	(56,149)	(131,622)
Settlement of terminated derivatives	**—**	(525)	218
Dividends paid	**(8,264)**	(8,280)	(7,610)
Acquisition of treasury stock	**(14,172)**	(1,869)	(1,170)
Shares repurchased as treasury stock for employee taxes associated with restricted stock vesting	**(285)**	(514)	(717)
Proceeds from issuance of employee stock purchase plan shares	**133**	136	116
Net cash provided by financing activities	**86,912**	44,654	331,689
Net (decrease) increase in cash and cash equivalents	**(147,887)**	83,452	69,295
Cash and cash equivalents at beginning of year	**208,710**	125,258	55,963
Cash and cash equivalents at end of year	**$ 60,823**	$ 208,710	$ 125,258
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	**$ 8,721**	$ 6,805	$ 16,665
Income taxes	**4,900**	4,400	550
Supplemental schedule of noncash investing and financing activities:			
Loans transferred from LHFS to portfolio loans	**1,510**	—	—
Premises and equipment transferred to held for sale	**2,991**	—	—
Lease liabilities arising from obtaining ROU assets	**94**	2,865	400
Deposits held for assumption in connection with sale of bank branch	**31,307**	—	—

The Notes to Consolidated Financial Statements are an integral part of these statements.

(Dollars in thousands)	Years Ended December 31, **2023**	**2022**	**2021**
Cash flows from financing activities			
Net increase in deposits	**101,302**	11,307	108,020
Net (decrease) increase in borrowings with original maturities less than 90 days	**(14,650)**	98,634	3,835
Proceeds from FHLB advances with original maturities greater than 90 days	**40,000**	—	—
Payments on FHLB advances with original maturities greater than 90 days	**(1,455)**	(441)	(56,149)
Settlement of terminated derivatives	**—**	—	(525)
Dividends paid	**(8,485)**	(8,264)	(8,280)
Acquisition of treasury stock	**(2,585)**	(14,172)	(1,869)
Shares repurchased as treasury stock for employee taxes associated with restricted stock vesting	**(378)**	(285)	(514)
Proceeds from issuance of employee stock purchase plan shares	**136**	133	136
Net cash provided by financing activities	**113,885**	86,912	44,654

		2023	2022	2021
Net increase (decrease) in cash and cash equivalents		**4,338**	(147,887)	83,452
Cash and cash equivalents at beginning of year		**60,823**	208,710	125,258
Cash and cash equivalents at end of year		**$ 65,161**	$ 60,823	$ 208,710

	Years Ended December 31,		
(Dollars in thousands)	2023	2022	2021
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	**$ 42,888**	$ 8,721	$ 6,805
Income taxes	**7,450**	4,900	4,400
Supplemental schedule of noncash investing and financing activities:			
Loans transferred from LHFS to portfolio loans	**—**	1,510	—
OREO acquired in settlement of loans	**85**	—	—
Premises and equipment transferred to held for sale	**—**	2,991	—
Lease liabilities arising from obtaining ROU assets	**2,416**	94	2,865
Deposits held for assumption in connection with sale of bank branch	**—**	31,307	—

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Notes to Consolidated Financial Statements

(All dollar amounts presented in the tables, except share and per share amounts, are in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

See the Glossary of Defined Terms at the beginning of this Report for terms used throughout the consolidated financial statements and related notes of this Form 10-K.

Nature of Operations – Orrstown Financial Services, Inc. is a financial holding company that operates Orrstown Bank, a commercial bank providing banking and financial advisory services in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties, Pennsylvania, and in Anne Arundel, Baltimore, Howard and Washington Counties, Maryland. The Company operates in the community banking segment and engages in lending activities, including commercial, residential, commercial mortgages, construction, municipal, and various forms of consumer lending, and deposit services, including checking, savings, time, and money market deposits. The Company’s lending area also includes adjacent counties in Pennsylvania and Maryland, as well as Loudon County, Virginia and Berkeley, Jefferson and Morgan Counties, West Virginia. The Company also provides fiduciary services, investment advisory, insurance and brokerage services. Effective July 31, 2020, Wheatland Advisors, Inc., a registered investment advisor non-bank subsidiary, headquartered in Lancaster County, Pennsylvania was discontinued. The Company and the Bank are subject to regulation by certain federal and state agencies and undergo periodic examinations by such regulatory authorities.

Basis of Presentation – The accompanying consolidated financial statements include the accounts of Orrstown Financial Services, Inc. and its wholly owned subsidiary, the Bank. The accounting and reporting policies of the Company conform to GAAP and, where applicable, to accounting and reporting guidelines prescribed by bank regulatory authorities. All significant intercompany transactions and accounts have been eliminated. Certain reclassifications have been made to prior year years' amounts to conform with current year classifications. These reclassifications did not have a material impact on the Company's consolidated financial condition or results of operations.

The Company's management has evaluated all activity of the Company and concluded that subsequent events are properly reflected in the Company's consolidated financial statements and notes as required by GAAP.

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Concentration of Credit Risk – The Company grants commercial, residential, construction, municipal, and various forms of consumer lending to clients primarily in its market area in south central Pennsylvania and in the greater Baltimore region and Washington County, Maryland, in addition to adjacent counties in Pennsylvania and Maryland, as well as Loudon County, Virginia and Berkeley, Jefferson and Morgan Counties, West Virginia. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in those areas. Although the Company maintains a diversified loan portfolio, a significant portion of its clients’ ability to honor their contracts is dependent upon economic sectors for commercial real estate, including office space, retail strip centers, sales finance, sub-dividers and developers, and multi-family, hospitality, and residential building operators. Management evaluates each clients' creditworthiness on a case-by-case basis. The amount of collateral obtained upon the extension of credit is based on management’s credit evaluation of the client. Types of collateral held varies, but generally include real estate and equipment.

The types of securities the Company invests in are included in Note 2, 3, Investment Securities, and the types of lending the Company engages in are included in Note 3, 4, Loans and Allowance for Loan Credit Losses.

Cash and Cash Equivalents – Cash and cash equivalents include cash, balances due from banks, federal funds sold and interest-bearing deposits due on demand, all of which have original maturities of 90 days or less. Net cash flows are reported for client loan and deposit transactions, loans held for sale, redemption (purchases) of restricted investments in bank stocks, and short-term borrowings.

Under the FRB regulations, the Bank generally had been required to maintain cash reserves against specified deposit liabilities. The FRB issued a final rule on December 22, 2020 that amended Regulation D by lowering the reserve requirement on all net transaction accounts maintained at depository institutions to 0%. Effective January 1, 2023 January 1, 2024, the FRB will establish the new reserve requirement exemption amount and low reserve tranche, for 2023, but will not elevate the current reserve percentage of above zero for depository institutions.

Balances with correspondent banks may, at times, exceed federally insured limits. The Company considers this to be a normal business risk and reviews the financial condition of its correspondent banks on a quarterly basis.

Table of Contents

Restricted Investments in Bank Stocks – Restricted investments in bank stocks consist of Federal Reserve Bank of Philadelphia stock, FHLB of Pittsburgh stock and Atlantic Community Bankers Bank stock. Federal law requires a member institution of the district Federal Reserve Bank and FHLB to hold stock according to predetermined formulas. Atlantic Community Bankers Bank requires its correspondent banking institutions to hold stock as a condition of membership. The restricted investment in bank stocks is carried at cost. On a quarterly basis, management evaluates the bank stocks for impairment based on assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history, and impact of legislative and regulatory changes.

Investment Securities –AFS securities include investments that management intends to use as part of its asset/liability management strategy. The Company typically classifies debt securities as available-for-sale ("AFS") AFS on the date of purchase. At December 31, 2022 December 31, 2023 and 2021, 2022, the Company had no held to maturity or trading securities. AFS securities are reported at fair value. Interest income and dividends on debt securities are recognized in interest income on an accrual basis. Purchase premiums and discounts on debt securities are amortized to interest income using the interest method over the terms of the investment securities and approximate the level yield method.

Changes in unrealized gains and losses, net of related deferred taxes, for AFS securities are recorded in AOCI. Realized gains and losses on investment securities are recorded on the trade date using the specific identification method and are included in noninterest income on the consolidated statements of income.

AFS securities include investments that management intends to use as part of its asset/liability management strategy. Investment securities may be sold in response to changes in interest rates, changes in prepayment rates and other factors. The Company does not have the intent to sell any of its AFS securities that are in an unrealized loss position and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components: OTTI related to other factors, which is recognized in OCI, and the remaining OTTI, which is recognized in earnings. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The Company's securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment securities reported in the consolidated financial statements.

Investment securities may be sold in response to changes in interest rates, changes in prepayment rates and other factors. Prior to implementation of CECL, unrealized losses on AFS debt securities caused by a credit event would require the direct write-down of the AFS security through the OTTI approach; however, the new standard under ASC 326-30, *Financial Instruments - Credit Losses*, requires credit losses to be presented as an ACL. The Company is still required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance continues to require the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. Under the CECL standard, if the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, which is limited by the amount that the fair value is less than the amortized cost basis. Any additional amount of loss would be due to non-credit factors and is recorded in AOCI, net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the consolidated statements of financial condition. Accrued interest receivable on AFS securities is excluded from the estimate of credit losses.

The Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company maintains that it has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold. The Company did not record a cumulative-effect adjustment related to its AFS securities upon adoption of CECL on January 1, 2023.

Loans Held for Sale Held-for-Sale – The Company has elected to record the mortgage loans held for sale portfolio at fair market value as opposed to the lower of cost or market. The Company economically hedges its residential loans held for sale portfolio with forward sale agreements, which are reported at fair value. A lower of cost or market accounting treatment would not allow the Company to record the excess of the fair market value over book value, but would require the Company to record the corresponding reduction in value on the hedges. Both the loans and related hedges are carried at fair value, which reduces earnings volatility as the amounts more closely offset, particularly in environments when interest rates are declining. For loans held for sale held-for-sale for which the fair value option has been elected, the aggregate fair value was less than the aggregate principal balance by $1.2 million $1.5 million and $150 thousand $1.2 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively. There were no loans held for sale held-for-sale that were nonaccrual or 90 or more days past due as of December 31, 2022 December 31, 2023 and 2021. 2022. Gains and losses on loan sales (sales

proceeds minus carrying value) are recorded in noninterest income in the consolidated statements of income. Interest income on these loans is recognized in interest and fees on loans in the consolidated statements of income.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the ALL, amortized cost, inclusive of net deferred loan origination fees and any corresponding deferred fees costs and unamortized premium or costs. discount. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a yield adjustment over the respective term of the loan using the interest method. For SBA PPP loans, the loan origination fees, net of certain direct origination costs, are deferred and accreted into interest income as a yield adjustment under the effective yield method over the estimated life of the PPP loans, with any unamortized net fees being recognized as interest income over the remaining life of the loans. Purchased loans are initially recorded at the time of forgiveness. For purchased loans that are not deemed impaired at the fair value and include credit and interest rate marks associated with acquisition date, premiums accounting adjustments. Premiums and discounts are subsequently amortized or accreted as adjustments to interest income using the effective yield method.

Table method over the contractual lives of Contents the loans.

For all classes of loans, the accrual of interest income on loans, including impaired individually evaluated loans, ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, full collection is unlikely. Interest will continue to accrue on loans past due 90 days or more if the collateral is adequate to cover principal and interest, and the loan is in the process of collection. Interest accrued, but not collected, at the date of placement on nonaccrual status, is reversed and charged against interest income, unless fully collateralized. Subsequent payments received are either applied to the outstanding principal balance or recorded as interest income, depending upon management's assessment of the ultimate collectability of principal. Loans are returned to accrual status, for all loan classes, when all the principal and interest amounts contractually due are brought current, the loan has performed in accordance with the contractual terms of the note for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is reasonably assured. Past due status is based on the contractual terms of the loan.

Loans, *Allowance for Credit Losses* – In June 2016, the terms FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). On January 1, 2023, the Company adopted ASU 2016-13, the current expected credit losses accounting standard commonly referred to as "CECL," which are modified, are classified as TDRs if a concession was granted in connection replaces the incurred loss model with the modification, lifetime expected loss model. The CECL methodology requires an organization to measure all expected credit losses over the contractual term for legal or economic reasons, related financial assets measured at amortized cost, including loan receivables and held-to-maturity securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The CECL methodology also applies to off-balance sheet credit exposures not accounted for as insurance (e.g., loan commitments, standby letters of credit, financial guarantees and other similar instruments), net investments in leases recognized by a lessor in accordance with ASC Topic 842 on leases and AFS debt securities.

To implement the new standard, the Company established a cross-discipline governance structure, which included a dedicated working group and a CECL Committee consisting of members from different functions including Finance, Credit, Risk and Lending, who provided implementation oversight and reviewed policy elections, key assumptions, processes, and model results. The working group was responsible for the implementation process that included developing the loan segmentation, data sourcing and validation, loss driver inputs, qualitative factors, parallel model runs, scenario testing and back testing.

The Company utilized a third-party vendor to assist in the implementation process of its new model to calculate credit losses over the estimated life of the applicable financial assets. The Company elected to use the DCF methodology for the quantitative analysis for the majority of its loan segments, which applies the probability of default and loss given default factors to future cash flows, and then adjusts to the debtor's financial difficulties. Concessions granted under net present value to derive the required reserve. Reasonable and supportable macroeconomic conditions include unemployment and GDP. Model assumptions include the discount rate, prepayments and curtailments. The development and validation of credit models also included determining the length of the reasonable and supportable forecast and regression period and utilizing national peer group historical loss rates. For the consumer loan segments, the remaining life methodology was selected as a TDR typically involve a temporary deferral of scheduled loan payments, an extension of a loans' stated maturity date, a temporary reduction in interest rates, or granting of an interest rate below market rates given practical expedient and based on the risk characteristics. The implementation also included review of model runs and certain assumptions, documentation of policies, procedures and controls, and engagement of another third-party consultant for model validation.

The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of the transaction. If new CECL standard resulted in a modification occurs cumulative-effect adjustment that increased the ACL for loans by $2.4 million and increased the off-balance sheet credit exposures reserve by $100 thousand. Retained earnings, net of deferred taxes, decreased by $2.0 million, and deferred tax assets increased by $559 thousand. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while the loan is on accrual status, it will prior period amounts continue to accrue interest under the modified terms. Nonaccrual TDRs may be restored to accrual status if scheduled principal and interest payments, under the modified terms, are current for six months after modification, and the borrower continues to demonstrate its ability to meet the modified terms. TDRs are evaluated individually for impairment on a quarterly basis including monitoring of performance according to their modified terms.

In an effort to assist clients that were negatively impacted by the COVID-19 pandemic, the Bank offered various mitigation options, including a loan payment deferral program. Under this program, most commercial deferrals were for a 90-day period, while most consumer deferrals were for a 180-day period. In reported in accordance with the revised *Interagency Statement incurred loss model under the previously applicable GAAP.*

The following table illustrates the impact of the adoption of CECL, and the transition away from the incurred loss method, on Loan Modifications by Financial Institutions Working with Customers Affected by January 1, 2023. The impact to the Coronavirus issued by ACL is presented at the federal bank regulatory agencies on April 7, 2020, these deferrals are exempt from TDR status as they meet loan segment level:

	January 1, 2023		
	Reserves under Incurred Loss Model	**Reserves under CECL Model**	**Impact of CECL Adoption**
Financial Assets:			
Commercial loans:			
Commercial real estate	$ 13,558	$ 16,415	$ 2,857
Acquisition and development	3,214	3,000	(214)
Commercial and industrial	4,505	5,433	928
Municipal	24	193	169
Consumer loans:			
Residential mortgage	3,444	2,323	(1,121)
Installment and other	188	237	49
Unallocated reserve	245	—	(245)
Allowance for credit losses on loans	$ 25,178	$ 27,601	$ 2,423
Liabilities:			
Allowance for credit losses on off-balance sheet credit exposures	$ 1,633	$ 1,733	$ 100

The ACL represents the specified requirements. As of December 31, 2021, amount that, in management's judgment, appropriately reflects credit losses inherent in the Company had a consumer loan under this deferral program of $56 thousand for which portfolio at the deferral period subsequently expired in 2022. There were no loans under this deferral program as of December 31, 2022.

Allowance for Loan Losses – The ALL is evaluated on at least a quarterly basis, as losses are estimated balance sheet date. Loans deemed to be probable uncollectible are charged against the ACL on loans, and incurred, and, subsequent recoveries, if deemed necessary, is increased or decreased any, are credited to the ACL on loans when received. Changes to the ACL are recorded through the provision for loan credit losses on loans in the consolidated statements of income. Loan

The ACL is maintained at a level considered appropriate to absorb credit losses over the expected life of the loan. The ACL for expected credit losses is determined based on a quantitative assessment of two categories of loans: collectively evaluated loans and individually evaluated loans. In addition, the ACL also includes a qualitative component which adjusts the CECL model results for risk factors that are charged against not considered within the ALL CECL model, but are relevant in assessing the expected credit losses within the loan classes.

The ACL on loans is measured on a collective basis when similar risk characteristics exist within the Company's loan segments between commercial and consumer. For purposes of estimating the Company's ACL, management generally evaluates collectively evaluated loans by federal call code in order to group loans with similar risk characteristics. Each of these loan segments are broken down into multiple loan classes, which are characterized by loan type, collateral type, risk attributions and the manner in which management monitors the performance of the borrower. The risks associated with lending activities differ and are subject to the impact of change in interest rates, market conditions and the impact on the collateral securing the loans, and general economic conditions. The commercial loan segment includes commercial real estate, acquisition and development, commercial and industrial and municipal loan classes. The consumer loan segment includes residential mortgage, installment and other consumer loans.

Loans collectively evaluated includes loans on accrual status, except for loans previously restructured that do not share similar risk characteristics which are individually evaluated. The ACL for loans collectively evaluated is measured using a lifetime expected loss rate model that considers historical loss performance and past events in addition to forecasts of future economic conditions. The Company elected to use the DCF methodology for the quantitative analysis for the majority of its loan segments, which applies the probability of default to future cash flows, using a loss driver model and loss given default factors, and then adjusts to the net present value to derive the required reserve. The probability of default estimates are derived through the application of reasonable and supportable economic forecasts to the regression models, which incorporates the Company's and peer loss-rate data, unemployment rate and GDP. The reasonable and supportable forecasts of the selected economic metrics are then input into the regression model to calculate an expected default rate. The expected default rates are then applied to expected loan balances estimated through the consideration of contractual repayment terms and expected prepayments. The prepayment and curtailment assumptions adjust the contractual terms of the loan to arrive at the expected cash flows. The development and validation of credit models also included determining the length of the reasonable and supportable forecast and regression period and utilizing national peer group historical loss rates.

Management selected the national unemployment rate and GDP as the drivers of the quantitative portion of collectively evaluated reserves on loan classes reliant upon the DCF methodology, primarily as a result of high correlation coefficients identified in regression modeling. For the consumer loan segment, the quantitative reserve was calculated using the remaining life methodology where the average historical bank-specific and peer loss rates are applied to expected loan balances over an estimated remaining life of loans. The estimated remaining life is calculated using historical bank-specific loan attrition data.

Loans that do not share similar risk characteristics are evaluated on an individual basis, and are excluded from the collective evaluation for the ACL. Loans identified to be individually evaluated under CECL include loans on nonaccrual status and may include accruing loans that do not share similar risk characteristics to other accruing loans collectively evaluated. A specific reserve analysis is applied to the individually evaluated loans, which considers collateral value, an observable market price or the present value of expected future cash flows. A specific reserve may be assigned if the measured value of the loan using one of the before mentioned methods is less than the current carrying value of the loans.

A loan is considered collateral-dependent when the Company determines that all foreclosure is probable or the borrower is experiencing financial difficulty and the Company expects repayment to be provided substantially through the operation or sale of the collateral. Collateral could be in the form of real estate, equipment or business assets. An ACL may result for a portion collateral-dependent loan if the fair value of the underlying collateral, as of the reporting date, adjusted for expected costs to repair or sell, was less than the amortized cost basis of the loan. If repayment of the loan is uncollectible. Recoveries instead dependent only on previously charged-off loans are credited to the ALL when received. The ALL is allocated to loan portfolio classes on a quarterly basis, but operation, rather than the entire balance is available to cover losses from any sale of the portfolio classes when those losses are confirmed.

Management uses internal policies and bank regulatory guidance in periodically evaluating loans for collectability and incorporates historical experience, collateral, the nature and volume measure of the loan portfolio, adverse situations that may affect ACL does not incorporate estimated costs to sell. For loans analyzed on the borrower's ability to repay, estimated value basis of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

See Note 3, Loans and Allowance for Loan Losses, for additional information.

Acquired Loans - Loans acquired in connection with business combinations are recorded at fair value with no carryover of any allowance for loan losses. Fair value of the loans involves estimating the amount and timing of projected future principal and interest cash flows, expected to be collected on the loans and discounting those Company will discount the expected cash flows at a market the effective interest rate of interest.

The excess the loan, and an ACL would result if the present value of expected cash flows expected at acquisition over was less than the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life amortized cost basis of the loan. The difference between contractually required payments at acquisition

Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond the quantitatively calculated reserve on collectively evaluated loans. As the quantitative reserve calculation incorporates historical conditions, management may consider an additional or reduced reserve is warranted through qualitative risk factors based on current and expected conditions. These qualitative risk factors considered by management are comparable to legacy factors prior to the cash flows expected adoption of CECL and include significant or unexpected changes in:

- Lending policies, procedures, underwriting standards and recovery practices;
- Nature and volume of loans;
- Concentrations of credit;
- Collateral valuation trends;
- Delinquency and classified loan trends;
- Experience, ability and depth of management and lending staff;
- Quality of loan review system; and
- Economic conditions and other external factors.

For PCD loans, the nonaccrual status is determined in the same manner as for other loans. Prior to be collected at acquisition is referred to the adoption of CECL, these PCD loans were classified as the nonaccretable discount. These PCI loans are and accounted for under ASC Subtopic 310-30,*Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). The nonaccretable discount includes estimated future credit losses expected to be incurred over In accordance with the life CECL standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the loan. Subsequent decreases in expected cash flows will require us to evaluate the need for an addition to the allowance for loan losses. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable discount, which we will then reclassify as accretable discount to be recognized into interest income over the remaining life of the loan.

Loans acquired through business combinations that do meet the specific criteria of ASC 310-30 are individually evaluated each period to analyze expected cash flows. To the extent that the expected cash flows of a loan have decreased due to credit deterioration, adoption date. As permitted by CECL, the Company establishes an allowance.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30 are accounted elected to account for its PCD loans under ASC 310-20, *Receivables - Nonrefundable Fees and Other Costs. Assets* ("ASC 310-20"). These loans are initially recorded at fair value, and

Table of Contents

include credit and interest rate marks associated with acquisition accounting adjustments. Purchase premiums or discounts are subsequently amortized as an adjustment to yield over the estimated contractual lives of the loans. There is Under ASC 310-20, the acquired loans are analyzed on an individual asset level, and no allowance longer maintained in pools and accounted for as units of accounts, which would permit treating each pool as a single asset. The impact of this election resulted in loans reported as nonaccrual and individually evaluated for credit expected losses under the CECL methodology.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"). ASU 2022-02 eliminated the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty, if the modification results in a more-than-insignificant direct change in the contractual cash flows and whether the modifications represent terms that would result in a new loan or a continuation of an existing loan. The Company refers to these loans as "financial difficulty modifications" or "FDMs." This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. If a modification occurs

while the loan is on accrual status, it will continue to accrue interest under the modified terms. After the initial modification and recognition of a FDM, the Company will monitor the performance of the borrower. If no subsequent qualifying modifications are made to the FDM, the loan does not require disclosure in the current period's disclosures after the one-year period has elapsed. Upon adoption of CECL, the TDRs were evaluated and included in the CECL loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with loans individually evaluated for which the ACL was measured using the collateral-dependent or DCF method. In addition, ASU 2022-02 provides enhanced disclosure requirements for certain loan refinancing and restructurings and disclosure of current period gross charge-offs for financing receivables by year of origination in the vintage disclosures. On January 1, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis, which did not have a material impact on the consolidated financial statements.

A comprehensive analysis of the ACL is performed by the Company on a quarterly basis. Management evaluates the adequacy of the ACL utilizing a defined methodology to determine if it properly addresses the current and expected risks in the loan portfolio, which considers the performance of borrowers and specific evaluation of individually evaluated loans including historical loss experiences, trends in delinquencies, nonperforming loans and other risk assets, and the qualitative factors. Risk factors are continuously reviewed and adjusted, as needed, by management when conditions support a change. Management believes its approach properly addresses relevant accounting and bank regulatory guidance for loans both collectively and individually evaluated. The results of the comprehensive analysis, including recommended changes, are governed by the Company's Reserve Adequacy Committee, whose members were also a part of the Company's CECL Committee.

Acquired Loans - Loans that are purchased are accounted for similar to originated loans, whereby an ACL is recognized with a corresponding increase to the provision for credit losses established in the consolidated statements of income. PCD loans are recorded at their purchase price plus the ACL expected at the time of acquisition date for acquired performing loans. An allowance for loan losses is recorded for any credit deterioration resulting in these loans subsequent to acquisition.

Acquired loans that meet a gross up of the criteria for impairment or nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the client is contractually delinquent if the Company expects to fully collect the new carrying value (i.e., fair value) amortized cost of the loans. As such, Subsequent changes in the Company may no longer consider ACL from the loan to be nonperforming and may accrue interest on these loans, including initial ACL estimate are recorded as provision for credit losses in the impact consolidated statements of any accretable discount. In addition, charge-offs on such loans would be first applied to the nonaccretable difference portion of the fair value adjustment. income.

Loan Commitments and Related Financial Instruments – Financial instruments include off-balance sheet credit commitments issued to meet client financing needs, such as commitments to make loans and commercial letters of credit. These financial instruments are recorded when they are funded. The face amount represents the exposure to loss, before considering client collateral or ability to repay. The Company maintains a reserve for probable estimates expected credit losses over the contractual period in which the Company is exposed to credit risk from the contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures includes consideration of the utilization rates expected on the loan commitments, which and estimates the expected credit losses for the undrawn commitments by the loan segments. The ACL on off-balance sheet credit exposures is included recorded in other liabilities on the consolidated balance sheets. sheets and is adjusted through the provision for credit losses in the consolidated statements of income.

Loans Serviced – The Bank administers secondary market mortgage programs available through the FHLB and the Federal National Mortgage Association ("FNMA") and offers residential mortgage products and services to clients. The Bank originates single-family residential mortgage loans for sale in the secondary market and retains the servicing of those loans. At December 31, 2022 December 31, 2023 and 2021, 2022, the balance of loans serviced for others totaled $495.0 million $466.7 million and $502.5 million $495.0 million, respectively.

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

Cash Surrender Value of Life Insurance – The Company has purchased life insurance policies on certain employees. Life insurance is recorded at the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Derivatives - FASB ASC 815, *Derivatives and Hedging* ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate swaps or interest rate caps as part of its interest rate risk management strategy.

Interest rate swaps designated as cash flow hedges involve the receipt of fixed or variable amounts from a counterparty in exchange for the Company making variable-rate or fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Changes to the fair value of derivatives designated and that qualify as cash flow hedges are recorded in AOCI and are subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The Company discontinues cash flow hedge accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period due to circumstances, such as the impact of the COVID-19 pandemic. circumstances. Upon discontinuance, the associated gains and losses deferred in AOCI are reclassified immediately into earnings and subsequent changes in the fair value of the cash flow

Table of Contents

hedge are recognized in earnings. During

In March 2022, the Company entered into two FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815), Fair Value Hedging - Portfolio Layer Method*. This update clarified the guidance in Topic 815 on fair value hedge accounting of interest rate swaps risk for financial asset portfolios by allowing entities to apply the "portfolio layer" method to portfolios of all financial assets, including both prepayable an nonprepayable financial assets. The model allows entities to designate multiple layers in a single portfolio as individual hedged items and also allows entities the flexibility to use any type of derivative (or combination of derivatives) by applying the multiple-layer model that aligns with its risk management strategy. At any time after the initial hedge designation, no assets may be added to a closed portfolio once it is designated in a portfolio layer method hedge; however, new hedging relationships associated with the portfolio may be designated and existing hedging relationships associated with the portfolio may be dedesignated to align with an entity's evolving strategy for managing interest rate risk on a timely basis. Under the portfolio layer method, the basis of the portfolio assets is generally adjusted at the portfolio level rather than being allocated to individual assets within the portfolio, except when the allocation of basis adjustments is required by other areas of GAAP.

Derivatives designated and qualifying as hedging instruments with a total notional hedge of the exposure to changes in the fair value of $100.0 million for the purpose of hedging the variable cash flows of selected AFS securities an asset, liability, or loans. The Company had no firm commitment attributable to a particular risk, such as interest rate swaps designated risk, are considered fair value hedges. The gain or loss on the fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as the fair value changes. When a hedging instrument at December 31, 2021. fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps and interest rate caps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps and interest rate caps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings. At December 31, 2022 and 2021, the Company had interest rate swaps and interest rate caps not designated as hedges with total notional value of $268.8 million and $75.8 million, respectively.

The Company also may enter into risk participation agreements with a financial institution counterparty for an interest rate derivative contract related to a loan in which the Company may be a participant or the agent bank. The risk participation agreement provides credit protection to the agent bank should the borrower fail to perform on its interest rate derivative contracts with the agent bank. The Company manages its credit risk on risk participation agreements by monitoring the creditworthiness of the borrower, which follows is based on the same credit review process as derivative instruments though the Company had entered into the derivative directly with the borrower. The notional amount of a risk participation agreement reflects the Company's pro-rata share of the derivative instrument, consistent with its share of the related participated loan. Changes in the fair value of the risk participation agreement are recognized directly into earnings. At December 31, 2022 and 2021, the Company had a risk participation with sold protection with a notional value of $29.0 million and $15.9 million, respectively, and a risk participation with purchased protection with a notional value of $4.9 million and zero at December 31, 2022 and 2021, respectively.

As a part of its normal residential mortgage operations, the Company will enter into an interest rate lock commitment with a potential borrower. The Company may enter into a corresponding commitment with an investor to sell that loan at a specific price shortly after origination. In accordance with FASB ASC 820, adjustments are recorded through earnings to account for the net change in fair value of these held for sale loans. The fair value of held for sale loans can vary based on the interest rate locked with the customer and the current market interest rate at the balance sheet date. At December 31, 2022 and 2021, the Company had interest rate lock commitments with a notional value of $1.4 million and $16.6 million, respectively, and forward sale loan commitments with a notional value of $3.5 million and $8.7 million, respectively.

Premises and Equipment – Buildings, improvements, equipment, and furniture and fixtures are carried at cost less accumulated depreciation and amortization. Land is carried at cost. Depreciation and amortization has been recognized generally on the straight-line method and is computed over the estimated useful lives of the various assets as follows: buildings and improvements, including leasehold improvements – 10 to 40 years; and furniture and equipment – 3 to 15 years. Leasehold improvements are amortized over the shorter of the lease term or the indicated life. Repairs and maintenance are charged to operations as incurred, while additions and improvements are typically capitalized. Gains or losses on the retirement or disposal of individual assets is recorded as income or expense in the period of retirement or disposal. Premises no longer in use and held for sale are included in other assets on the consolidated balance sheets at the lower of carrying value or fair value and no depreciation is charged on them. At December 31, 2022 December 31, 2023 and 2021, 2022, premises held for sale held-for-sale totaled $2.0 million zero and $321 thousand, $2.0 million, respectively.

Leases - The Company evaluates its contracts at inception to determine if an arrangement either is a lease or contains one. Operating lease ROU assets are included in other assets and operating lease liabilities in accrued interest payable and other liabilities in the consolidated balance sheets. The Company had no finance leases at December 31, 2022 December 31, 2023.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent an obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company's leases do not provide an implicit rate, so the Company's incremental borrowing rate is used, which approximates its fully collateralized borrowing rate, based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is reevaluated upon lease modification. The operating lease ROU asset also includes any initial direct costs and prepaid lease payments made less any lease incentives. In calculating the present value of lease payments, the Company may include options to extend the lease when it is reasonably certain that it will exercise that option.

In accordance with ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), the Company keeps leases with an initial term of 12 months or less off of the balance sheet. The Company recognizes these lease payments in the consolidated statements of income on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components and has elected the practical expedient to account for them as a single lease component.

Table of Contents

The Company's operating leases relate primarily to bank branches and office space. The difference between the lease assets and lease liabilities primarily consists of deferred rent liabilities to reduce the measurement of the lease assets.

Goodwill and Other Intangible Assets – Goodwill is calculated as the purchase premium, if any, after adjusting for the fair value of net assets acquired in purchase transactions. Goodwill is not amortized, but is reviewed for potential impairment on at least an annual basis, with testing between annual tests if an event occurs or circumstances change that could potentially reduce the fair value of a reporting unit. Other intangible assets represent purchased assets that can be distinguished from goodwill because of contractual or other legal rights. The Company's other intangible assets have finite lives and are amortized on either an accelerated amortization method or straight-line basis over their estimated lives, generally 10 years for deposit premiums and 10 7 to 15 years for other client relationship intangibles.

Mortgage Servicing Rights – The estimated fair value of MSRs related to loans sold and serviced by the Company is recorded as an asset upon the sale of such loans. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are evaluated periodically for impairment by comparing the carrying amount to estimated fair value. Fair value is determined periodically through a discounted cash flow DCF valuation performed by a third party. Significant inputs to the valuation include expected servicing income, net of expense, the discount rate and the expected life of the underlying loans. To the extent the amortized cost of the MSRs exceeds their estimated fair values, a valuation allowance is established for such impairment through a charge against servicing income on the consolidated statements of income. If the Company determines, based on subsequent valuations, that the impairment no longer exists or is reduced, the valuation allowance is reduced through a credit to earnings. MSRs, net of the valuation allowance, totaled $3.7 million and $4.0 million at both December 31, 2022 December 31, 2023 and December 31, 2021, 2022, respectively, and are included in other assets on the consolidated balance sheets.

Foreclosed Real Estate – Real estate acquired through foreclosure or other means is initially recorded at the fair value of the related real estate collateral at the transfer date less estimated selling costs, and subsequently at the lower of its carrying value or fair value less estimated costs to sell. Fair value is determined based on an independent third party appraisal of the property or, when appropriate, a recent sales offer. Costs to maintain such real estate are expensed as incurred. Costs that significantly improve the value of the properties are capitalized. The Company had no real estate acquired through foreclosure or other means at December 31, 2022 December 31, 2023 and 2021. 2022.

Investments in Real Estate Partnerships – The Company has a 99% limited partnership interest in several real estate partnerships in central Pennsylvania. These investments are affordable housing projects, which entitle the Company to tax deductions and credits that expire through 2025. The Company accounts for its investments in affordable housing projects under the proportional amortization method when the criteria are met, which is limited to one investment at December 31, 2022. There are five other investments accounted for under the equity method of accounting. met. The investment in these real estate partnerships, included in other assets on the consolidated balance sheets, totaled $2.6 million and $2.1 million at December 31, 2023 and $2.6 million at December 31, 2022 and 2021, respectively, of which $707 thousand and $921 thousand are accounted for under the proportional amortization method. 2022, respectively.

Equity method losses totaled $322 thousand, $274 thousand $272 thousand and $299 $272 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively, and are included in other noninterest income on the consolidated statements of income. Proportional amortization method losses totaled $214 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, and are included in income tax expense on the consolidated statements of income. During 2023, 2022 2021 and 2020, 2021, the Company recognized federal tax credits from these projects totaling $260 thousand, $315 $260 thousand and $460 $315 thousand, respectively, which are included in income tax expense on the consolidated statements of income.

Advertising – The Company expenses advertising as incurred. Advertising expense totaled $482 $502 thousand, $677 $482 thousand and $392 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

Repurchase Agreements – The Company may enter into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities which are included in short-term borrowings on the consolidated balance sheets. Under these agreements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Company's consolidated balance sheets, while the securities underlying the repurchase agreements remaining are reflected in AFS securities. The repurchase obligation and underlying securities are not offset or netted as the Company does not enter into reverse repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fail to make an interest payment to the counterparty). For the repurchase agreements, the collateral is held by the Company in a segregated custodial account under a third party agreement. Repurchase agreements are secured by U.S. government or government-sponsored debt securities and mature overnight.

Table of Contents

Stock Compensation Plans – The Company has stock compensation plans that cover employees and non-employee directors. Compensation expense relating to share-based payment transactions is measured based on the grant date fair value of the share award, including a Black-Scholes model for stock options. Compensation expense for all stock awards is calculated and recognized over the employees' or non-employee directors' service period, generally defined as the vesting period. There were no outstanding and exercisable stock options at December 31, 2022 December 31, 2023 and 2021. 2022.

Income Taxes – Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of enacted tax law to taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense.

The Company may earn federal tax credits from its investments in real estate and solar energy tax equity partnerships. The Company accounts for its investments in affordable housing projects under the proportional amortization method when the criteria are met and under the deferral method of accounting for its solar energy tax equity investments.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Treasury Stock – Common stock shares repurchased are recorded as treasury stock, at cost on the consolidated balance sheets, on a settlement date basis.

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. Restricted stock awards are included in weighted average common shares outstanding as they are earned. Diluted earnings per share includes additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding stock options and restricted stock awards and are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations. There were no outstanding and exercisable stock options at December 31, 2022 December 31, 2023 and 2021. 2022.

Comprehensive Income – Comprehensive income consists of net income and OCI. Unrealized gains (losses) on AFS securities and interest rate swaps used in cash flow hedges, net of tax, were the components of AOCI at December 31, 2022 December 31, 2023 and 2021. The Company had no interest rate swaps designated as a hedging instrument at December 31, 2021. 2022.

Fair Value – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in the Note 19 20 to the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Segment Reporting – The Company operates in one segment – Community Banking. The Company's non-community banking activities are insignificant to the consolidated financial statements.

Recent Recently Adopted Accounting Pronouncements - ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The amendments in this update require an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today are still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the amendments in this update amend the accounting for credit losses on AFS debt securities and purchased financial assets

Table of Contents

with credit deterioration. For certain public companies, this update was effective for interim and annual periods beginning after December 15, 2019. The implementation deadline of ASU 2016-13 was extended for smaller reporting and other companies until the fiscal year and interim periods beginning after December 15, 2022. The Company will implement ASU 2016-13 effective January 1, 2023.

ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* ("ASU 2019-10"), extended the implementation deadline of ASU 2016-13 for smaller reporting and other companies until the fiscal year and interim periods beginning after December 15, 2022. The Company meets the requirements to be considered a smaller reporting company under SEC Regulation S-K and SEC Rule 405, and will adopt ASU 2016-13 effective January 1, 2023.

To implement the new standard, the Company established a cross-discipline governance structure, which included a dedicated working group and a CECL Committee consisting of members from different functions including Finance, Credit, Risk and Lending, who will provide implementation oversight and review policy elections, key assumptions, processes, and model results. The working group is responsible for the implementation process that includes developing the loan segmentation, data sourcing and validation, loss driver inputs, qualitative factors, parallel model runs, scenario testing and back testing.

The Company is utilizing a third-party vendor to assist in the implementation process of its new model to calculate credit losses over the estimated life of the applicable financial assets. The Company elected to use the discounted cash flow ("DCF") methodology for the quantitative analysis for the majority of its loan segments, which applies the probability of default and loss given default factors to future cash flows, and then adjusts to the net present value to derive the required reserve. Reasonable and supportable macroeconomic conditions include unemployment and gross domestic product. Model assumptions include the discount rate, prepayments and curtailments. The development and validation of credit models also included determining the length of the reasonable and supportable forecast and regression period and utilizing national peer group's historical loss rates. In addition, the remaining life methodology was selected for the consumer loan segments as practical expediency and based on the risk characteristics.

The Company has completed parallel model runs, and continues to test and refine the credit loss models in parallel with the existing incurred loss approach. In addition, the Company is in the process of finalizing the review of the most recent model run and certain assumptions, completing policies, procedures and control enhancements, and concluding model validation by another third-party vendor. The status of the Company's implementation has been periodically presented to the Enterprise Risk Committee and Audit Committee. The Company expects to recognize a one-time cumulative-effect adjustment to the allowance for credit losses as of the January 1, 2023 date of adoption of the new standard, which is estimated to be between $2.0 million and $4.0 million. The Company will be electing the three-year phase in option of the day-one impact of this standard to regulatory capital. Standards

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 contains contained optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The optional expedients apply consistently to all contracts or transactions within the scope of this topic, while the optional expedients for hedging relationships can be elected on an individual basis. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. This update defers the sunset date for applying the reference rate relief by two years to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. In 2021, the administrator of LIBOR delayed the intended cessation date of certain tenors of LIBOR to June 30, 2023. After June 30, 2023, the publication of the one-month, three-month and twelve-month tenors of LIBOR ceased.

The Company has formed had a cross-functional working group to lead who led the transition from LIBOR to a planned the adoption of an alternate index. This group identified the loans and financial instruments indexed to LIBOR, verified proper transition language existed in the contracts and executed contractual updates, as needed, with the impacted borrowers. The Company currently plans to replace replaced LIBOR, in most cases with the 30-Day Average SOFR or Term SOFR, in its loan agreements. agreements and will utilize Fallback Rate SOFR where prescribed. The Company implemented fallback language implementation of Topic 848 did not have a significant impact on the Company's financial statements.

Recent Accounting Pronouncements

In March 2023, the FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting* for *loans Investments in Tax Credit Structures Using the Proportional Amortization Method*. Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in low-income housing tax credit ("LIHTC") structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with maturities the amortization of the investment and the income tax credits being presented net in the consolidated statements of income as a component of income tax expense (benefit). The amendments will allow entities to elect to account for all other equity investments made primarily for the purpose of receiving income tax credits to using the proportional amortization method, regardless of the tax credit program through which the investment earns income tax credits, when certain conditions are met. The amendments are effective for fiscal years beginning after 2021. December 15, 2023, and may be adopted either on a modified retrospective basis or retrospectively. The Company expects to adopt the LIBOR transition relief allowed under this standard, and is currently evaluating the potential impact of this guidance on its equity investments; however, the Company does not anticipate that the amendment will significantly impact its financial statements. condition and results of operations.

In March 2022, November 2023, the FASB issued *ASU No. 2022-02, Financial Instruments – Credit Losses 2023-07, Segment Reporting* (*Topic* 326) 280): *Troubled Debt Restructurings Improvements to Reportable Segment Disclosures*. The updated guidance requires enhanced disclosures for significant expenses by reportable operating segments. The significant expense categories would be those regularly provided to the Company's chief operating decision-

maker ("CODM") and Vintage Disclosures ("ASU 2022-02"). ASU 2022-02 eliminates included in an operating segment's measures of profit or loss. Other required disclosures include the troubled debt restructuring accounting model, composition of other segment items, the title and requires that position of the Company evaluate, based CODM and an explanation on how the accounting CODM evaluates and uses the reportable segment's performance. This guidance for loan modifications, whether the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change will require all loan modifications to be accounted for under the general loan modification guidance in Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. For entities that have adopted Topic 326, ASU 2022-02 segment reporting is effective for periods fiscal years beginning after December 15, 2022. For entities adopting Topic 326 in December 15, 2023 and interim periods with fiscal years beginning after December 15, 2022 December 15, 2024, *ASU 2022*-02 is effective when the company adopts Topic 326. with early adoption permitted. The Company will implement ASU 2022-02 effective January 1, 2023 adopt the new standard for annual reporting period beginning January 1, 2024 and for interim periods beginning January 1, 2025. The adoption of Company is not currently required to report segment information and, as such, does not anticipate that the updated guidance will have a significant impact to its consolidated financial statements.

In December 2023, the Financial Accounting Standards Board issued ASU No. 2022-02 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which will require updates to the disclosures of the income tax rate reconciliation and income taxes paid. The income tax rate reconciliation will require expanded disclosure, using percentages and reporting currency amounts, to include specific categories, including state and local income tax, net of the federal income tax effect, tax credits and nontaxable and nondeductible items, with additional qualitative explanations of individually significant reconciling items. The amount of income taxes paid will require disaggregation by jurisdictional categories: federal, state and foreign. This guidance for income tax disclosures is effective for fiscal years beginning after December 15, 2024. The Company is currently evaluating the updated guidance; however, does not expected expect it to have a significant impact on the Company's to its consolidated financial statements.

Table of Contents

NOTE 2. PENDING MERGER

On December 12, 2023, the Company entered into an Agreement and Plan of Merger with Codorus Valley Bancorp, Inc., a Pennsylvania corporation ("Codorus Valley" or "CVLY"), pursuant to which Codorus Valley will be merged with and into Orrstown, with Orrstown as the surviving corporation (the "Merger"). Promptly following the Merger, Codorus Valley's wholly-owned bank subsidiary, PeoplesBank, A Codorus Valley Company, a Pennsylvania chartered bank, will be merged with and into Orrstown Bank, a Pennsylvania chartered bank, which is the wholly-owned subsidiary of Orrstown, with Orrstown Bank as the surviving bank.

The consideration payable to Codorus Valley shareholders upon completion of the Merger will consist of whole shares of Orrstown common stock, no par value per share ("Orrstown Common Stock"), and cash in lieu of fractional shares of Orrstown Common Stock. Upon consummation of Merger, each share of Codorus Valley common stock, $2.50 par value per share, excluding shares held in treasury by Codorus Valley, issued and outstanding immediately prior to the effective time of the Merger will be canceled and converted into the right to receive 0.875 shares of Orrstown Common Stock.

As of December 31, 2023, CVLY had total assets of $2.2 billion, total loans of $1.7 billion, total deposits of $1.9 billion and operated 22 full-service branches and eight limited purpose branches in Pennsylvania and Maryland, in addition to 9,644,000 common shares outstanding. The transaction is subject to regulatory approvals and satisfaction of customary closing conditions, including approval from Orrstown and CVLY shareholders. The transaction is expected to close in the third quarter of 2024.

NOTE 3. INVESTMENT SECURITIES

At December 31, 2022 December 31, 2023 and 2021, 2022, all investment securities were classified as AFS. The following table summarizes amortized cost and fair value of AFS securities, and the corresponding amounts of gross unrealized gains and losses recognized in AOCI at December 31, 2022 December 31, 2023 and 2021. 2022.

		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022					
Amortized Cost		**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Allowance for Credit Losses** / **Fair Value**
December 31, 2023					
U.S. Treasury securities					
U.S. Treasury securities					
U.S. Treasury securities	U.S. Treasury securities	**$ 20,070**	**$ —**	**$ 2,779**	**$ 17,291**
U.S. government agencies	U.S. government agencies	**4,907**	**228**	**—**	**5,135**
States and political subdivisions	States and political subdivisions	**225,825**	**19**	**28,430**	**197,414**
States and political subdivisions					
States and political subdivisions					
GSE residential MBSs	GSE residential MBSs	**63,778**	**—**	**4,376**	**59,402**
GSE commercial MBSs					
GSE residential CMOs	GSE residential CMOs	**75,446**	**—**	**7,068**	**68,378**

Non-agency CMOs					
Non-agency CMOs					
Non-agency CMOs	Non-agency CMOs	**42,298**	**243**	**2,783**	**39,758**
Asset-backed					
Asset-backed					
Asset-backed	Asset-backed	**130,577**	**—**	**4,604**	**125,973**
Other	Other	**377**	**—**	**—**	**377**
Totals	Totals	**$563,278**	**$ 490**	**$50,040**	**$513,728**
December 31, 2021					
December 31, 2022					
U.S. Treasury securities	U.S. Treasury securities	$ 20,084	$ —	$ 382	$ 19,702
U.S. Treasury securities					
U.S. Treasury securities					
U.S. government agencies					
States and political subdivisions					
States and political subdivisions					
States and political subdivisions	States and political subdivisions	185,437	8,606	673	193,370
GSE residential MBSs	GSE residential MBSs	41,260	44	578	40,726
GSE residential CMOs	GSE residential CMOs	66,430	436	944	65,922
GSE residential CMOs					
GSE residential CMOs					
Non-agency CMOs					
Non-agency CMOs					
Non-agency CMOs	Non-agency CMOs	30,676	—	978	29,698
Asset-backed					
Asset-backed					
Asset-backed	Asset-backed	122,520	401	300	122,621
Other	Other	399	—	—	399
Totals	Totals	$466,806	$ 9,487	$ 3,855	$472,438

The following table summarizes investment securities with unrealized losses at December 31, 2022 December 31, 2023 and 2021, 2022, aggregated by major security type and length of time in a continuous unrealized loss position.

	Less Than 12 Months			12 Months or More			
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities

December 31, 2022													
	# of Securities												
December 31, 2023													
U.S. Treasury securities													
U.S. Treasury securities													
U.S. Treasury securities	U.S. Treasury securities	**—**	**$**	**—**	**$**	**—**	**3**	**$**	**17,291**	**$**	**2,779**	**3**	**$**
States and political subdivisions													
States and political subdivisions													
States and political subdivisions	States and political subdivisions	**29**		**135,579**		**13,809**	**17**		**60,102**		**14,621**	**46**	
GSE residential MBSs	GSE residential MBSs	**5**		**26,100**		**925**	**10**		**33,302**		**3,451**	**15**	
GSE residential CMOs	GSE residential CMOs	**8**		**28,732**		**1,884**	**9**		**39,646**		**5,184**	**17**	
Non-agency CMOs	Non-agency CMOs	**4**		**26,555**		**1,135**	**2**		**8,639**		**1,648**	**6**	
Asset-backed	Asset-backed	**17**		**78,873**		**2,432**	**5**		**47,100**		**2,172**	**22**	
Asset-backed													
Asset-backed													
Totals	Totals	**63**	**$**	**295,839**	**$**	**20,185**	**46**	**$**	**206,080**	**$**	**29,855**	**109**	**$**
December 31, 2021													
December 31, 2022													
U.S. Treasury securities													
U.S. Treasury securities													
U.S. Treasury securities	U.S. Treasury securities	3	$	19,702	$	382	—	$	—	$	—	3	$
States and political subdivisions													
States and political subdivisions													
States and political subdivisions	States and political subdivisions	12		45,522		673	—		—		—	12	
GSE residential MBSs	GSE residential MBSs	9		37,899		578	—		—		—	9	
GSE residential CMOs	GSE residential CMOs	7		41,163		944	—		—		—	7	
Non-agency CMOs	Non-agency CMOs	3		24,661		978	—		—		—	3	

Asset-backed	Asset-backed	3		21,245		138	3		34,180		162	6	
Asset-backed													
Asset-backed													
Totals	Totals	37	$	190,192	$	3,693	3	$	34,180	$	162	40	$

Table of Contents

The Company determines is required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses are temporary on AFS securities to determine if a security's decline in nature in accordance with FASB ASC 320-10, *Investments - Overall*, ("FASB ASC 320-10") and FASB ASC 325-40, *Investments – Beneficial Interests in Securitized Financial Assets*, when applicable. fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of an OTTI condition. a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. Under the CECL standard, if the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, which is limited by the amount that the fair value is less than the amortized cost basis. Any additional amount of loss would be due to non-credit factors and is recorded in AOCI, net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the consolidated statements of financial condition. Prior to implementation of the CECL standard, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the OTTI approach.

FASB ASC 320-10 requires The Company did not record an ACL on the AFS securities at December 31, 2023 or upon implementation of CECL on January 1, 2023. As of both periods, the Company considers the unrealized losses on the AFS securities to assess if an OTTI exists by considering whether be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company maintains that it has the intent and ability to sell hold these AFS securities until the security or amortized cost is recovered and it is more likely than not that it will any of the AFS securities in an unrealized loss position would not be required to sell the security before recovery. If either of these situations applies, the guidance requires the Company to record an OTTI charge to earnings on debt securities for the difference between the amortized cost basis of the security be sold. At December 31, 2023 and the fair value of the security. If neither of these situations applies, the Company is required to assess whether it is expected to recover the entire amortized cost basis of the security. If the Company is not expected to recover the entire amortized cost basis of the security, the guidance requires the Company to bifurcate the identified OTTI into a credit loss component and a component representing loss related to other factors. A discount rate is applied which equals the effective yield of the security. The difference between the present value of the expected flows and the amortized book value is considered a credit loss, which would be recorded through earnings as an OTTI charge. When a market price is not readily available, the market value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from the open market and other sources as appropriate for the security. The difference between the market value and the present value of cash flows expected to be collected is recognized in accumulated other comprehensive loss on the consolidated statements of financial condition.

At December 31, 2022, 2021 and 2020, the Company had no cumulative OTTI. During 2022, unrealized losses were substantially higher than prior periods due to market uncertainty resulting from inflation and rising higher interest rates. rates and wider spreads from the time of the security purchase. At December 31, 2022, and 2021, the Company had no cumulative OTTI.

U.S. Treasury Securities. The unrealized losses presented in the table above have been caused by an increase in rates from the time these securities were purchased. Management considers the full faith and credit of the U.S. government in determining whether a security is OTTI. Because the Company does not intend declines in fair value are due to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be maturity, the Company does not consider these securities to be OTTI at December 31, 2022 and 2021. credit factors.

States and Political Subdivisions. The unrealized losses presented in the table above have been caused by a widening of spreads and/or a rise in interest rates from the time these securities were purchased. Management considers evaluates the financial performance of the issuers, including the investment rating, the state of the issuer of the security and other credit support in determining whether the security is OTTI. As of December 31, 2022 and 2021, management concluded that an OTTI did not exist on any of the aforementioned securities based upon its assessment. Management also concluded that it does not intend declines in fair value are due to sell nor will it be required to sell the securities, before their recovery, which may be maturity, and management expects to recover the entire amortized cost basis of these securities. credit factors.

GSE Residential CMOs and GSE Residential MBS. The unrealized losses presented in the table above have been caused by a widening of spreads and/or and a rise in interest rates from the time these securities were purchased. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than its par value basis. As of December 31, 2022 and 2021, management concluded that an OTTI did not exist on any of the aforementioned securities based upon its assessment. Management also concluded that it does not intend to sell nor will it be required to sell the securities, before their recovery, which may be maturity, and management expects to recover the entire amortized cost basis of these securities.

Non-agency CMOs. The unrealized losses presented in the table above were caused by a widening of spreads and a rise in interest rates from the time the securities were purchased. Because Management considers the Company does not intend investment rating and other credit support in its evaluation, including delinquencies and credit enhancements, in determining whether declines in fair value are due to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be maturity, the Company does not consider these securities to be OTTI at December 31, 2022 and 2021. For the year ended December 31, 2022, the Company recognized a loss of $171 thousand on the call of a non-agency CMO security at a price below its par value of $14.7 million, The realized loss was included in securities gains and losses in noninterest income in the consolidated statements of income. credit factors.

Asset-backed. The unrealized losses presented in the table above have been were caused by a widening of spreads and a rise in the interest rates from the time the securities were purchased. Management considers the investment rating and other credit support, in its evaluation, including delinquencies and credit enhancements, in determining whether a security is other-than-temporarily impaired. Because the declines in fair value are due to credit factors.

The Company does not intend to sell these the aforementioned investment securities with unrealized losses and it is not more likely than not that the Company will not be required to sell them before recovery of their amortized cost basis, which may be maturity, maturity. In addition, the unrealized losses are not credit related. Therefore, the Company does not consider has concluded that the unrealized losses for these securities to be OTTI do not require an ACL at December 31, 2022 and 2021.

Table of Contents

December 31, 2023.

The following table summarizes amortized cost and fair value of investment securities by contractual maturity at December 31, 2022 December 31, 2023. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

		Amortized Cost	Fair Value		
	Amortized Cost			Amortized Cost	Fair Value
Due in one year or less	Due in one year or less	$ 249	$ 249		
Due after one year through five years	Due after one year through five years	6,403	6,043		
Due after five years through ten years	Due after five years through ten years	83,348	72,161		
Due after ten years	Due after ten years	161,179	141,764		
CMOs and MBSs	CMOs and MBSs	181,522	167,538		
Asset-backed	Asset-backed	130,577	125,973		
		$ 563,278	$ 513,728		
	$				

The following table summarizes proceeds from sales of investment securities and gross gains and gross losses for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2022	2021	2020			
	2023				2023	2022	2021
Proceeds from sale of investment securities	Proceeds from sale of investment securities	$ 31,330	$ 149,038	$ —			
Gross gains	Gross gains	35	1,847	—			
Gross losses	Gross losses	25	1,209	16			

During the year ended December 31, 2023, the Company recorded net investment security losses of $47 thousand, a net gain of $10 thousand for year ended December 31, 2022 and a net loss of $638 thousand for year ended December 31, 2021. During 2023, the Company sold three U.S. Treasury securities with a principal balance of $19.9 million for a nominal gain and six securities issued by state and political subdivisions with a principal balance of $2.2 million for a net loss of $44 thousand. During the year ended December 31, 2022, the Company recorded net investment security gains of $10 thousand compared to a net gain of $638 thousand for year ended December 31, 2021. A net loss of $16 thousand was recorded for year ended December 31, 2020 to adjust an equity security to market value. During 2022, the principal balance of $31.3 million of sold 19 securities were sold for proceeds of $31.3 million compared to 18 securities with a principal balance of $148.4 $31.3 million that were sold for proceeds a net gain of $149.0 million during 2021. $32 thousand. The Company recorded a loss of $171 thousand on the aforementioned a call of a non-agency CMO for the year ended December 31, 2022. Investment securities with a fair value of $439.7 million and $396.8 million at December 31, 2023 and $295.6 million at December 31, 2022 and 2021, 2022, respectively, were pledged to secure public funds and for other purposes as required or permitted by law.

NOTE 3. 4. LOANS AND ALLOWANCE FOR LOAN CREDIT LOSSES

Consistent with ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,* the The Company's loan portfolio is grouped into segments, which are further broken down into classes to allow management to monitor the performance by the borrower and to monitor the yield on the portfolio.

The risks associated with lending activities differ among the various loan classes and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions. All of these factors may adversely impact both the borrower's ability to repay its loans and associated collateral.

The Company has various types of commercial real estate loans, which have differing levels of credit risk. Owner occupied commercial real estate loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy.

Non-owner occupied and multi-family commercial real estate loans and non-owner occupied residential loans present a different credit risk to the Company than owner occupied commercial real estate loans, as the repayment of the loan is dependent upon the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which hinders the ability of the borrower to meet debt service requirements, and may result in lower collateral values. The Company generally recognizes that greater risk is inherent in these credit relationships as compared to owner occupied loans mentioned above.

Acquisition and development loans consist of 1-4 family residential construction and commercial and land development loans. The risk of loss on these loans is largely dependent on the Company's ability to assess the property's value at the completion of the project, which should exceed the property's construction costs. During the construction phase, a number of factors could potentially negatively impact the collateral value, including cost overruns, delays in completing the project, competition, and real estate market conditions which may change based on the supply of similar properties in the area. In the

[Table of Contents](#)

event the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, the Company must rely upon other repayment sources, if any, including the guarantors of the project or other collateral securing the loan.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted. The CARES Act established the SBA PPP. The SBA PPP is intended to provide economic relief to small businesses nationwide adversely impacted under the COVID-19 Emergency Declaration issued on March 13, 2020. The SBA PPP, which began on April 3, 2020, provided small businesses with funds to cover up to 24 weeks of payroll costs and other expenses, including benefits. It also provides for forgiveness of up to the full principal amount of qualifying loans. In total, the Bank closed and funded almost 6,500 loans for a total gross loan amount of $699.4 million through December 31, 2021.

Commercial and industrial loans include advances to local and regional businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit or term loans. Although commercial and industrial loans may be unsecured to our highest-rated borrowers, the majority of these loans are secured by the borrower's accounts receivable, inventory and machinery and equipment. In a significant number of these loans, the collateral also includes the business real estate or the business owner's personal real estate or assets. Commercial and industrial loans present credit exposure to the Company, as they are more susceptible to risk of loss during a downturn in the economy as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline. The Company attempts to mitigate this risk through its underwriting standards, including evaluating the creditworthiness of the borrower and, to the extent available, credit ratings on the business. Additionally, monitoring of the loans through annual renewals and meetings with the borrowers are typical. However, these procedures cannot eliminate the risk of loss associated with commercial and industrial lending. At December 31, 2022 December 31, 2023 and 2021, 2022, commercial and industrial loans include $13.8 million $5.7 million and $189.9 million $13.8 million, respectively, of loans, net of deferred fees and costs, originated through the SBA PPP. At December 31, 2022 December 31, 2023, the Bank has $262 $70 thousand of net deferred SBA PPP fees remaining to be recognized through net interest income. The timing income over the remaining life of the recognition of these fees is dependent upon the loan forgiveness process established by the SBA. loans. As these loans are 100% guaranteed by the SBA, there is no associated allowance for loan losses ACL at December 31, 2022 December 31, 2023 and 2021. 2022.

Municipal loans consist of extensions of credit to municipalities and school districts within the Company's market area. These loans generally present a lower risk than commercial and industrial loans, as they are generally secured by the municipality's full taxing authority, by revenue obligations, or by its ability to raise assessments on its clients for a specific utility.

The Company originates loans to its retail clients, including fixed-rate and adjustable first lien mortgage loans with the underlying 1-4 family owner occupied residential property securing the loan. The Company's risk exposure is minimized in these types of loans through the evaluation of the creditworthiness of the borrower, including credit scores and debt-to-income ratios, and underwriting standards which limit the loan-to-value ratio to generally no more than 80% upon loan origination, unless the borrower obtains private mortgage insurance.

Home equity loans, including term loans and lines of credit, present a slightly higher risk to the Company than 1-4 family first liens, as these loans can be first or second liens on 1-4 family owner occupied residential property, but can have loan-to-value ratios of no greater than 85% of the value of the real estate taken as collateral. The creditworthiness of the borrower is considered including credit scores and debt-to-income ratios.

Installment and other loans' credit risk are mitigated through prudent underwriting standards, including evaluation of the creditworthiness of the borrower through credit scores and debt-to-income ratios and, if secured, the collateral value of the assets. These loans can be unsecured or secured by assets the value of which may depreciate quickly or may fluctuate, and may present a greater risk to the Company than 1-4 family residential loans.

Table of Contents

The following table presents the loan portfolio by segment and class, excluding residential LHFS, at December 31, 2022 December 31, 2023 and 2021. 2022.

			2022		2021		
	2023					2023	2022
Commercial real estate:	Commercial real estate:						
Owner-occupied Owner-occupied							
Owner-occupied	Owner-occupied	**$**	**315,770**	$	238,668		
Non-owner occupied	Non-owner occupied		**608,043**		551,783		
Multi-family	Multi-family		**138,832**		93,255		
Non-owner occupied residential	Non-owner occupied residential		**104,604**		106,112		
Acquisition and development:	Acquisition and development:						
1-4 family residential construction	1-4 family residential construction		**25,068**		12,279		
1-4 family residential construction 1-4 family residential construction							
Commercial and land development	Commercial and land development		**158,308**		93,925		
Commercial and industrial (1)	Commercial and industrial (1)		**357,774**		485,728		
Municipal	Municipal		**12,173**		14,989		
Residential mortgage:	Residential mortgage:						
First lien	First lien		**229,849**		198,831		
First lien First lien							
Home equity – term	Home equity – term		**5,505**		6,081		
Home equity – lines of credit	Home equity – lines of credit		**183,241**		160,705		
Installment and other loans	Installment and other loans		**12,065**		17,630		
Total loans	Total loans	**$**	**2,151,232**	$	1,979,986		

(1) This balance includes $13.8 million $5.7 million and $189.9 million $13.8 million of SBA PPP loans, net of deferred fees and costs, at December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

In order to monitor ongoing risk associated with its loan portfolio and specific loans within the segments, management uses an internal grading system. The first several rating categories, representing the lowest risk to the Bank, are combined and given a “Pass” rating. Management generally follows regulatory definitions in assigning criticized ratings to loans, including "Special Mention," "Substandard," "Doubtful" or "Loss." The Special Mention category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not yet justify a more severe, or classified rating. Substandard loans are classified as they have a well-defined weakness, or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans include loans that management has determined not may determine to be impaired, either individually evaluated, referred to as well "Substandard - Individually Evaluated Loan," or collectively evaluated, referred to as loans considered to be impaired. "Substandard Non-Individually Evaluated Loan." A Doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as Loss is deferred. Loss loans are considered uncollectible, as the borrowers are often in bankruptcy, have suspended debt repayments, or have ceased business operations. Once a loan is classified as Loss, there is little prospect of collecting the loan's principal or interest and it is charged-off.

The Company has a loan review policy and program, which is designed to identify and monitor risk in the lending function. The Management ERM Committee, comprised of executive and officers, senior officers and loan department personnel, is charged with the oversight of overall credit quality and risk exposure of the Company's loan portfolio. This includes the monitoring of the lending activities of all Company personnel with respect to underwriting and processing new loans and the timely follow-up and corrective action for loans showing signs of deterioration in quality. A loan review program provides the Company with an independent review of the commercial loan portfolio on an ongoing basis. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as extended delinquencies, bankruptcy, repossession or death of the borrower occurs, which heightens awareness as to a possible credit event.

Internal loan reviews are completed annually on all commercial relationships with a committed loan balance in excess of $1.0 million, which includes confirmation of risk rating by an independent credit officer. In addition, all commercial relationships greater than $500 thousand rated substandard, doubtful or loss are reviewed quarterly and corresponding risk ratings are changed or reaffirmed by the Company's Problem Loan Committee, with subsequent reporting to the Management ERM Committee and the Board of Directors.

Table The following table presents the amortized cost basis of Contents

the loan portfolio, by year of origination, loan class, and credit quality, as of December 31, 2023. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan and payment activity, which residential mortgage and installment and other consumer loans are presented below based on payment performance: performing or nonperforming.

As of December 31, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Basis	Revolving Loans Converted to Term	Total
Commercial Real Estate:									
Owner-occupied:									
Risk rating									
Pass	**$ 50,829**	$ 103,192	$ 69,888	$ 21,232	$ 21,251	$ 62,634	$ 4,941	$ —	$ 333,967
Special mention	**—**	—	2,517	1,176	—	1,314	—	—	5,007
Substandard - Non-IEL	**—**	9,923	—	6,075	—	2,687	312	—	18,997
Substandard - IEL	**—**	—	—	13,366	—	2,420	—	—	15,786
Total owner-occupied loans	**$ 50,829**	$ 113,115	$ 72,405	$ 41,849	$ 21,251	$ 69,055	$ 5,253	$ —	$ 373,757
Current period gross charge offs - owner-occupied	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-owner occupied:									
Risk rating									
Pass	**$ 82,879**	$ 102,212	$ 235,031	$ 83,652	$ 63,176	$ 120,696	$ 509	$ —	$ 688,155
Special mention	**—**	—	—	524	—	2,112	—	—	2,636
Substandard - Non-IEL	**—**	—	—	—	—	2,739	—	868	3,607
Substandard - IEL	**—**	—	—	—	—	240	—	—	240
Total non-owner occupied loans	**$ 82,879**	$ 102,212	$ 235,031	$ 84,176	$ 63,176	$ 125,787	$ 509	$ 868	$ 694,638
Current period gross charge offs - non-owner occupied	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Multi-family:									
Risk rating									
Pass	**$ 2,701**	$ 61,805	$ 28,541	$ 12,694	$ 7,437	$ 33,895	$ 117	$ —	$ 147,190
Special mention	**—**	—	—	—	244	2,008	—	—	2,252
Substandard - Non-IEL	**—**	—	—	—	—	—	—	—	—
Substandard - IEL	**—**	—	—	—	—	1,233	—	—	1,233
Total multi-family loans	**$ 2,701**	$ 61,805	$ 28,541	$ 12,694	$ 7,681	$ 37,136	$ 117	$ —	$ 150,675
Current period gross charge offs - multi-family	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-owner occupied residential:									
Risk rating									
Pass	**$ 10,075**	$ 20,473	$ 16,947	$ 7,974	$ 6,444	$ 28,319	$ 1,130	$ —	$ 91,362
Special mention	**—**	—	—	—	—	731	—	—	731
Substandard - Non-IEL	**—**	—	—	—	—	375	—	—	375
Substandard - IEL	**2**	—	192	1,461	—	917	—	—	2,572

Total non-owner occupied residential loans	**$ 10,077**	$ 20,473	$ 17,139	$ 9,435	$ 6,444	$ 30,342	$ 1,130	$ —	$ 95,040
Current period gross charge offs - non-owner occupied residential	**$ —**	$ —	$ —	$ —	$ —	$ 12	$ —	$ —	$ 12

(continued)

As of December 31, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Basis	Revolving Loans Converted to Term	Total
Acquisition and development:									
1-4 family residential construction:									
Risk rating									
Pass	**$ 18,820**	$ 5,400	$ —	$ —	$ —	$ —	$ —	$ —	$ 24,220
Special mention	**222**	—	74	—	—	—	—	—	296
Substandard - Non-IEL	**—**	—	—	—	—	—	—	—	—
Substandard - IEL	**—**	—	—	—	—	—	—	—	—
Total 1-4 family residential construction loans	**$ 19,042**	$ 5,400	$ 74	$ —	$ —	$ —	$ —	$ —	$ 24,516
Current period gross charge offs - 1-4 family residential construction	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and land development:									
Risk rating									
Pass	**$ 28,829**	$ 48,453	$ 9,847	$ 9,927	$ 110	$ 1,774	$ 6,574	$ 6,936	$ 112,450
Special mention	**—**	—	—	1,001	—	437	—	—	1,438
Substandard - Non-IEL	**—**	—	—	—	—	—	—	—	—
Substandard - IEL	**—**	—	—	—	—	1,361	—	—	1,361
Total commercial and land development loans	**$ 28,829**	$ 48,453	$ 9,847	$ 10,928	$ 110	$ 3,572	$ 6,574	$ 6,936	$ 115,249
Current period gross charge offs - commercial and land development	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and Industrial:									
Risk rating									
Pass	**$ 67,735**	$ 69,670	$ 67,117	$ 24,580	$ 10,753	$ 20,775	$ 86,475	$ 1,522	$ 348,627
Special mention	**—**	4,251	4,364	11	552	356	2,258	—	11,792
Substandard - Non-IEL	**—**	—	4,682	—	5	225	1,082	—	5,994
Substandard - IEL	**—**	69	—	7	—	455	141	—	672
Total commercial and industrial loans	**$ 67,735**	$ 73,990	$ 76,163	$ 24,598	$ 11,310	$ 21,811	$ 89,956	$ 1,522	$ 367,085
Current period gross charge offs - commercial and industrial	**$ —**	$ 161	$ 106	$ —	$ —	$ 8	$ 473	$ —	$ 748
Municipal:									
Risk rating									
Pass	**$ —**	$ —	$ 3,403	$ —	$ —	$ 6,409	$ —	$ —	$ 9,812
Total municipal loans	**$ —**	$ —	$ 3,403	$ —	$ —	$ 6,409	$ —	$ —	$ 9,812
Current period gross charge offs - municipal	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential mortgage:									
First lien:									
Payment performance									
Performing	**$ 43,641**	$ 71,311	$ 34,704	$ 8,056	$ 7,465	$ 97,943	$ —	$ 638	$ 263,758

Nonperforming	**—**	—	—	—	120	2,361	—	—	2,481
Total first lien loans	**$ 43,641**	$ 71,311	$ 34,704	$ 8,056	$ 7,585	$ 100,304	$ —	$ 638	$ 266,239
Current period gross charge offs - first lien	**$ —**	$ —	$ —	$ —	$ —	$ 58	$ —	$ —	$ 58
Home equity - term:									
Payment performance									
Performing	**$ 607**	$ 732	$ 90	$ 426	$ 115	$ 3,105	$ —	$ —	$ 5,075
Nonperforming	**—**	—	—	—	—	3	—	—	3

(continued)

	Term Loans Amortized Cost Basis by Origination Year								
As of December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Basis**	**Revolving Loans Converted to Term**	**Total**
Total home equity - term loans	**$ 607**	$ 732	$ 90	$ 426	$ 115	$ 3,108	$ —	$ —	$ 5,078
Current period gross charge offs - home equity - term	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Home equity - lines of credit:									
Payment performance									
Performing	**$ —**	$ —	$ —	$ —	$ —	$ —	$ 107,967	$ 77,171	$ 185,138
Nonperforming	**—**	—	—	—	—	—	1,296	16	1,312
Total residential real estate - home equity - lines of credit loans	**$ —**	$ —	$ —	$ —	$ —	$ —	$ 109,263	$ 77,187	$ 186,450
Current period gross charge offs - home equity - lines of credit	**$ —**	$ —	$ —	$ —	$ —	$ —	$ 40	$ —	$ 40
Installment and other loans:									
Payment performance									
Performing	**$ 758**	$ 413	$ 332	$ 106	$ 670	$ 947	$ 6,500	$ —	$ 9,726
Nonperforming	**3**	—	—	—	33	12	—	—	48
Total Installment and other loans	**$ 761**	$ 413	$ 332	$ 106	$ 703	$ 959	$ 6,500	$ —	$ 9,774
Current period gross charge offs - installment and other	**$ 181**	$ 24	$ —	$ —	$ 4	$ 10	$ 28	$ —	$ 247

The information presented in the table above is not required for periods prior to the adoption of CECL. The following table summarizes the Company's loan portfolio ratings based on its internal risk rating system at December 31, 2022, which presents the most comparable required information. Prior to the adoption of CECL, PCD loans were classified as PCI loans and 2021:

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
December 31, 2022							
Commercial real estate:							
Owner-occupied	**$ 305,159**	**$ 2,109**	**$ 3,532**	**$ 2,767**	**$ —**	**$ 2,203**	**$ 315,770**
Non-owner occupied	**601,244**	**4,243**	**2,273**	**—**	**—**	**283**	**608,043**
Multi-family	**130,851**	**7,739**	**242**	**—**	**—**	**—**	**138,832**
Non-owner occupied residential	**102,674**	**810**	**482**	**81**	**—**	**557**	**104,604**
Acquisition and development:							
1-4 family residential construction	**25,068**	**—**	**—**	**—**	**—**	**—**	**25,068**
Commercial and land development	**142,424**	**458**	**—**	**15,426**	**—**	**—**	**158,308**
Commercial and industrial	**331,103**	**17,579**	**7,013**	**31**	**—**	**2,048**	**357,774**
Municipal	**12,173**	**—**	**—**	**—**	**—**	**—**	**12,173**
Residential mortgage:							
First lien	**222,849**	**—**	**215**	**2,520**	**—**	**4,265**	**229,849**
Home equity – term	**5,485**	**—**	**—**	**5**	**—**	**15**	**5,505**

Home equity – lines of credit	**182,801**	**—**	**45**	**395**	**—**	**—**	**183,241**
Installment and other loans	**12,017**	**—**	**—**	**40**	**—**	**8**	**12,065**
	$ 2,073,848	**$ 32,938**	**$ 13,802**	**$ 21,265**	**$ —**	**$ 9,379**	**$ 2,151,232**
December 31, 2021							
Commercial real estate:							
Owner-occupied	$ 219,250	$ 7,239	$ 6,087	$ 3,763	$ —	$ 2,329	$ 238,668
Non-owner occupied	528,010	23,297	166	—	—	310	551,783
Multi-family	84,414	8,238	603	—	—	—	93,255
Non-owner occupied residential	102,588	1,065	1,153	122	—	1,184	106,112
Acquisition and development:							
1-4 family residential construction	12,279	—	—	—	—	—	12,279
Commercial and land development	92,049	1,385	491	—	—	—	93,925
Commercial and industrial	470,579	7,917	4,720	250	—	2,262	485,728
Municipal	14,989	—	—	—	—	—	14,989
Residential mortgage:							
First lien	191,386	—	225	2,635	—	4,585	198,831
Home equity – term	6,058	—	—	7	—	16	6,081
Home equity – lines of credit	160,203	20	46	436	—	—	160,705
Installment and other loans	17,584	—	—	40	—	6	17,630
	$ 1,899,389	$ 49,161	$ 13,491	$ 7,253	$ —	$ 10,692	$ 1,979,986

accounted for under ASC 310-30. In accordance with the CECL standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the adoption date. At December 31, 2023, the amortized cost of the PCD loans was $8.6 million.

Table of Contents

	Pass	Special Mention	Non-Impaired Substandard	Impaired - Substandard	Doubtful	PCI Loans	Total
December 31, 2022							
Commercial real estate:							
Owner occupied	$ 305,159	$ 2,109	$ 3,532	$ 2,767	$ —	$ 2,203	$ 315,770
Non-owner occupied	601,244	4,243	2,273	—	—	283	608,043
Multi-family	130,851	7,739	242	—	—	—	138,832
Non-owner occupied residential	102,674	810	482	81	—	557	104,604
Acquisition and development:							
1-4 family residential construction	25,068	—	—	—	—	—	25,068
Commercial and land development	142,424	458	—	15,426	—	—	158,308
Commercial and industrial	331,103	17,579	7,013	31	—	2,048	357,774
Municipal	12,173	—	—	—	—	—	12,173
Residential mortgage:							
First lien	222,849	—	215	2,520	—	4,265	229,849
Home equity - term	5,485	—	—	5	—	15	5,505
Home equity - lines of credit	182,801	—	45	395	—	—	183,241
Installment and other loans	12,017	—	—	40	—	8	12,065
	$ 2,073,848	$ 32,938	$ 13,802	$ 21,265	$ —	$ 9,379	$ 2,151,232

For commercial real estate, acquisition and development, and commercial and industrial loans, and municipal segments, a loan is considered impaired evaluated individually when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. individually evaluated. Generally, loans that are more than 90 days past due are deemed impaired. will be individually evaluated for a specific reserve. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed to determine if the loan should be placed on nonaccrual status. Nonaccrual loans in the commercial and commercial real estate portfolios and any TDRs are, by definition, deemed to be impaired. Impairment individually evaluated under CECL. A specific reserve allocation for individually evaluated loans is measured on a loan-by-loan basis for commercial construction and restructured construction loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

For loans that are deemed to be impaired experiencing financial difficulty for extended periods of time, periodic updates on fair values are obtained, which may include updated appraisals. Updated fair values are incorporated into the impairment analysis in the next reporting period.

Loan charge-offs, which may include partial charge-offs, are taken on an impaired individually evaluated loan that is collateral dependent if the loan's carrying balance of the loan exceeds its collateral's the appraised value of the collateral, the loan has been placed on nonaccrual status or identified as uncollectible, and it is deemed to be a confirmed loss. Typically, impaired loans with a charge-off or partial charge-off will continue to be considered impaired, unless the note is split into two, and management expects the performing note to continue to perform and is adequately secured. The second, or non-performing note, would be charged-off. individually evaluated. Generally, an impaired individually evaluated loan with a partial charge-off may continue to have an impairment a specific reserve on it after the partial charge-off, if factors warrant.

At December 31, 2022 and 2021, nearly all of December 31, 2023, the Company's loan impairments individually evaluated loans were measured based on the estimated fair value of the collateral securing the loan, except for TDRs. By purchased auto loans on nonaccrual status and accruing loans accounted for as TDRs prior to the adoption of ASU 2022-02. At December 31, 2022, except for TDRs, the Company's individually evaluated loans were measured based on the estimated fair value of the collateral securing the loan. Prior to the adoption of ASU 2022-02, by definition, TDRs are were considered impaired. All TDR impaired and the related impairment analyses are were initially based on discounted cash flows for those loans. DCF For real estate loans, collateral generally consists of commercial or residential real estate, or 1-4 family residential properties, but in the case of commercial and industrial loans, it could also consist of accounts receivable, inventory, equipment or other business assets. Commercial and industrial loans may also have real estate collateral.

Updated appraisals are generally required every 18 months for classified commercial loans in excess of $250 thousand. The "as is" value provided in the appraisal is often used as the fair value of the collateral in determining impairment, unless circumstances, such as subsequent improvements, approvals, or other circumstances, dictate that another value than that provided by the appraiser is more appropriate.

Generally, impaired commercial loans secured by real estate other than performing TDRs, that are evaluated individually are measured at fair value using certified real estate appraisals that had been completed within the last 18 months. Appraised values are discounted for estimated costs to sell the property and other selling considerations to arrive at the property's fair value. In those situations, in which it is determined an updated appraisal is not required for loans individually evaluated for impairment, credit expected losses, fair values are based on either an existing appraisal or a discounted cash flow DCF analysis as determined by management. The approaches are discussed below:

- Existing appraisal – if the existing appraisal provides a strong loan-to-value ratio (generally 70% or lower) and, after consideration of market conditions and knowledge of the property and area, it is determined by the Credit Administration staff that there has not been a significant deterioration in the collateral value, the existing certified appraised value may be used. Discounts to the appraised value, as deemed appropriate for selling costs, are factored into the fair value.

- Discounted cash flows – in limited cases, discounted cash flows DCF may be used on projects in which the collateral is liquidated to reduce the borrowings outstanding, and is used to validate collateral values derived from other approaches.

Collateral on certain impaired loans evaluated individually is not limited to real estate, and may consist of accounts receivable, inventory, equipment or other business assets. Estimated fair values a are determined based on borrowers' financial statements, inventory ledgers, accounts receivable agings aging or appraisals from individuals with knowledge in the business. Stated balances are generally discounted for the age of the financial information or the quality of the assets. In determining fair value, liquidation discounts are applied to this collateral based on existing loan valuation evaluation policies.

The Company distinguishes substandard loans on for both an impaired loans individually and non-impaired basis, collectively evaluated, as it places less emphasis on a loan's classification, and increased reliance on whether the loan was performing in accordance with the contractual terms. A substandard classification does not automatically meet the definition of impaired. an individually evaluated loan. Loss potential, while existing in the aggregate

Table of Contents

amount of substandard loans, does not have to exist in individual extensions of credit classified as substandard. As a result, the Company's methodology includes an evaluation of certain accruing commercial real estate, acquisition and development, and commercial and industrial and municipal loans rated substandard to be collectively evaluated for impairment. credit expected losses. Although the Company believes these loans meet the definition of substandard, they are generally performing and management has concluded that it is likely the Company will be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement.

Larger groups of smaller balance homogeneous loans are collectively evaluated for impairment. credit expected losses. Generally, the Company does not separately identify individual consumer residential mortgage and residential installment and other consumer loans for impairment disclosures, unless such loans are the subject of a restructuring modified agreement due to financial difficulties of the borrower.

The following table presents the amortized cost basis of nonaccrual loans, according to loan class, with and without reserves on individually evaluated loans as of December 31, 2023, as compared to nonaccrual loans at December 31, 2022. The Company did not recognize interest income on nonaccrual loans during the year ended December 31, 2023.

	December 31, 2023				December 31, 2022
	Nonaccrual loans with a related ACL	Nonaccrual loans with no related ACL	Total nonaccrual loans	Loans Past Due 90+ Accruing	Total nonaccrual loans
Commercial real estate:					
Owner-occupied	$ —	$ 15,786	$ 15,786	$ —	$ 2,767

Non-owner occupied	—	240	240	—	—
Multi-family	—	1,233	1,233	—	—
Non-owner occupied residential	—	2,572	2,572	—	81
Acquisition and development:					
1-4 family residential construction	—	—	—	—	—
Commercial and land development	—	1,361	1,361	—	15,426
Commercial and industrial	68	604	672	—	31
Municipal	—	—	—	—	—
Residential mortgage:					
First lien	—	2,309	2,309	66	1,838
Home equity – term	—	3	3	—	5
Home equity – lines of credit	—	1,312	1,312	—	395
Installment and other loans	3	36	39	—	40
Total	$ 71	$ 25,456	$ 25,527	$ 66	$ 20,583

A loan is considered to be collateral-dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral. At December 31, 2023, substantially all individually evaluated loans were collateral-dependent and consisted primarily of commercial real estate, acquisition and development and residential mortgage loans, which were primarily secured by commercial or residential real estate. The Company's collateral-dependent loans had appraised collateral values which exceeded the amortized cost basis of the related loan as of December 31, 2023, except one commercial and industrial loan and one consumer installment loan. The following table presents the amortized cost basis of collateral-dependent loans by class as of December 31, 2023:

	Type of Collateral						
	Business Assets	Commercial Real Estate	Equipment	Land	Residential Real Estate	Other	Total
Commercial real estate:							
Owner occupied	$ —	$ 15,786	$ —	$ —	$ —	$ —	$ 15,786
Non-owner occupied	—	240	—	—	—	—	240
Multi-family	—	1,233	—	—	—	—	1,233
Non-owner occupied residential	—	2,572	—	—	—	—	2,572
Acquisition and development:							
1-4 family residential construction	—	—	—	—	—	—	—
Commercial and land development	—	—	—	1,361	—	—	1,361
Commercial and industrial	2	76	594	—	—	—	672
Municipal	—	—	—	—	—	—	—
Residential mortgage:							
First lien	—	—	—	—	2,231	—	2,231
Home equity - term	—	—	—	—	3	—	3
Home equity - lines of credit	—	—	—	—	1,312	—	1,312
Installment and other loans	—	—	18	—	—	—	18
Total	$ 2	$ 19,907	$ 612	$ 1,361	$ 3,546	$ —	$ 25,428

The information presented above in the nonaccrual loan table and the collateral-dependent table are not required for periods prior to the adoption of CECL. The following table, which excludes accruing PCI loans, presents the most comparable required information at December 31, 2022, which summarizes impaired loans by segment and class, segregated by those for which a specific allowance was required and those for which a specific allowance was not required at December 31, 2022 and 2021. . The recorded investment in loans excludes accrued interest receivable due to insignificance. receivable. Related allowances established generally pertain to those loans in which loan forbearance agreements were in the process of being negotiated or updated appraisals were pending, and any partial charge-off will be recorded when final information is received.

		Impaired Loans with a Specific Allowance			Impaired Loans with No Specific
	Recorded Investment (Book Balance)	Recorded Investment (Book Balance)	Unpaid Principal Balance (Legal Balance)	Related Allowance	

December 31, 2022

December 31, 2022

	Impaired Loans with a Specific Allowance			Impaired Loans with No Specific Allowance	
	Recorded Investment (Book Balance)	Unpaid Principal Balance (Legal Balance)	Related Allowance	Recorded Investment (Book Balance)	Unpaid Principal Balance (Legal Balance)
December 31, 2022					
Commercial real estate:					
Commercial real estate:					
Commercial real estate:					
Owner-occupied					
Owner-occupied					
Owner-occupied	**$ —**	**$ —**	**$ —**	**$ 2,767**	**$ 3,799**
Non-owner occupied residential	**—**	**—**	**—**	**81**	**207**
Acquisition and development:					
Commercial and land development	**—**	**—**	**—**	**15,426**	**15,426**
Commercial and industrial	**—**	**—**	**—**	**31**	**112**
Residential mortgage:					
First lien	**178**	**178**	**28**	**2,342**	**3,126**
Home equity—term	**—**	**—**	**—**	**5**	**8**
Home equity—lines of credit	**—**	**—**	**—**	**395**	**684**
Installment and other loans	**—**	**—**	**—**	**40**	**40**
	$ 178	**$ 178**	**$ 28**	**$ 21,087**	**$ 23,402**
December 31, 2021					
Commercial real estate:					
Owner-occupied	$ —	$ —	$ —	$ 3,763	$ 4,902
Non-owner occupied residential					
Non-owner occupied residential	—	—	—	122	259
Commercial and industrial	—	—	—	250	547
Commercial and industrial					
Commercial and industrial					
Residential mortgage:					
First lien					
First lien					
First lien	341	341	28	2,294	3,337
Home equity—term	—	—	—	7	10

Home equity—lines of credit	Home equity—lines of credit	—	—	—	436	653
Installment and other loans	Installment and other loans	—	—	—	40	40
		$ 341	$ 341	$ 28	$ 6,912	$ 9,748
	$					

Table of Contents

The following table, which excludes accruing PCI loans, presents the most comparable required information for the prior comparative periods and summarizes the average recorded investment in impaired loans and related recognized interest income for the years ended December 31, 2022 and 2021.

	2022		2021	
	Average Impaired Balance	Interest Income Recognized	Average Impaired Balance	Interest Income Recognized
Commercial real estate:				
Owner-occupied	$ 3,050	$ —	$ 3,825	$ 1
Non-owner occupied	—	—	—	—
Multi-family	—	—	—	—
Non-owner occupied residential	96	—	225	—
Acquisition and development:				
Commercial and land development	1,187	—	187	—
Commercial and industrial	109	—	3,030	—
Residential mortgage:				
First lien	2,389	33	2,539	43
Home equity – term	6	—	11	—
Home equity – lines of credit	405	—	521	—
Installment and other loans	44	—	25	—
	$ 7,286	$ 33	$ 10,363	$ 44

On January 1, 2023, 2021 the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and 2020. requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty, if the modification results in a more-than-insignificant direct change in the contractual cash flows and results in a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20,

	2022		2021		2020	
	Average Impaired Balance	Interest Income Recognized	Average Impaired Balance	Interest Income Recognized	Average Impaired Balance	Interest Income Recognized
Commercial real estate:						
Owner-occupied	**$ 3,050**	**$ —**	$ 3,825	$ 1	$ 4,636	$ 1
Non-owner occupied	**—**	**—**	—	—	83	—
Multi-family	**—**	**—**	—	—	205	—
Non-owner occupied residential	**96**	**—**	225	—	388	—
Acquisition and development:						
Commercial and land development	**1,187**	**—**	187	—	641	—
Commercial and industrial	**109**	**—**	3,030	—	1,196	—
Residential mortgage:						
First lien	**2,389**	**33**	2,539	43	2,995	48
Home equity – term	**6**	**—**	11	—	11	—
Home equity – lines of credit	**405**	**—**	521	—	692	1

Installment and other loans	44	—	25	—	25	—
	$ 7,286	$ 33	$ 10,363	$ 44	$ 10,872	$ 50

Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the CECL loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral-dependent or DCF method.

The Company may modify loans to borrowers experiencing financial difficulty by providing principal forgiveness, term extension, interest rate reduction or an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL. The Company may also provide multiple types of modifications on an individual loan.

The following table presents the amortized cost of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by loan class and by type of modification. The percentage of the amortized cost of loans that were modified to borrowers experiencing difficulty as compared to the amortized cost of loan class is also presented below. The Company has not committed to lend additional amounts to the borrowers included in the table below.

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Interest Rate Reductions	Total Class of Financing Receivable
Acquisition and development:							
Commercial and land development	$ —	$ —	$ 1,361	$ —	$ —	$ —	1.18 %
Installment and other loans	—	—	9	—	—	—	0.09 %

The Company monitors the performance of the modified loans to borrowers experiencing financial difficulty to determine the effectiveness of its modification efforts. The following table presents the performance of the modified loans in the previous twelve months:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Non-Accrual
Acquisition and development:						
Commercial and land development	$ —	$ —	$ —	$ —	$ —	$ 1,361
Installment and other loans	9	—	—	—	9	—
Total:	$ 9	$ —	$ —	$ —	$ 9	$ 1,361

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023. For loans modified to borrowers experiencing financial difficulty in the twelve months, there were no payment defaults in the subsequent twelve months.

	Principal Forgiveness	Weighted Average interest Rate Reduction	Weighted Average Term Extension (in years)
Acquisition and development:			
Commercial and land development	—	—%	1.0
Installment and other loans	—	—%	1.1

The following table presents the most comparable required information for impaired loans that are were TDRs, with the recorded investment at December 31, 2022 and 2021. :

	2022		2021	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Accruing:				
Residential mortgage:				

	2022	
	Number of Contracts	Recorded Investment
Accruing:		
Residential mortgage:		
Residential mortgage:		
Residential mortgage:		
First lien		

First lien					
First lien	First lien	**8**	**682**	8	804
		8	**682**	8	804
		8			
		8			
		8			
Nonaccruing:	Nonaccruing:				
Residential mortgage:	Residential mortgage:				
Residential mortgage:					
Residential mortgage:					
First lien					
First lien					
First lien	First lien	**4**	**212**	5	285
Installment and other loans	Installment and other loans	**1**	**2**	—	—
		5	**214**	5	285
		13	**$ 896**	13	$ 1,089
	5				
	13				

Table of Contents

The following table presents the number of loans modified as TDRs, and their pre-modification and post-modification investment balances for the year ended December 31, 2022. There were two new TDRs, both on non-accrual status for the year ended December 31, 2022. During 2022, one of the two new TDRs was paid off in full. There were no loans modified as TDRs during 2021 and 2020.

The loan presented in the table below was considered a TDR at December 31, 2022 as a result of the Company agreeing to a below market interest rate given the risk of the transaction and a term extension, in order to give the borrowers an opportunity to improve their cash flows. For new and accruing TDRs, impairment is was generally assessed using a discounted cash flow DCF analysis. For TDRs in default of their modified terms, impairment is was generally determined on a collateral dependent approach.

	Number of Contracts	Pre-Modification Investment Balance	Post-Modification Investment Balance
December 31, 2022			
Installment and other loans	1	$ 5	$ 2

Table of Contents

Management further monitors the performance and credit quality of the loan portfolio by analyzing the length of time a portfolio is past due by aggregating loans based on their its delinquencies. The following table presents the classes of the loan portfolio summarized by aging categories at December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
December 31, 2023						
Commercial real estate:						
Owner occupied	**$ 13,852**	**$ —**	**$ 117**	**$ 13,969**	**$ 359,788**	**$ 373,757**
Non-owner occupied	**152**	**—**	**—**	**152**	**694,486**	**694,638**

Multi-family	—	—	—	—	150,675	150,675
Non-owner occupied residential	—	—	192	192	94,848	95,040
Acquisition and development:						
1-4 family residential construction	—	—	—	—	24,516	24,516
Commercial and land development	16	—	—	16	115,233	115,249
Commercial and industrial	27	69	625	721	366,364	367,085
Municipal	—	—	—	—	9,812	9,812
Residential mortgage:						—
First lien	5,433	1,058	721	7,212	259,027	266,239
Home equity - term	20	2	—	22	5,056	5,078
Home equity - lines of credit	1,801	100	839	2,740	183,710	186,450
Installment and other loans	84	28	19	131	9,643	9,774
	$ 21,385	$ 1,257	$ 2,513	$ 25,155	$ 2,273,158	$ 2,298,313

The following table presents the most comparable required information, which includes the classes of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans at December 31, 2022 and 2021. :

	Current	Days Past Due 30-59	60-89	90+ (still accruing)	Total Past Due	Non-Accrual	Total Loans
December 31, 2022							
Commercial real estate:							
Owner-occupied	$ 310,769	$ 31	$ —	$ —	$ 31	$ 2,767	$ 313,567
Non-owner occupied	607,760	—	—	—	—	—	607,760
Multi-family	138,832	—	—	—	—	—	138,832
Non-owner occupied residential	103,782	184	—	—	184	81	104,047
Acquisition and development:							
1-4 family residential construction	24,622	446	—	—	446	—	25,068
Commercial and land development	142,613	269	—	—	269	15,426	158,308
Commercial and industrial	355,179	464	52	—	516	31	355,726
Municipal	12,173	—	—	—	—	—	12,173
Residential mortgage:							
First lien	219,715	3,485	414	132	4,031	1,838	225,584
Home equity – term	5,485	—	—	—	—	5	5,490
Home equity – lines of credit	181,350	1,395	101	—	1,496	395	183,241
Installment and other loans	11,953	64	—	—	64	40	12,057
Subtotal	2,114,233	6,338	567	132	7,037	20,583	2,141,853
Loans acquired with credit deterioration:							
Commercial real estate:							
Owner-occupied	2,203	—	—	—	—	—	2,203
Non-owner occupied	283	—	—	—	—	—	283
Non-owner occupied residential	452	—	—	105	105	—	557
Commercial and industrial	2,048	—	—	—	—	—	2,048
Residential mortgage:							
First lien	3,657	327	79	202	608	—	4,265
Home equity – term	15	—	—	—	—	—	15
Installment and other loans	8	—	—	—	—	—	8
Subtotal	8,666	327	79	307	713	—	9,379
	$ 2,122,899	$ 6,665	$ 646	$ 439	$ 7,750	$ 20,583	$ 2,151,232

Table As disclosed in Note 1, on January 1, 2023 the Company implemented CECL and increased the ACL, previously the ALL, with a cumulative-effect adjustment to the ACL for loans of Contents

$2.4 million. The Company's ACL is calculated quarterly, with any adjustment recorded to the provision for credit losses in the consolidated statement of income. Management calculates the quantitative portion of collectively evaluated loans for all loan categories, with the exception of the consumer loan segment, using DCF methodology. For purposes of calculating the quantitative portion of collectively evaluated reserves on the consumer loan segment, the remaining life methodology is utilized. For purposes of estimating the Company's ACL, management generally evaluates collectively evaluated loans by federal call code in order to group loans with similar risk characteristics.

		Days Past Due					
	Current	30-59	60-89	90+ (still accruing)	Total Past Due	Non-Accrual	Total Loans
December 31, 2021							
Commercial real estate:							
Owner-occupied	$ 231,371	$ 314	$ —	$ 891	$ 1,205	$ 3,763	$ 236,339
Non-owner occupied	551,473	—	—	—	—	—	551,473
Multi-family	93,255	—	—	—	—	—	93,255
Non-owner occupied residential	104,645	161	—	—	161	122	104,928
Acquisition and development:							
1-4 family residential construction	12,279	—	—	—	—	—	12,279
Commercial and land development	93,793	132	—	—	132	—	93,925
Commercial and industrial	483,088	128	—	—	128	250	483,466
Municipal	14,989	—	—	—	—	—	14,989
Residential mortgage:							
First lien	189,043	2,995	281	96	3,372	1,831	194,246
Home equity – term	6,042	16	—	—	16	7	6,065
Home equity – lines of credit	159,628	641	—	—	641	436	160,705
Installment and other loans	17,467	109	8	—	117	40	17,624
Subtotal	1,957,073	4,496	289	987	5,772	6,449	1,969,294
Loans acquired with credit deterioration:							
Commercial real estate:							
Owner-occupied	2,329	—	—	—	—	—	2,329
Non-owner occupied	310	—	—	—	—	—	310
Non-owner occupied residential	479	—	587	118	705	—	1,184
Commercial and industrial	2,262	—	—	—	—	—	2,262
Residential mortgage:							
First lien	3,937	387	166	95	648	—	4,585
Home equity – term	15	—	—	1	1	—	16
Installment and other loans	6	—	—	—	—	—	6
Subtotal	9,338	387	753	214	1,354	—	10,692
	$ 1,966,411	$ 4,883	$ 1,042	$ 1,201	$ 7,126	$ 6,449	$ 1,979,986

Loans that do not share similar risk characteristics are evaluated on an individual loan basis, and are excluded from the collective evaluation for the ACL. Loans identified to be individually evaluated under CECL include loans on nonaccrual status

The Company maintains its ALL at a level management believes adequate for probable incurred credit losses. The ALL is established

and maintained through a provision for loan losses charged may include accruing loans that do not share similar risk characteristics to earnings. On a quarterly basis, management assesses the adequacy of the ALL utilizing a defined methodology which considers specific credit evaluation of impaired loans as discussed above, historical loan loss experience, and qualitative factors. Management believes its approach properly addresses relevant accounting guidance for loans individually identified as impaired and for loans collectively evaluated for impairment, and other bank regulatory guidance.

In connection with its quarterly evaluation of the adequacy of the ALL, management reviews its methodology to determine if it properly addresses the current risk in the loan portfolio. For each loan class, general allowances based on quantitative factors, principally historical loss trends, are provided for accruing loans that are collectively evaluated for impairment. An adjustment to historical loss factors on a loan pool basis. A specific reserve analysis may be incorporated for delinquency and other potential risk not elsewhere defined within applied to the ALL methodology. individually evaluated loans, which considers collateral value, an observable market price or the present value of expected future cash flows. A specific reserve is assigned if the measured value of the loan using one of the before mentioned methods is less than the current carrying value of the loan.

Table of Contents

In addition to this quantitative Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond the quantitatively calculated reserve calculated on collectively evaluated loans. As the quantitative reserve calculation incorporates historical conditions, management may consider an additional or reduced reserve is warranted through qualitative risk factors based on current and expected conditions. These qualitative risk factors considered by management are comparable to legacy factors prior to the ALL requirements are allocated on loans collectively evaluated for impairment based on additional qualitative factors, including: adoption of CECL and include significant or unexpected changes in:

Nature and Volume of Loans – including loan growth in the current and subsequent quarters based on the Company’s targeted growth and strategic plan, coupled with the types of loans booked based on risk management and credit culture; the number of exceptions to loan policy; and supervisory loan to value exceptions.

Concentrations of Credit and Changes within Credit Concentrations – including the composition of the Company’s overall portfolio makeup and management's evaluation related to concentration risk management and the inherent risk associated with the concentrations identified.

Lending Policies and Procedures, Underwriting Standards and Recovery Practices – including changes to credit policies and procedures, underwriting standards and perceived impact on anticipated losses; trends in the number of exceptions to loan policy; supervisory loan to value exceptions; and administration of loan recovery practices.

Delinquency and Classified Loan Trends – including delinquency percentages and internal loan ratings noted in the portfolio relative to economic conditions; severity of the delinquencies; delinquencies and the ratings; and whether the ratios are trending upwards or downwards.

Classified Loans Collateral Valuation Trends – including internal loan ratings of the portfolio; severity of the ratings; whether the loan segment’s ratings show a more favorable or less favorable trend; and underlying market conditions and impact on the collateral values securing the loans.

Experience, Ability and Depth of Management/Lending staff – including the years’ level of experience of senior and middle management and the lending staff; turnover of the staff; and instances of repeat criticisms of ratings. criticisms.

Quality of Loan Review System – including the years level of experience of the loan review staff; in-house versus outsourced provider of review; turnover of staff the staff; and instances of repeat criticisms from independent testing, which includes the perceived quality evaluation of their work in relation to other external information. internal loan ratings of the portfolio.

National and Local Economic Conditions – including trends in the international, national, regional and local conditions that monitor the interest rate environment, inflationary pressures, the consumer price index, unemployment rates, the housing price index, housing statistics, compared to the prior year, and bankruptcy rates, rates.

Other External Factors - including regulatory and legal environment risks and competition.

All factors noted above were evaluated established upon adoption of CECL and remained unchanged were deemed appropriate during the year ended December 31, 2022 December 31, 2023. For the year ended December 31, 2023, except for a reduction in the *National Delinquency and Local Economic Conditions Classified Loan Trends* qualitative factor during was increased for the first quarter of 2022. This factor had been increased previously for economic concerns in the commercial & industrial and owner-occupied commercial real estate portfolio associated with loan classes, which was based on a trend of increases in loans downgraded to the COVID-19 pandemic. The additional allocation was removed during 2022 as these concerns had subsided. special mention or classified risk rating. All other qualitative factors were unchanged from levels at adoption of CECL.

Table of Contents

The following table presents the activity in the ACL, including the impact of adopting CECL, for the year ended December 31, 2023, and the activity in the ALL for the years ended December 31, 2022, 2021 and 2020. 2021.

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total

	Commercial Real Estate	Commercial					Consumer				
		Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Tot
December 31, 2023											
Balance, beginning of year											
Balance, beginning of year											
Balance, beginning of year											
Impact of adopting ASC 326											
Provision for credit losses											
Charge-offs											
Recoveries											

Balance, end of year											
December 31, 2022	**December 31, 2022**										
Balance, beginning of year											
Balance, beginning of year											
Balance, beginning of year	Balance, beginning of year	**$ 12,037**	**$ 2,062**	**$ 3,814**	**$ 30**	**$17,943**	**$ 2,785**	**$ 215**	**$3,000**	**$ 237**	**$21,180**
Provision for loan losses	Provision for loan losses	**1,489**	**1,142**	**640**	**(6)**	**3,265**	**669**	**218**	**887**	**8**	**4,160**
Charge-offs	Charge-offs	**—**	**—**	**—**	**—**	**—**	**(50)**	**(360)**	**(410)**	**—**	**(410)**
Recoveries	Recoveries	**32**	**10**	**51**	**—**	**93**	**40**	**115**	**155**	**—**	**248**
Balance, end of year	Balance, end of year	**$ 13,558**	**$ 3,214**	**$ 4,505**	**$ 24**	**$21,301**	**$ 3,444**	**$ 188**	**$3,632**	**$ 245**	**$25,178**
December 31, 2021	**December 31, 2021**										
Balance, beginning of year	Balance, beginning of year	$ 11,151	$ 1,114	$ 3,942	$ 40	$16,247	$ 3,362	$ 324	$3,686	$ 218	$20,151
Provision for loan losses		710	938	23	(10)	1,661	(517)	(73)	(590)	19	1,090
Charge-offs		(293)	—	(663)	—	(956)	(92)	(70)	(162)	—	(1,118)
Recoveries		469	10	512	—	991	32	34	66	—	1,057
Balance, end of year		$ 12,037	$ 2,062	$ 3,814	$ 30	$17,943	$ 2,785	$ 215	$3,000	$ 237	$21,180
December 31, 2020											
Balance, beginning of year											
Balance, beginning of year	Balance, beginning of year	$ 7,634	$ 959	$ 2,356	$ 100	$11,049	$ 3,147	$ 319	$3,466	$ 140	$14,655
Provision for loan losses	Provision for loan losses	2,745	146	2,096	(60)	4,927	203	117	320	78	5,325
Charge-offs	Charge-offs	(3)	—	(748)	—	(751)	(114)	(146)	(260)	—	(1,011)
Recoveries	Recoveries	775	9	238	—	1,022	126	34	160	—	1,182
Balance, end of year	Balance, end of year	$ 11,151	$ 1,114	$ 3,942	$ 40	$16,247	$ 3,362	$ 324	$3,686	$ 218	$20,151

Table The information presented in the table below is not required for periods subsequent to the adoption of Contents

CECL. The following table summarizes the ending loan balances ALL allocation for loans individually and collectively evaluated for impairment based upon by loan segment as well as the related ALL loss allocation for each at December 31, 2022 and 2021. . Accruing PCI loans are excluded from loans individually evaluated for impairment.

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
December 31, 2022										
Loans allocated by:										
Individually evaluated for impairment	**$ 2,848**	**$ 15,426**	**$ 31**	**$ —**	**$ 18,305**	**$ 2,920**	**$ 40**	**$ 2,960**	**$ —**	**$ 21,265**
Collectively evaluated for impairment	**1,164,401**	**167,950**	**357,743**	**12,173**	**1,702,267**	**415,675**	**12,025**	**427,700**	**—**	**2,129,967**
	$ 1,167,249	**$ 183,376**	**$ 357,774**	**$ 12,173**	**$ 1,720,572**	**$ 418,595**	**$ 12,065**	**$ 430,660**	**$ —**	**$ 2,151,232**
Allowance for loan losses allocated by:										
Individually evaluated for impairment	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 28**	**$ —**	**$ 28**	**$ —**	**$ 28**
Collectively evaluated for impairment	**13,558**	**3,214**	**4,505**	**24**	**21,301**	**3,416**	**188**	**3,604**	**245**	**25,150**
	$ 13,558	**$ 3,214**	**$ 4,505**	**$ 24**	**$ 21,301**	**$ 3,444**	**$ 188**	**$ 3,632**	**$ 245**	**$ 25,178**
December 31, 2021										

	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
Loans allocated by:										
Individually evaluated for impairment	$ 3,885	$ —	$ 250	$ —	$ 4,135	$ 3,078	$ 40	$ 3,118	$ —	$ 7,253
Collectively evaluated for impairment	985,933	106,204	485,478	14,989	1,592,604	362,539	17,590	380,129	—	1,972,733
	$ 989,818	$ 106,204	$ 485,728	$ 14,989	$ 1,596,739	$ 365,617	$ 17,630	$ 383,247	$ —	$ 1,979,986
Allowance for loan losses allocated by:										
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28	$ —	$ 28
Collectively evaluated for impairment	12,037	2,062	3,814	30	17,943	2,757	215	2,972	237	21,152
	$ 12,037	$ 2,062	$ 3,814	$ 30	$ 17,943	$ 2,785	$ 215	$ 3,000	$ 237	$ 21,180

The following table provides activity for the accretable yield of purchased impaired loans for the years ended December 31, 2022 and 2021.

	2022	2021
Accretable yield, beginning of period	**$ 2,661**	$ 3,438
Accretion of income	**(949)**	(1,093)
Reclassifications from nonaccretable difference due to improvement in expected cash flows	**388**	160
Other changes, net	**335**	156
Accretable yield, end of period	**$ 2,435**	$ 2,661

	Commercial					Consumer				
	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Municipal	Total	Residential Mortgage	Installment and Other	Total	Unallocated	Total
December 31, 2022										
Loans allocated by:										
Individually evaluated for impairment	$ 2,848	$ 15,426	$ 31	$ —	$ 18,305	$ 2,920	$ 40	$ 2,960	$ —	$ 21,265
Collectively evaluated for impairment	1,164,401	167,950	357,743	12,173	1,702,267	415,675	12,025	427,700	—	2,129,967
	$ 1,167,249	$ 183,376	$ 357,774	$ 12,173	$ 1,720,572	$ 418,595	$ 12,065	$ 430,660	$ —	$ 2,151,232
Allowance for credit losses allocated by:										
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 28	$ —	$ 28	$ —	$ 28
Collectively evaluated for impairment	13,558	3,214	4,505	24	21,301	3,416	188	3,604	245	25,150
	$ 13,558	$ 3,214	$ 4,505	$ 24	$ 21,301	$ 3,444	$ 188	$ 3,632	$ 245	$ 25,178

[Table of Contents](#)

NOTE 4. 5. PREMISES AND EQUIPMENT

The following table summarizes premises and equipment at December 31, 2022 December 31, 2023 and 2021. 2022.

		2022	2021		
	2023			2023	2022
Land	Land	**$ 7,583**	$ 8,586		
Buildings and improvements	Buildings and improvements	**24,813**	27,852		
Leasehold improvements	Leasehold improvements	**5,359**	5,593		
Furniture and equipment	Furniture and equipment	**21,849**	23,681		

Construction in progress	Construction in progress	**59**	171
		59,663	65,883
	60,471		
Less accumulated depreciation	Less accumulated depreciation	**30,335**	31,838
		$ 29,328	$ 34,045
	$		

Depreciation expense totaled $2.1 million $1.9 million, $2.3 million $2.1 million, and $3.2 million $2.3 million for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively. During 2022, the Company announced strategic initiatives to drive long-term growth and improve operating efficiencies, which included the planned closure of five branch locations in Pennsylvania, and resulted in reductions to gross premises and equipment by $6.2 million and accumulated depreciation by $2.9 million due to write-downs of premises and equipment and the transfer of land and buildings to held-for-sale.

NOTE 5. 6. LEASES

A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has primarily entered into operating leases for branches and office space. Most of the Company's leases contain renewal options, which the Company is reasonably certain to exercise. Including renewal options, the Company's leases range from 5 4 to 30 29 years. Operating lease right-of-use assets and lease liabilities are included in other assets and accrued interest and other liabilities on the Company's consolidated balance sheets.

The Company uses its incremental borrowing rate to determine the present value of the lease payments, as the rate implicit in the Company's leases is not readily determinable. Lease agreements that contain non-lease components are generally accounted for as a single lease component, while variable costs, such as common area maintenance expenses and property taxes, are expensed as incurred.

The following table summarizes the Company's right-of-use assets and related lease liabilities for the year ended December 31, 2022 December 31, 2023 and 2021. 2022.

		December 31, 2022	**December 31, 2021**			
	December 31, 2023				**December 31, 2023**	**December 31, 2022**
Operating lease ROU assets	Operating lease ROU assets	**$ 9,270**	$ 10,515			
Operating lease ROU liabilities	Operating lease ROU liabilities	**9,976**	11,119			
Weighted-average remaining lease term (in years)	Weighted-average remaining lease term (in years)	**14.3**	14.6	Weighted-average remaining lease term (in years)	**15.1**	14.3
Weighted-average discount rate	Weighted-average discount rate	**4.1 %**	4.1 %	Weighted-average discount rate	**4.4 %**	4.1 %

The following table presents information related to the Company's operating leases for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

		December 31, 2022	**December 31, 2021**		
	December 31, 2023			**December 31, 2023**	**December 31, 2022**
Cash paid for operating lease liabilities	Cash paid for operating lease liabilities	**$ 1,170**	$ 1,266		
Operating lease expense	Operating lease expense	**1,406**	1,544		

Table of Contents

The following table presents maturities of the Company's lease liabilities by year.

2023		$	1,153
2024	2024		1,179
2025	2025		1,201
2026	2026		1,233
2027	2027		1,267
2028			
Thereafter	Thereafter		8,187
			14,220
		16,941	
Less: imputed interest	Less: imputed interest		4,244
Total lease liabilities	Total lease liabilities	$	9,976

NOTE 6. 7. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2022 December 31, 2023 and 2021, 2022, goodwill was $18.7 million. No impairment charges were recorded in December 31, 2022 December 31, 2023 and 2021. 2022.

Goodwill is not amortized, but is reviewed for potential impairment on at least an annual basis, with testing between annual tests if an event occurs or circumstances change that could potentially reduce the fair value of a reporting unit.

The Company conducted its last annual goodwill impairment test as of November 30, 2022 November 30, 2023 using generally accepted valuation methods. As a result of that impairment test, no goodwill impairment was identified. No changes occurred that would impact the results of that analysis through December 31, 2022 December 31, 2023.

The following table presents changes in and components of other intangible assets for the years ended December 31, 2022 December 31, 2023 and 2021. 2022. No impairment charge was recorded on other intangible assets during the years ended December 31, 2022 December 31, 2023 and 2021. 2022. During 2023, the Company acquired an investment advisory firm and related accounts with assets under management of approximately $67.2 million. In connection with this acquisition, the Company recorded an intangible asset totaling $289 thousand associated with the customer list.

No impairment charges were recorded on other intangible assets during the twelve months ended.

		2022	2021		
2023				2023	2022
Balance, beginning of year	Balance, beginning of year	$ 4,183	$ 5,458		
Acquired customer list					
Acquired customer list					
Acquired customer list					
Amortization expense					
Amortization expense					
Amortization expense	Amortization expense	(1,105)	(1,275)		
Balance, end of year	Balance, end of year	$ 3,078	$ 4,183		
Balance, end of year					
Balance, end of year					

The following table presents the components of other identifiable intangible assets at December 31, 2022 December 31, 2023 and 2021. 2022.

	2022		2021					
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization				
2023					2023		2022	
Gross Carrying Amount					Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Amortized intangible assets:	Amortized intangible assets:				
Core deposit intangibles					
Core deposit intangibles					
Core deposit intangibles	Core deposit intangibles	**$8,390**	**$ 5,312**	$8,390	$ 4,208
Other client relationship intangibles	Other client relationship intangibles	**25**	**25**	25	24
Total	Total	**$8,415**	**$ 5,337**	$8,415	$ 4,232
Total					
Total					

The following table presents future estimated aggregate amortization expense at December 31, 2022 December 31, 2023.

2023			**$**	**935**
2024	2024			**766**
2025	2025			**596**
2026	2026			**427**
2027	2027			**258**
2028				
Thereafter	Thereafter			**96**
			$	**3,078**
		$		

The Company incurred amortization expense of $953 thousand, $1.1 million, $1.3 million and $1.6 million $1.3 million in the years ending December 31, 2022 December 31, 2023, 2022 and 2021, and 2020, respectively.

Table of Contents

NOTE 7. 8. INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction, the Commonwealth of Pennsylvania and the State of Maryland. The Company is no longer subject to tax examination by tax authorities for years before 2019. 2020.

The following table summarizes income tax expense for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

2023		2023	2022	2021
Current expense				
Current expense				
Current expense				
		2022	**2021**	**2020**
Current expense		**$ 5,170**	$ 7,072	$ 6,602
Deferred (benefit) expense				
Deferred (benefit) expense				
Deferred (benefit) expense	Deferred (benefit) expense	**(591)**	942	(554)
Income tax expense	Income tax expense	**$ 4,579**	$ 8,014	$ 6,048

Income tax expense

Income tax expense

The following table reconciles the Company's effective income tax rate to its statutory federal rate for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

	2022	2021	2020	2023	2022
Statutory federal tax rate	**21.0 %**	21.0 %	21.0 %	**21.0 %**	21.0 %
Increase (decrease) resulting from:					
State taxes, net of federal benefit	**1.6**	1.1	1.0		
State taxes, net of federal benefit					
State taxes, net of federal benefit					
Tax exempt interest income					
Tax exempt interest income					
Tax exempt interest income	**(4.1)**	(1.7)	(2.0)		
Income from life insurance	**(1.3)**	(0.9)	(1.1)		
Income from life insurance					
Income from life insurance					
Disallowed interest expense	**0.3**	—	0.1		
Low-income housing credits and related expense	**(0.2)**	(0.2)	(0.8)		
Low-income housing credits and related expenses					
Merger-related expenses					
Share-based compensation and related expenses					
Share-based compensation and related expense	**(0.5)**	0.2	—		
Share-based compensation and related expenses					
Share-based compensation and related expenses					
Other	**0.4**	0.1	0.4		
Effective income tax rate	**17.2 %**	19.6 %	18.6 %	**20.8 %**	17.2 %

For the year ended December 31, 2022, net Net investment security losses resulted in an income tax benefit of $10 thousand, and $34 thousand compared to for the years ended December 31, 2023 and 2022, respectively, and an income tax expense of $134 thousand related to net security gains for the year ended December 31, 2021, and an income tax benefit of $3 thousand related to net investment security losses for the year ended December 31, 2020 December 31, 2021.

The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the results of operations. There were no penalties or interest related to income taxes recorded in the consolidated statements of income for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020 2021 and no amounts accrued for penalties at December 31, 2022 December 31, 2023 and 2021. 2022.

Table of Contents

The following table summarizes the Company's deferred tax assets and liabilities at December 31, 2022 December 31, 2023 and 2021. 2022.

		2022	2021		
2023				2023	2022
Deferred tax assets:	Deferred tax assets:				
Allowance for loan losses		**$ 5,594**	$ 4,655		
Allowance for credit losses					
Allowance for credit losses					
Allowance for credit losses					
Deferred compensation	Deferred compensation	**434**	515		
Retirement and salary continuation plans	Retirement and salary continuation plans	**3,000**	2,633		
Share-based compensation	Share-based compensation	**774**	681		
Off-balance sheet reserves	Off-balance sheet reserves	**359**	353		
Nonaccrual loan interest	Nonaccrual loan interest	**467**	220		
Deferred loan fees	Deferred loan fees	**493**	1,604		
Net unrealized losses on AFS securities	Net unrealized losses on AFS securities	**10,405**	—		
Net unrealized losses on cash flow hedges	Net unrealized losses on cash flow hedges	**204**	—		
Purchase accounting adjustments	Purchase accounting adjustments	**896**	1,236		
Bonus accrual	Bonus accrual	**1,241**	930		
Right-of-use lease liability	Right-of-use lease liability	**2,194**	2,444		
Net operating loss carryforward	Net operating loss carryforward	**1,974**	2,218		
Net operating loss carryforward					
Net operating loss carryforward					
Depreciation and other	Depreciation and other	**99**	67		
Total deferred tax assets	Total deferred tax assets	**28,134**	17,556		

Deferred tax liabilities:	Deferred tax liabilities:		
Depreciation	Depreciation	—	368
Net unrealized gains on AFS securities		—	1,183
Depreciation			
Depreciation			
Mortgage servicing rights			
Mortgage servicing rights			
Mortgage servicing rights	Mortgage servicing rights	**884**	887
Purchase accounting adjustments	Purchase accounting adjustments	**675**	915
Right-of-use lease asset	Right-of-use lease asset	**2,054**	2,311
Investment in partnerships	Investment in partnerships	**473**	229
Other	Other	**17**	15
Total deferred tax liabilities	Total deferred tax liabilities	**4,103**	5,908
Deferred tax asset, net	Deferred tax asset, net	**$ 24,031**	$ 11,648

At December 31, 2022 December 31, 2023, the Company had acquired federal and state net operating loss carryforwards of $9.0 million $1.8 million each, subject to annual loss limitation limits per IRC Section 382, that expire beginning in 2033. A deferred tax asset is recognized for these carryforwards because the benefit is more likely than not to be realized.

FASB ASC 740, Income Taxes, ("ASC 740") clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in ASC 740 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740 was applied to all existing tax positions upon initial adoption. There was no liability for uncertain tax positions and no known unrecognized tax benefits at December 31, 2022 December 31, 2023 or 2021. 2022.

Table of Contents

NOTE 8. 9. RETIREMENT PLANS

The Company maintains a 401(k) profit-sharing plan for all qualified employees. Employees are eligible to participate in the 401(k) profit-sharing plan following completion of one month of service and attaining age 18. Pursuant to the 401(k) profit-sharing plan, employees can contribute up to the lesser of $61 $66 thousand, or 100% of their compensation. Substantially all of the Company's employees are covered by the plan, which contains limited match or safe harbor provisions. The Company will match 50% of the first 6% of the base contribution that an employee contributes. The Company's match is immediately vested and paid at the end of the year. Employer contributions to the plan are based on the performance of the Company and are at the discretion of the Board of Directors. Employer contribution expense totaled $859 thousand, $780 thousand $669 thousand and $626 $669 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

The Company has deferred compensation agreements with certain present and former directors, whereby a director or his beneficiaries will receive a monthly retirement benefit beginning at age 65. The arrangement is funded by an amount of life insurance on the participating director, which is calculated to meet the Company's obligations under the compensation agreement. The cash value of the life insurance policies is an unrestricted asset of the Company. The estimated present value of future benefits to be paid totaled zero and $18 thousand at December 31, 2023 and $36 thousand at December 31, 2022 and 2021, 2022, respectively. Expense for this plan totaled $2 thousand, $4 thousand $5 thousand and $7 $5 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

The Company also has supplemental discretionary deferred compensation plans for directors and executive officers. The plans are funded annually with director fees and salary reductions, which are either placed in a trust account invested by the Bank's OFA division or recognized as a liability. liability in the consolidated balance sheets. The trust account balance totaled $2.2 million and $2.0 million at December 31, 2023 and $2.3 million at December 31, 2022 and 2021, 2022, respectively, and is directly offset in other liabilities. liabilities in the consolidated balance sheets. Expense for these plans totaled $51 thousand for the year years ended December 31, 2022 December 31, 2023 and 2022 and $61 thousand for each of the years year ended December 31, 2021 and 2020. .

In addition, the Company has two supplemental retirement and salary continuation plans for directors and executive officers. These plans are funded with single premium life insurance on the plan participants. The cash value of the life insurance policies is an unrestricted asset of the Company. The estimated present value of future benefits to be paid on these plans totaled $14.9 million and $13.6 million at December 31, 2023 and $12.3 million at December 31, 2022 and 2021, 2022, respectively. Expense for these plans totaled $2.0 million $1.9 million, $1.7 million $2.0 million and $1.5 million $1.7 million, for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

The Company has promised a continuation of life insurance coverage to certain persons post-retirement. The estimated present value of future benefits to be paid totaled $1.8 million and $1.7 million at December 31, 2023 and $1.6 million at December 31, 2022 and 2021, 2022, respectively. Expense for this plan totaled $130 thousand, $105 thousand $104 thousand and $25 $104 thousand for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

Trust account balances, and estimated present values of future benefits and deferred compensation liabilities, noted above are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

NOTE 9. 10. SHARE-BASED COMPENSATION PLANS

The Company maintains share-based compensation plans under the shareholder-approved 2011 Plan. The purpose of the share-based compensation plans is to provide officers, employees, and non-employee members of the Board of Directors of the Company with additional incentive to further the success of the Company. At the Company's 2022 Annual Meeting of Shareholders held on April 26, 2022, the Company's shareholders approved an amendment to the 2011 Plan increasing the number of shares available for issuance under the 2011 Plan by 400,000. At December 31, 2022, 1,281,920 shares of the common stock of the Company, were reserved to be issued and 537,027 shares were available to be issued.

The 2011 Plan incentive awards may consist of grants of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock units and performance shares. All employees and members of the Board of Directors of the Company and its subsidiaries, are eligible to participate in the 2011 Plan. The 2011 Plan allows for the Compensation Committee of the Board of Directors to determine the type of incentive to be awarded, its term, manner of exercise, vesting and restrictions on shares. Generally, awards are nonqualified under the IRC, unless the awards are deemed to be incentive awards to employees at the Compensation Committee’s discretion.

Table At December 31, 2023, 1,281,920 shares of Contents
the common stock of the Company were reserved to be issued and 423,239 shares were available to be issued.

The following table presents a summary of nonvested restricted shares activity for 2022. 2023.

Shares	Weighted Average Grant Date
	Shares
Nonvested shares, beginning of year	**274,697 284,909**
Granted	**145,349 149,501**
Forfeited	**(33,606) (35,713)**
Vested	**(101,531) (107,466)**
Nonvested shares, end of year	**284,909 291,231**

The following table presents restricted shares compensation expense, with tax benefit information, and fair value of shares vested at December 31, 2022 December 31,

2023		2023	2022
	2022	2021	2020
Restricted share award expense			
Restricted share award expense			
Restricted share award expense / Restricted share award expense	**$ 2,012**	$ 1,901	$ 1,710
Restricted share award federal tax benefit / Restricted share award federal tax benefit	**423**	334	359
Fair value of shares vested / Fair value of shares vested	**2,498**	1,539	1,384

At December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, unrecognized compensation expense related to the share awards totaled $3.0 million $3.4 million million $2.3 million, respectively. The unrecognized compensation expense at December 31, 2022 December 31, 2023 is expected to be recognized over a weighted-average

There were no outstanding and exercisable stock options at December 31, 2022 December 31, 2023 and 2021. 2022.

The Company maintains an employee stock purchase plan to provide employees of the Company an opportunity to purchase Company common stock. Eligible employe that does not exceed the lesser of the IRS limit of $25,000 or 10% of their annual salary at the lower of 95% of the fair market value of the shares on the semi-annual offering Company reserved 350,000 shares of its common stock to be issued under the employee stock purchase plan. At December 31, 2022 December 31, 2023, 145,595 139,146

The following table presents information for the employee stock purchase plan for years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2023	2023	2022
		2022	2021	2020
Shares purchased				
Shares purchased				
Shares purchased	Shares purchased	**5,885**	8,755	7,831
Weighted average price of shares purchased	Weighted average price of shares purchased	**$ 22.53**	$ 15.58	$ 14.85
Compensation expense recognized	Compensation expense recognized	**$ 15**	$ 48	$ 6

The Company issues new shares or treasury shares, depending on market conditions, in its share-based compensation plans.

Table of Contents

NOTE 10. 11. DEPOSITS

The following table summarizes deposits by type at December 31, 2022 December 31, 2023 and 2021. 2022. During the fourth quarter of 2022, the Bank announced tha Assumption Agreement providing for the sale of its Path Valley branch and associated deposit liabilities. At December 31, 2022, approximately deposits of $31.3 million of dep a the branch sale, are reported within total deposits at cost on the consolidated balance sheets, and are were comprised of $23.5 million in interest-bearing deposits and $7.8 The transaction is expected to close These deposits were reported at cost as deposits held for assumption in connection with the sale of a bank branch within total deposits ir balance sheets.

The sale was completed on May 12, 2023, which included deposits of 2023. approximately $18.7 million comprising of $14.4 million in interest-bearing deposits and $4.3

		2023		2023
		2022	2021	
Noninterest-bearing demand deposits				
Noninterest-bearing demand deposits				
Noninterest-bearing demand deposits	Noninterest-bearing demand deposits	**$ 501,963**	$ 553,238	
Interest-bearing demand deposits	Interest-bearing demand deposits	**987,158**	903,155	
Savings	Savings	**736,124**	706,451	
Time ($250,000 or less)	Time ($250,000 or less)	**214,484**	258,064	
Time (over $250,000)	Time (over $250,000)	**36,517**	44,021	
Total	**Total**	**$ 2,476,246**	$ 2,464,929	

The following table summarizes scheduled future maturities of time deposits as of December 31, 2022 December 31, 2023.

2023		**$**
2024	2024	
2025	2025	
2026	2026	
2027	2027	
2028		
Thereafter	Thereafter	
		$
	$	

Brokered money market deposit balances were $20.1 million and $1.0 million at December 31, 2023 and 2022, respectively. Brokered time deposits totaled zero at Dece
2021, respectively. 2022. Management evaluates brokered deposits as a funding option, taking into consideration regulatory views on such deposits as non-core funding sour

NOTE 11. 12. RELATED PARTY TRANSACTIONS

Directors and executive officers of the Company, including their immediate families and companies in which they have a direct or indirect material interest, are considere
course of business, the Company engages in various related party transactions, including extending credit, taking deposits and bank service transactions. The Company relie
officers for the identification of their associates.

Federal banking regulations require that any extensions of credit Loans to insiders principal officers, directors and their related interests not be offered on terms more fav
related borrowers of similar creditworthiness. during The following table presents the aggregate activity in loans to related parties during 2022. 2023 were as follows:

Balance, beginning of year	
New loans	
Repayments	
Director and officer relationship changes	
Balance, end of year	

None of these loans are past due, on nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the
There were no loans to a related party that were considered classified loans at December 31, 2022 December 31, 2023 or 2021. 2022.

At December 31, 2022 December 31, 2023 and 2021, 2022, the Company had approximately $4.0 million $3.6 million and $4.7 million $4.0 million, respectively, in depos
directors and certain executive officers.

[Table of Contents](#)

NOTE 12. 13. SHORT-TERM BORROWINGS

The Company has short-term borrowing capability from the FHLB federal funds purchased and the FRB discount window. The following table summarizes these short-te
ended December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2022	2021	2020			
	2023					2023	
Balance at year-end	Balance at year-end	$ **104,684**	$ —	$ 55,729			
Weighted average interest rate at year-end	Weighted average interest rate at year-end	**4.45 %**	— %	0.41 %	Weighted average interest rate at year-end	**5.68 %**	4.45
Average balance during the year	Average balance during the year	$ **13,846**	$ 38,546	$ 138,310			
Average interest rate during the year	Average interest rate during the year	**3.97 %**	0.33 %	0.67 %	Average interest rate during the year	**5.46 %**	3.97
Maximum month-end balance during the year	Maximum month-end balance during the year	$ **104,684**	$ 55,729	$ 178,729			

At December 31, 2023 and 2022, the Company had availability under FHLB lines for its short-term borrowings totaling $52.5 million and $45.3 million, respectively.

The Company also enters into borrowing arrangements with certain of its deposit clients by agreements to repurchase ("repurchase agreements") under which the Comp
owned and under its control as collateral against the borrowing arrangement, which generally matures within one day from the transaction date. The Company is required to h
GSE securities as underlying securities for repurchase agreements. The following table provides additional details for repurchase agreements, which excludes federal funds p
December 31, 2022 December 31, 2023, 2021 2022 and 2020. 2021.

		2022		2021		2020			2023		
2023											
Balance at year-end	Balance at year-end	$	17,251	$	23,301	$	19,466				
Weighted average interest rate at year-end	Weighted average interest rate at year-end		0.60 %		0.11 %		0.23 %	Weighted average interest rate at year-end	0.76	%	0.60
Average balance during the year	Average balance during the year	$	22,294	$	22,888	$	18,064				
Average interest rate during the year	Average interest rate during the year		0.20 %		0.14 %		0.47 %	Average interest rate during the year	0.80	%	0.20
Maximum month-end balance during the year	Maximum month-end balance during the year	$	26,399	$	27,595	$	24,403				
Fair value of securities underlying the agreements at year-end	Fair value of securities underlying the agreements at year-end	$	17,188	$	32,662	$	29,477				

NOTE 13. 14. LONG-TERM DEBT

The following table presents components of the Company's long-term debt at December 31, 2022 December 31, 2023, and 2021. 2022.

	Amount		Weighted Average rate		Amount			Weighted Av
	2023					2023	2022	
	2022	2021	2022	2021				
FHLB fixed rate advances maturing:								
2025								
2025								
2025					$	15,000	$ —	4.57
2028				2028		25,000	—	3.98
	40,000							
	40,000							
	40,000						—	4.20

Total FHLB amortizing advance requiring monthly principal and interest payments, maturing:	Total FHLB amortizing advance requiring monthly principal and interest payments, maturing:								
2025									
2025									
2025	2025	**$1,455**	$1,896	**4.74 %**	4.74 %	—	1,455	1,455	—	—
Total FHLB Advances									
Total FHLB Advances									
Total FHLB Advances						**$ 40,000**		$ 1,455	**4.20**

There were no five new long term borrowings in 2022 or 2021. 2023 and zero in 2022. The following table summarizes the future annual principal payments required on t 2022 December 31, 2023.

2023	
2024	
2025	
2026	
2027	
Thereafter	
2025	
2028	

The Bank is a member of the FHLB of Pittsburgh and has access to the FHLB program of overnight and term advances. Under terms of a blanket collateral agreement f from the FHLB, collateral for all outstanding advances, lines and letters of credit consisted of 1-4 family mortgage loans and other real estate secured loans totaling $1.0 billio 2022 December 31, 2023. The Bank had additional availability of $909.6 million $973.3 million at the FHLB on December 31, 2022 December 31, 2023 based on its qualifying and long-term debt detailed above deposit letters of credit totaling $1.0 million and non-deposit letters of credit totaling $1.2 million $609 thousand at December 31, 2022 Dec

Table There were zero deposit letters of Contents

At December 31, 2022 and 2021, the Company had availability under FHLB lines totaling $45.3 million and $150.0 million, respectively. credit at December 31, 2023.

The Bank has available unsecured lines of credit, with interest based on the daily Federal Funds rate, with two correspondent banks totaling $30.0 million $20.0 million, a 2023. There were no borrowings under these lines of credit at December 31, 2022 December 31, 2023 and 2021. 2022.

NOTE 14. 15. SUBORDINATED NOTES

The Company has unsecured subordinated notes payable, which mature on December 30, 2028. At December 31, 2022 December 31, 2023 and 2021, 2022, subordina $32.0 million $32.1 million for both periods, which qualified for Tier 2 capital. capital subject to the regulatory capital phase out limitations. The notes are recorded on the cons remaining debt issuance costs totaling $474 $407 thousand and $537 thousand at December 31, 2022 December 31, 2023 and 2021, 2022, respectively, which are amortized yield basis. The subordinated notes have had a fixed interest rate of 6.0% through December 30, 2023, which a then converts converted to a variable rate, equivalent to the LI any replacement reference SOFR rate plus 3.16%, through maturity. At December 31, 2023, the interest rate on our subordinated debt was 8.78%. The Company may, at its o part, on any interest payment date on or after December 30, 2023, and at any time upon the occurrence of certain events. As of December 31, 2022 December 31, 2023, the covenants contained in the subordinated notes payable agreement.

NOTE 15. 16. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide v through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from busin payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used as risk m manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to th used for trading or speculative purposes.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplis uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy.

Interest rate swaps designated as cash flow hedges involve the hedge of the exposure to variability in expected future cash flows through the receipt of fixed or variable exchange for the Company making variable-rate or fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company, h accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period due to circumstances, such as the impact of the COVID-19 pa associated gains and losses deferred in AOCI are reclassified immediately into earnings and subsequent changes in the fair value of the cash flow hedge are recognized in e

The Company entered into one new interest rate swap designated as a cash flow hedge with a notional value of $75.0 million during the year ended December 31, 2022 2023, the Company entered into had two interest rate swaps designated as hedging instruments with a total notional value of $100.0 million $125.0 million for the purpose of h selected AFS securities or loans. For loans or hedging variable cash flows associated with the year ended December 31, 2021, the Company had zero Company's borrowings designated as cash flow hedges with a total notional value of $100.0 million at December 31, 2022 for the purpose of hedging instrument the variable cash flows of selected A

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, suc fair value hedges. The gain or loss on the fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current e When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted liability.

The Company terminated its entered into three pay-fixed interest rate derivative swaps on certain closed portfolio loans with our commercial clients with a total notional v million during the year ended December 31, 2023. The commercial loans are scheduled to mature at various dates ranging from December 2026 to October 2054. The intere value hedges and allow the Company to offer long-term fixed rate loans to commercial clients while mitigating the interest rate risk of a cash flow hedge of interest-rate risk as due long-term asset by converting fixed rate interest payments to floating rate interest payments indexed to a synthetic U.S. SOFR rate. The Company did not have fair value and impact of the COVID-19 pandemic, and reclassified $398 thousand of the realized losses from AOCI to current earnings because the hedged forecasted transaction was occurring. year ended December 31, 2022.

The Company enters into interest rate swaps that allow its commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate co 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 cu rate loan. In addition, the Company may enter into interest rate caps that allow its commercial loan customers to gain protection against significant interest rate increases and variable interest rate. The Company then enters into a corresponding swap or cap agreement with a third party in order to economically hedge its exposure through the swaps and interest rate caps with both the customers and third parties are not designated as hedges and are marked through earnings. At December 31, 2022 Decem customer and 26 35 corresponding third-party broker interest rate derivatives not designated as a hedging instrument with an aggregate notional amount of $268.8 million $ million $268.8 million of such derivative instruments at December 31, 2021 December 31, 2022. The Company entered into 14 nine new interest rate swaps with its commerci fee income of $2.5 million $1.0 million for the year ended December 31, 2022 December 31, 2023 compared to swap fee income of $240 thousand $2.5 million from three 14 n

Table of Contents

interest rate swaps with its commercial loan customers for the year ended December 31, 2021 December 31, 2022, which are included in noninterest income in the consolida addition, The Company did not enter into any interest new rate cap agreements for the year ended December 31, 2023. The Company entered into one new interest rate cap recognized fee income of $14 thousand for the year ended December 31, 2022, which is included in noninterest income in the consolidated statements of income. The Comp cap agreements for the year ended December 31, 2021.

At December 31, 2022 December 31, 2023 and 2021, 2022, the Company provided had cash collateral of $6.6 million and $5.4 million and $260 thousand with a counter these derivatives, respectively. At December 31, 2022 December 31, 2023 and 2021, 2022, the Company received cash collateral of $8.5 million $4.4 million and $490 thousa these derivatives, respectively.

The Company also may enter into risk participation agreements with a financial institution counterparty for an interest rate derivative contract related to a loan in which th agent bank. The risk participation agreement provides credit protection to the agent bank should the borrower fail to perform on its interest rate derivative contracts with the a credit risk on the risk participation agreement by monitoring the creditworthiness of the borrower, which is based on the same credit review process as though the Company h instruments directly with the borrower. The notional amount of such a risk participation agreement reflects the Company's pro-rata share of the derivative instrument, consiste participated loan. At December 31, 2022 and 2021, December 31, 2023, the Company had four risk participation agreements with sold protection with a notional value of $32. participation agreements with sold protection with a notional value of $29.0 million and $15.9 million, respectively. at December 31, 2022. In addition, the Company had a thre protection with a notional value of $11.0 million at December 31, 2023 compared to one risk participation agreement with purchased protection with a notional value of $4.9 m Company did not enter into any risk participation agreements for the year ended December 31, 2021. The Company received an upfront fee of $140 $31 thousand upon entry agreements for the year ended December 31, 2022 December 31, 2023 compared to $53 $140 thousand upon entry into one four new risk participation with sold protection fo 2021 December 31, 2022, which is included in noninterest income in the consolidated statements of income.

As a part of its normal residential mortgage operations, the Company will enter into an interest rate lock commitment with a potential borrower. The Company may enter investor to sell that loan at a specific price shortly after origination. In accordance with FASB ASC 820, adjustments are recorded through earnings to account for the net char for the held for sale pipeline. In accordance with FASB ASC 820, adjustments are recorded through earnings to account for the net change in fair value of these held for sale loans can vary based on the interest rate locked with the customer and the current market interest rate at the balance sheet date.

Table of Contents

The following table summarizes the notional values and fair value of the Company's derivative instruments at December 31, 2022 December 31, 2023 and 2021: 2022:

	December 31, 2023 Notional Amount	December 31, 2023 Balance Sheet Location	December 31, 2023 Fair Value	December 31, 2022 Notional Amount	December 31, 2022 Balance Sheet Location	December 31, 2022 Fair Value	December 31, 2021 Notional Amount	December 31, 2021 Balance Sheet Location	December 31, 2021 Fair Value
Derivatives designated as hedging instruments:									
Cash flow hedge designation:									
Cash flow hedge designation:									
Cash flow hedge designation:									
Interest rate swaps - FHLB advances									
Interest rate swaps - FHLB advances									
Interest rate swaps - FHLB advances	**$ 75,000**	Other assets	**$ 135**						
Interest rate swaps - AFS securities									
Fair value hedge designation:									
Derivatives designated as hedging instruments:									
Fair value hedge designation:									
Interest rate swaps - balance sheet hedge				**$100,000**	Other liabilities	**$ (973)**	$ —	Not applicable	$ —
Fair value hedge designation:									
Interest rate swaps - commercial loans									
Interest rate swaps - commercial loans									
Interest rate swaps - commercial loans	**$ 100,000**	Other liabilities	**(1,718)**						
Total derivatives designated as hedging instruments Total derivatives designated as hedging instruments						**$ (973)**			$ —
Derivatives not designated as hedging instruments: Derivatives not designated as hedging instruments:									
Derivatives not designated as hedging instruments:									
Derivatives not designated as hedging instruments:									
Interest rate swaps Interest rate swaps				**$128,385**	Other assets	**$10,437**	$37,915	Other assets	$764
Interest rate swaps Interest rate swaps				**128,385**	Other liabilities	**(10,262)**	37,915	Other liabilities	(758)
Purchased Options – Rate Cap				**6,000**	Other assets	**29**	—	Not applicable	—

Written Options – Rate Cap		**6,000**	Other liabilities	**(29)**	—	Not applicable	—
Interest rate swaps							
Interest rate swaps							
Purchased options – rate cap							
Written options – rate cap							
Risk participations - sold credit protection	Risk participations - sold credit protection	**29,019**	Other liabilities	**(69)**	15,855	Other liabilities	(2)
Risk participations - purchased credit protection	Risk participations - purchased credit protection	**4,941**	Other assets	**16**	—	Not applicable	—
Interest rate lock commitments with customers	Interest rate lock commitments with customers	**1,356**	Other assets	**35**	16,604	Other assets	353
Forward sale commitments	Forward sale commitments	**3,483**	Other assets	**140**	8,665	Other assets	52
Total derivatives not designated as hedging instruments	Total derivatives not designated as hedging instruments			**$ 297**			$409

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of fair value hedge accounting that is included in
as of December 31, 2023.

	Carrying Amounts of Hedged Assets		Cumulative Amounts of Fair Value Hedging Ac of the Hedg
	2023	2022	2023
Commercial loans	**$ 100,000**	$ —	**$ 1,722**

The following tables summarize the effect of the Company's derivative financial instruments on OCI and net income at December 31, 2022 December 31, 2023, 2022 an

		Amount of (Loss) Gain Recognized in OCI on Derivative	
		2022	2021
		Amount of Gain (Loss) Recognized in OCI on Derivative	
		Amount of Gain (Loss) Recognized in OCI on Derivative	
		Amount of Gain (Loss) Recognized in OCI on Derivative	
		2023	2023	2022
Derivatives in cash flow hedging relationships:	**Derivatives in cash flow hedging relationships:**			

Interest rate products	Interest rate products	**$ (972)**	$ 473
Interest rate products			
Interest rate products			
Total	**Total**	**$ (972)**	$ 473

	Amount of Loss Reclassified from AOCI into Income	
	2022	**2021**
Derivatives in cash flow hedging relationships:		
Interest rate products	**$ —**	$ (757
Total	**$ —**	$ (757

	Amount of Loss Reclassified from AOCI into Income		
	2023	**2022**	**2021**
Derivatives in cash flow hedging relationships:			
Interest rate products	**$ —**	$ —	$ (757)
Total	**$ —**	$ —	$ (757)

(1) For interest rate swaps designated as cash flow hedges entered into for the year ended December 31, 2022, the amount of loss reclassified from AOCI will be recorde condensed consolidated statements of income.

(2)For the year ended December 31, 2021, the Company terminated its interest rate swap designated as a hedging instrument with a notional value of $50.0 million. The Company recordec expenses in the consolidated statements of income.

	Amount of Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income
	Amount of (Loss) Gain Recognized in Income	
	Amount of (Loss) Gain Recognized in Income	
	Amount of (Loss) Gain Recognized in Income	**Location of**
	2023	
Derivatives designated as hedging instruments		
Derivatives designated as hedging instruments		
Derivatives designated as hedging instruments		
Fair value hedge designation:		
Fair value hedge designation:		
Fair value hedge designation:		
Interest rate swaps - commercial loans 1		

Interest rate swaps - commercial loans [1]

Interest rate swaps - commercial loans [1] $ 4 n/a

		2022	2021										
Derivatives not designated as hedging instruments:	**Derivatives not designated as hedging instruments:**												
Derivatives not designated as hedging instruments:													
Derivatives not designated as hedging instruments:													
Interest rate products													
Interest rate products													
Interest rate products	Interest rate products	**$ 30**	$ 41	Other operating expenses		**$ (232)**	$	$ 30	$	$ 41	Other operating expenses		Other operating expenses
Risk participation agreements	Risk participation agreements	**88**	(2)	Other operating expenses	Risk participation agreements	**(16)**	88		88	(2)		(2)	Other operating expenses
Interest rate lock commitments with customers	Interest rate lock commitments with customers	**(318)**	(320)	Mortgage banking activities	Interest rate lock commitments with customers	**20**	(318)		(318)	(320)		(320)	Mortgage banking activities
Forward sale commitments	Forward sale commitments	**88**	113	Mortgage banking activities	Forward sale commitments	**(144)**	88		88	113		113	Mortgage banking activities
Total		**$ (113)**	$ (168)										
Total derivatives not designated as hedging instruments													

[1] Amount includes the net of the change in the fair value of the interest rate swaps hedging commercial loans and the change in the carrying value included in the hedged commercial loans.

[1] Amount includes the net of the change in the fair value of the interest rate swaps hedging commercial loans and the change in the carrying value included in the hedged commercial loans.

[1] Amount includes the net of the change in the fair value of the interest rate swaps hedging commercial loans and the change in the carrying value included in the hedged commercial loans.

Table of Contents

The following table is a summary of components for interest rate swap designated as cash flow hedges hedging instruments at December 31, 2022 December 31, 2023 a Company had two interest rate derivatives designated as cash flow hedges with a total notional of $100.0 million. During the year ended December 31, 2021, the Company te derivative of $50.0 million. 2022.

	December 31, 2022
Weighted average pay rate	3.81 %
Weighted average receive rate	3.81 %
Weighted average maturity in years	1.2

	Weighted Average Pay Rate	Weighted Average Rate
December 31, 2023		
Cash flow hedge designation:		
Interest rate swaps - FHLB advances	3.49 %	
Interest rate swaps - AFS securities	5.34 %	
Fair value hedge designation:		
Interest rate swaps - commercial loans	4.12 %	
December 31, 2022		
Cash flow hedge designation:		
Interest rate swaps - AFS securities	3.81 %	

NOTE 16. 17. SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additiona regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and clas qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Under the Basel Committee on Banking Supervision's capital guideline entity must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The Company and the Bank have elected not to include net unrealize accumulated other comprehensive income AOCI in computing regulatory capital.

The consolidated asset limit on small bank holding companies is $3.0 billion On January 1, 2023, the Company adopted ASU No. 2016-13, which replaced the existing ir credit losses with an expected loss model referred to as the CECL model, and resulted in a company with assets under that limit is not subject reduction to opening retained e increase to the FRB consolidated ACL for loans of approximately $2.4 million and ACL for off-balance sheet exposures of $100 thousand, which combined totals $2.5 million. issued a rule, which provided for the option to elect a three-year transition provision of the day-one impact of the CECL model beginning with regulatory capital rules, but may amounts and ratios. at March 31, 2023. The Company has elected to file those reports. the three-year phase in option.

Management believes, at December 31, 2022 and 2021, that the Parent The Company and the Bank met all capital adequacy requirements to which they are subject.

subject at December 31, 2023 and 2022. Prompt corrective action regulations provide five classifications: well capitalized, well-capitalized, adequately capitalized, under undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is req undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2022 December 31, 2023, the categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that manageme classification.

Table of Contents

The following table presents capital amounts and ratios at December 31, 2022 December 31, 2023 and 2021. 2022.

Actual | For Capital Adequacy Purposes (includes applicable capital conservation buffer) | To Be Well Capitalized Under

	Actual		For Capital Adequacy Purposes (includes applicable capital conservation buffer)	
	Amount	Ratio	Amount	Ratio
December 31, 2022 2023				
Total risk-based capital:				
Orrstown Financial Services, Inc.	$ 304,589 326,878	12.7 13.0 %	$ 250,939 264,019	10.5 %
Orrstown Bank	292,933 320,687	12.3 12.8 %	250,566 263,942	10.5 %
Tier 1 risk-based capital:				
Orrstown Financial Services, Inc.	245,752 272,677	10.3 10.8 %	203,141 213,730	8.5 %

Orrstown Bank	**266,122** **292,160**		**11.2** **11.6 %**	**202,839** **213,667**	**8.5 %**
Tier 1 common equity risk-based capital:					
Orrstown Financial Services, Inc.	**245,752** **272,677**		**10.3** **10.8 %**	**167,293** **176,013**	**7.0 %**
Orrstown Bank	**266,122** **292,160**		**11.2** **11.6 %**	**167,044** **175,961**	**7.0 %**
Tier 1 leverage capital:					
Orrstown Financial Services, Inc.	**245,752** **272,677**		**8.5** **8.9 %**	**116,325** **122,907**	**4.0 %**
Orrstown Bank	**266,122** **292,160**		**9.2** **9.5 %**	**116,219** **122,907**	**4.0 %**
December 31, 2021 2022					
Total risk-based capital:					
Orrstown Financial Services, Inc.	$ 297,823 304,589		15.0 12.7 %	$ 208,617 250,939	10.5 %
Orrstown Bank	278,780 292,933		14.0 12.3 %	208,550 250,566	10.5 %
Tier 1 risk-based capital:					
Orrstown Financial Services, Inc.	243,075 245,752		12.2 10.3 %	168,880 203,141	8.5 %
Orrstown Bank	255,995 266,122		12.9 11.2 %	168,826 202,839	8.5 %
Tier 1 common equity risk-based capital:					
Orrstown Financial Services, Inc.	243,075 245,752		12.2 10.3 %	139,078 167,293	7.0 %
Orrstown Bank	255,995 266,122		12.9 11.2 %	139,033 167,044	7.0 %
Tier 1 leverage capital:					
Orrstown Financial Services, Inc.	243,075 245,752		8.5 %	114,384 116,325	4.0 %
Orrstown Bank	255,995 266,122		8.9 9.2 %	114,470 116,219	4.0 %

The Company maintains a stockholder dividend reinvestment and stock purchase plan. Under the plan, shareholders may purc Company's common stock at the prevailing market prices with reinvestment dividends and voluntary cash payments. The Company common stock to be issued under the dividend reinvestment and stock purchase plan. At December 31, 2022 December 31, 2023, a available to be issued under the plan.

In September 2015, the Board of Directors of the Company authorized a share repurchase program pursuant to which the Com shares of the Company's outstanding shares of common stock, in accordance with all applicable securities laws and regulations, inc Exchange Act of 1934, as amended. Act. On April 19, 2021, the Board of Directors authorized the additional future repurchase of up common stock for a total of 978,000 shares. When and if appropriate, repurchases may be made in open market or privately negotia conditions, regulatory requirements and other corporate considerations, as determined by management. Share repurchases may not time. At December 31, 2022 December 31, 2023, 818,941 949,533 shares had been repurchased under the program at a total cost o $22.78 $22.36 per share. Common stock available for future repurchase totals 159,059 28,467 shares, or 1% 0.3%, of the Company's December 31, 2022 December 31, 2023.

On January 24, 2023 January 23, 2024, the Board declared a cash dividend of $0.20 per common share, which was paid on Fe shareholders of record on February 7, 2023 February 6, 2024.

Table of Contents

Banking regulations limit the ability of the Bank to pay dividends or make loans or advances to the Parent Company. Dividends are limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2022 Bank available to be paid to the Parent Company, without prior approval of the Bank's regulatory agency, totaled $45.9 million $55.0 exceeding regulatory capital requirements. The Parent Company's principal source of funds for dividend payments to shareholders is addition, any dividend increases prior to the completion of the merger of equals with Codorus Valley Bancorp, Inc. must be approve

At December 31, 2022 December 31, 2023, there were no loans from the Bank to any nonbank affiliate, including the Parent Co affiliate may not exceed 10%, and loans to all affiliates may not exceed 20%, of the Bank's capital stock, surplus, and undivided prof regulation). Loans from the Bank to nonbank affiliates, including the Parent Company, are also required to be collateralized accordin 31, 2022 December 31, 2023 and 2021, 2022, the maximum amount the Bank had available to loan to a nonbank affiliate was $29.3 million $29.3 million, respectively.

NOTE 17. 18. EARNINGS PER SHARE

The following table presents earnings per share for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 20

		2022	2021	2020		
	2023				2023	2022
Net income	Net income	**$22,037**	$32,881	$26,463		

Weighted average shares outstanding - basic	Weighted average shares outstanding - basic	**10,553**	10,967	10,942
Dilutive effect of share-based compensation	Dilutive effect of share-based compensation	**153**	139	92
Weighted average shares outstanding - diluted	Weighted average shares outstanding - diluted	**10,706**	11,106	11,034
Per share information:	Per share information:			
Basic earnings per share	Basic earnings per share	**$ 2.09**	$ 3.00	$ 2.42
Basic earnings per share				
Basic earnings per share				
Diluted earnings per share	Diluted earnings per share	**2.06**	2.96	2.40

For the years ended December 31, 2022 December 31, 2023, 2022 and 2021, there were zero average outstanding stock optio exclude totaling 6,398, 29,414 and zero, respectively, excluded from the computation of earnings per share because the effect was a exceeded the average market price. For the year ended December 31, 2020, there were 16,109 average outstanding stock options a from the computation of earnings per share because the effect was antidilutive. The dilutive effect of share-based compensation in e principally to restricted stock awards.

NOTE 18. 19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financi instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, eleme excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitr letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses t commitments and conditional obligations as it does for on-balance sheet instruments. The following table presents these contractual, 2022 December 31, 2023, and 2021. 2022.

		20
Commitments to fund:		
Home equity lines of credit	$	
1-4 family residential construction loans		
Commercial real estate, construction and land development loans		
Commercial, industrial and other loans		
Standby letters of credit		

[Table of Contents](#)

		2023
Commitments to fund:		
Home equity lines of credit	$	**337**
1-4 family residential construction loans		**40**
Commercial real estate, construction and land development loans		**132**
Commercial, industrial and other loans		**357**
Standby letters of credit		**24**

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in t have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expe

upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's cr
basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's
Collateral varies but may include accounts receivable, inventory, equipment, residential real estate, and income-producing commerci

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the
Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letter
that involved in extending loans to clients. The Company holds collateral supporting those commitments when deemed necessary by
December 31, 2022 December 31, 2023 and 2021, 2022, for guarantees under standby letters of credit issued was not considered to

The Company maintains a reserve on its off-balance sheet credit exposures, which totaled $1.7 million and $1.6 million at Dece
and is recorded in other liabilities on the consolidated balance sheets. On January 1, 2023, the Company adopted CECL and recorde
increased the ACL for off-balance sheet credit exposures by $100 thousand. The reserve is based on management's estimate of exp
credit exposures. The reserve specific to unfunded loan commitments is determined by applying utilization assumptions based on his
expected loss rates by loan class. Following adoption of CECL, the change in the reserve for off-balance sheet credit exposures is re
expense through the provision for credit losses in the consolidated statements of income. The Company did not record a provision fo
credit exposures for the years ended December 31, 2023. Prior to January 1, 2023, the Company maintained the reserve based on h
loan class and utilization assumptions, for off-balance sheet credit exposures that currently are not funded, in other liabilities on funde
balance sheets. This reserve totaled $1.6 million at both years ended December 31, 2022 and 2021. The net amount expensed 2021
$28 thousand and $57 thousand, respectively, to other operating expenses in the consolidated statements of income associated with
credit exposures reserve was $28 thousand, $57 thousand and $511 thousand for the years ended December 31, 2022, 2021 and 20

The Company may sell loans to the FHLB of Chicago as part of its Mortgage Partnership Finance Program ("MPF Program. Pro
Program, there is limited recourse back to the Company for loans that do not perform in accordance with the terms of the loan agreer
program is "credit enhanced" such that the individual loan's rating is raised to a minimum "BBB," as determined by the FHLB of Chica
MPF Program totaled $9.6 million and $10.7 million at December 31, 2023 and $13.5 million at December 31, 2022 and 2021, 2022,
to the Company on these loans of $385 thousand and $387 thousand at December 31, 2023 and $714 thousand at December 31, 20
of the loans sold under the MPF Program have primary mortgage insurance, which reduces the Company's overall exposure. The ne
the Company's estimate of losses under its recourse exposure for loans foreclosed, or in the process of foreclosure, is recorded in ot
consolidated statements of income. These amounts were not material for the years ended December 31, 2022 December 31, 2023, 2

NOTE 19. 20. FAIR VALUE

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 mo
or liability in an orderly transaction between market participants on the measurement date. Certain financial instruments and all non-f
disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Comp

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained fro
inputs) and (2) an entity's own assumptions about market participant assumptions based on the best information available in the circu
fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for id
and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 – quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access at

Level 2 – significant other observable inputs other than Level 1 prices such as prices for similar assets and liabilities in active m
similar instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market da

Level 3 – at least one significant unobservable input that reflects a company's own assumptions about the assumptions that ma
asset or liability.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest leve
value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement
considers factors specific to the asset or liability.

The Company used the following methods and significant assumptions to estimate fair value for financial instruments measured

Table of Contents

Where quoted prices are available in an active market, investment securities are classified within Level 1 of the valuation hierarc
include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available,
within Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discour
securities include U.S. agency securities, mortgage-backed securities, MBS, obligations of states and political subdivisions and certa
backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, invest
Level 3 of the valuation hierarchy. All of the Company's investment securities are classified as available-for-sale.

The fair values of interest rate swaps, interest rate caps and risk participation derivatives are determined using models that inco
into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash p
receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In add
of nonperformance risk by incorporating credit valuation adjustments for the Company and its counterparties. These assets and liabil
values, based upon the lowest level of input that is significant to the fair value measurements.

Table of Contents

The following table summarizes assets and liabilities measured at fair value on a recurring basis at December 31, 2022 Decemb

	Level 1	Level 2	Level 3	Total Fair Value Measurements
December 31, 2022				
	Level 1			**Level 1**
December 31, 2023				
Financial Assets				
Financial Assets				
Financial Assets **Financial Assets**				
Investment securities: Investment securities:				
Investment securities:				
Investment securities:				
U.S. Treasury securities U.S. Treasury securities	**$ 17,291**	**$ —**	**$ —**	**$ 17,291**
U.S. Government Agencies	**—**	**5,135**	**—**	**5,135**
U.S. Treasury securities				
U.S. Treasury securities				
U.S. government agencies				
States and political subdivisions States and political subdivisions	**—**	**191,488**	**5,926**	**197,414**
States and political subdivisions				
States and political subdivisions				
GSE residential MBSs GSE residential MBSs	**—**	**59,402**	**—**	**59,402**
GSE commercial MBSs				
GSE residential CMOs GSE residential CMOs	**—**	**68,378**	**—**	**68,378**
Non-agency CMOs Non-agency CMOs	**—**	**18,491**	**21,267**	**39,758**
Asset-backed				
Asset-backed				
Asset-backed Asset-backed	**—**	**125,973**	**—**	**125,973**
Other Other	**377**	**—**	**—**	**377**

Loans held for sale	Loans held for sale	—	10,880	—	10,880
Derivatives	Derivatives	—	10,482	35	10,517
Totals	Totals	$ 17,668	$ 490,229	$ 27,228	$ 535,125
Totals					
Totals					
Financial Liabilities	**Financial Liabilities**				
Derivatives					
Derivatives					
Derivatives	Derivatives	$ —	$ 11,333	$ —	$ 11,333
December 31, 2021					
December 31, 2022					
December 31, 2022					
December 31, 2022					
Financial Assets					
Financial Assets					
Financial Assets	**Financial Assets**				
Investment securities:	Investment securities:				
Investment securities:					
Investment securities:					
U.S. Treasury securities	U.S. Treasury securities	$ 19,702	$ —	$ —	$ 19,702
U.S. Treasury securities					
U.S. Treasury securities					
U.S. government agencies					
States and political subdivisions					
States and political subdivisions					
States and political subdivisions	States and political subdivisions	—	183,171	10,199	193,370
GSE residential MBSs	GSE residential MBSs	—	40,726	—	40,726
GSE residential CMOs	GSE residential CMOs	—	65,922	—	65,922
GSE residential CMOs					
GSE residential CMOs					
Non-agency CMOs	Non-agency CMOs	—	16,750	12,948	29,698
Asset-backed					
Asset-backed					
Asset-backed	Asset-backed	—	122,621	—	122,621
Other	Other	399	—	—	399
Loans held for sale	Loans held for sale	—	8,868	—	8,868

Derivatives	Derivatives		—		764		353		1,117
Totals	Totals	$	20,101	$	438,822	$	23,500	$	482,423
Totals									
Totals									
Financial Liabilities	**Financial Liabilities**								
Derivatives									
Derivatives									
Derivatives	Derivatives	$	—	$	760	$	—	$	760

The Company had one municipal bond and three CMOs measured at fair value on a recurring basis using significant unobserva 2022 compared to one municipal bond December 31, 2023 and one non-agency CMO measured at fair value on a recurring basis us (Level 3) at December 31, 2021. 2022. The Level 3 valuation is based on a non-executable broker quote, which is considered a signi are updated as available and may remain constant for a period of time for certain broker-quoted securities that do not move with the sensitive as a result of their structure or overall attributes.

The Company's residential mortgage loans held-for-sale were recorded at fair value utilizing Level 2 measurements. This fair va upon third party quotes obtained on similar loans. For loans held-for-sale for which the fair value option has been elected, the aggreg aggregate principal balance by $1.5 million and $1.2 million as of December 31, 2022 December 31, 2023 and exceeded the aggrega of December 31, 2021. 2022, respectively.

The determination of the fair value of interest rate lock commitments on residential mortgages is based on agreed upon pricing loan and includes a pull through percentage. The pull through percentage represents

Table of Contents

an estimate of loans in the pipeline to be delivered to an investor versus the total loans committed for delivery. Significant changes in higher or lower fair value measurement. As the pull through percentage is a significant unobservable input, this is deemed a Level 3 through percentage, which is based upon historical experience, was 92% as of December 31, 2022 December 31, 2023. An increase assumption would result in a positive or negative change of $1 $3 thousand in the fair value of interest rate lock commitments at Dec

The following provides details of the Level 3 fair value measurement activity for the years ended December 31, 2022 December

Investment securities:	Investment securities:		**2022**		2021	
			2023			
			2023			
			2023			**2022**
Balance, beginning of year	Balance, beginning of year	**$**	**23,147**	$	31,503	
Unrealized (loss) gain included in OCI			**(1,859)**		31	
Unrealized gains (losses) included in OCI						
Unrealized gains (losses) included in OCI						
Unrealized gains (losses) included in OCI						
Purchases	Purchases		**21,237**		—	
Net discount accretion	Net discount accretion		**56**		—	
Principal payments and other	Principal payments and other		**(10)**		(4,842)	

Sales	Sales	**(3,053)**	(3,545)
Calls	Calls	**(12,154)**	—
OTTI	OTTI	**(171)**	—
OTTI			
OTTI			
Balance, end of year	Balance, end of year	**$ 27,193**	$ 23,147

There were no transfers into or out of Level 3 at December 31, 2022 December 31, 2023 and 2021. 2022.

Interest rate lock commitments on residential mortgages:	Interest rate lock commitments on residential mortgages:			
		2022	**2021**	
		2023		
		2023		
		2023		**2022**
Balance, beginning of year	Balance, beginning of year	**$353**	$673	
Total losses included in earnings		**(318)**	(320)	
Total gains (losses) included in earnings				
Balance, end of year	Balance, end of year	**$ 35**	$353	
Balance, end of year				
Balance, end of year				

Certain financial assets are measured at fair value on a nonrecurring basis. Adjustments to the fair value of these assets usually of-cost-or-market accounting or write-downs of individual assets. The Company used the following methods and significant assumpti financial assets.

Impaired Individually Evaluated Loans

Loans Upon adoption of CECL, loans individually evaluated for credit expected losses included nonaccrual loans and other loan characteristics to loans in the CECL loan pools, which have been classified as Level 3. Individually evaluated loans with an allocatio on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the consolida adoption of CECL and ASU No. 2022-02, which eliminated the TDR accounting model, loans were designated as impaired when, in t based on current information and events, it is probable that all amounts due, according to the contractual terms of the loan agreemen

The measurement of loss associated with impaired loans evaluated individually for all loan classes can be was based on either loan, the fair value of the collateral, or discounted cash flows using the rate of return implicit in the original loan for TDRs. DCF. For co is was measured based on the value of the collateral securing the loan, less estimated costs to sell. Collateral may be in the form of r equipment, inventory, and accounts receivable. The value of the real estate collateral is determined utilizing an income or market valu conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the co process of construction, or if management adjusts the appraisal value, then the fair value is considered Level 3. The value of busines appraisal, if deemed significant, or the net book value on the applicable business' financial statements if not considered significant us values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaire are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loa statements of income.

Changes in the fair value of impaired individually evaluated loans for those still held at December 31 and considered in the deter losses totaled were a nominal amount for the year ended December 31, 2022, decline of $332 thousand, zero and (247)247 thous ended December 31, 2021 December 31, 2023, 2022 and 2020, 2021, respectively.

[Table of Contents](#)

Foreclosed Real Estate

OREO property acquired through foreclosure is initially recorded at the fair value of the property at the transfer date less estima
is carried at the lower of its carrying value or the fair value less estimated selling cost. Fair value is usually determined based upon a
the property or occasionally upon a recent sales offer. The Company had no OREO balances at December 31, 2022 and 2021.

Mortgage Servicing Rights

The MSR MSRs are evaluated for impairment by comparing the carrying value to the fair value, which is estimated to be equal t
through a DCF valuation. To the quarterly valuation model calculates extent the present value amortized cost of the MSRs exceeds th
less than its carrying fair values, a valuation allowance is established for such impairment. Fair value in which case adjustments on th
impairment charge is taken. At December 31, 2022 charge. At both December 31, 2023 and 2021, an 2022, the MSR impairment res
respectively, existed on the mortgage servicing right portfolio. for both periods. For the years ended December 31, 2022 December 3
valuation allowance reversal of $79 thousand zero and $987 $79 thousand were included, respectively, in mortgage banking activities
income. The reversals during the years ended December 31, 2022 and 2021 were income, due to increases in market rates, due to i
increased the MSR MSR's fair value.

The following table summarizes assets measured at fair value on a nonrecurring basis at December 31, 2022 December 31, 20

	Level 1	Level 1
December 31, 2023		
Individually evaluated loans		
Individually evaluated loans		
Individually evaluated loans		
Commercial real estate:		
Commercial real estate:		
Commercial real estate:		
Owner-occupied		
Owner-occupied		
Owner-occupied		
Non-owner occupied residential		
Non-owner occupied residential		
Non-owner occupied residential		
Commercial and industrial		
Commercial and industrial		
Commercial and industrial		
Residential mortgage:		
First lien		
First lien		
First lien		
Home equity - lines of credit		
Home equity - lines of credit		
Home equity - lines of credit		
Total impaired loans		
Total impaired loans		
Total impaired loans		
December 31, 2022		
December 31, 2022		

		Level 1	Level 2	Level 3	Total Fair Value Measurements
December 31, 2022	**December 31, 2022**				
Impaired loans	Impaired loans				

Impaired loans					
Impaired loans					
Commercial real estate:					
Commercial real estate:					
Commercial real estate:	Commercial real estate:				
Owner-occupied	Owner-occupied	**$ —**	**$ —**	**$ 116**	**$ 116**
Owner-occupied					
Owner-occupied					
Non-owner occupied residential					
Non-owner occupied residential					
Non-owner occupied residential	Non-owner occupied residential	**—**	**—**	**9**	**9**
Residential mortgage:	Residential mortgage:				
Residential mortgage:					
Residential mortgage:					
First lien					
First lien					
First lien	First lien	**—**	**—**	**309**	**309**
Home equity - lines of credit	Home equity - lines of credit	**—**	**—**	**86**	**86**
Home equity - lines of credit					
Home equity - lines of credit					
Total impaired loans					
Total impaired loans					
Total impaired loans	Total impaired loans	**$ —**	**$ —**	**$ 520**	**$ 520**
Mortgage servicing rights		$ —	$ —	$ —	$ —
December 31, 2021					
Impaired loans					
Commercial real estate:					
Owner-occupied		$ —	$ —	$ 751	$ 751
Non-owner occupied residential		—	—	24	24
Residential mortgage:					
First lien		—	—	545	545
Home equity - lines of credit		—	—	72	72
Total impaired loans		$ —	$ —	$ 1,392	$ 1,392
Mortgage servicing rights		$ —	$ —	$ 322	$ 322

[Table of Contents](#)

The following table presents additional qualitative information about assets measured on a nonrecurring basis and for which the
to determine fair value.

	Fair Value Estimate	Valuation Techniques	Unobservable Input
December 31, 2022			
Impaired loans	**$ 520**	Appraisal of collateral	Management adjustments on appraisals f property type and recent activity - Management adjustments for liquidatior expenses
December 31, 2021			

Impaired loans	$	1,392	Appraisal of collateral	Management adjustments on appraisals f property type and recent activity - Management adjustments for liquidatior expenses
Mortgage servicing rights		322	Discounted cash flows	Weighted average CPR Discount rate

	Fair Value Estimate		Valuation Techniques	Unobservable Input
December 31, 2023				
Individually evaluated loans	**$**	**514**	Appraisal of collateral	Management adjustments on appraisals f property type and recent activity - Management adjustments for liquidatior expenses
December 31, 2022				
Impaired loans	$	520	Appraisal of collateral	Management adjustments on appraisals f property type and recent activity - Management adjustments for liquidatior expenses

[Table of Contents](#)

Fair values of financial instruments

GAAP requires disclosure of the fair value of financial assets and liabilities, including those that are not measured and reported nonrecurring basis. The following table presents the carrying amounts and estimated fair values of financial assets and liabilities at D and 2021. 2022.

		Carrying Amount		Fair Value	Level 1		Level 2		Level 3
December 31, 2022									
	Carrying Amount								
December 31, 2023									
Financial Assets Financial Assets									
Financial Assets									
Financial Assets									
Cash and due from banks									
Cash and due from banks									
Cash and due from banks	Cash and due from banks	$	**28,477**	$ **28,477**	$ **28,477**	$	**—**	$	**—**
Interest-bearing deposits with banks	Interest-bearing deposits with banks		**32,346**	**32,346**	**32,346**		**—**		**—**
Restricted investments in bank stock									
Restricted investments in bank stock									
Restricted investments in bank stock									**11,992**
Investment securities									
Loans held for sale									

Carrying Amount | Fair Val

Loans, net of allowance for credit losses
Derivatives
Derivatives
Derivatives
Accrued interest receivable
Financial Liabilities
Financial Liabilities
Financial Liabilities
Deposits
Deposits
Deposits
Securities sold under agreements to repurchase and federal funds purchased
Securities sold under agreements to repurchase and federal funds purchased
Securities sold under agreements to repurchase and federal funds purchased
FHLB advances and other borrowings
Subordinated notes
Derivatives
Accrued interest payable
Off-balance sheet instruments
December 31, 2022
Financial Assets
Financial Assets
Financial Assets
Cash and due from banks
Cash and due from banks
Cash and due from banks
Interest-bearing deposits with banks
Restricted investments in bank stock
Restricted investments in bank stock

Restricted investments in bank stock	Restricted investments in bank stock	**10,642**	**n/a**	**n/a**	**n/a**	**n/a**	10,642	n/a
Investment securities	Investment securities	**513,728**	**513,728**	**17,668**	**468,867**	**27,193**		
Loans held for sale	Loans held for sale	**10,880**	**10,880**	**—**	**10,880**	**—**		
Loans, net of allowance for loan losses	Loans, net of allowance for loan losses	**2,126,054**	**1,991,164**	**—**	**—**	**1,991,164**		
Derivatives	Derivatives	**10,517**	**10,517**	**—**	**10,482**	**35**		
Derivatives								
Derivatives								
Accrued interest receivable	Accrued interest receivable	**11,027**	**11,027**	**—**	**4,441**	**6,586**		
Financial Liabilities	**Financial Liabilities**							
Financial Liabilities								
Financial Liabilities								
Deposits								
Deposits								
Deposits	Deposits	**2,444,939**	**2,440,660**	**—**	**2,440,660**	**—**		
Deposits held for assumption in connection with sale of bank branches	Deposits held for assumption in connection with sale of bank branches	**31,307**	**29,429**	**—**	**29,429**	**—**		
Securities sold under agreements to repurchase		**17,251**	**17,251**	**—**	**17,251**	**—**		
FHLB advances and other		**106,139**	**106,141**	**—**	**106,141**	**—**		
Securities sold under agreements to repurchase and federal funds purchased								
FHLB advances and other borrowings								
Subordinated notes	Subordinated notes	**32,026**	**31,321**	**—**	**31,321**	**—**		
Derivatives	Derivatives	**11,333**	**11,333**	**—**	**11,333**	**—**		
Accrued interest payable	Accrued interest payable	**457**	**457**	**—**	**457**	**—**		
Off-balance sheet instruments	**Off-balance sheet instruments**	**—**	**—**	**—**	**—**	**—**		
December 31, 2021								
Financial Assets								

Cash and due from banks	$ 21,217	$ 21,217	$ 21,217	$ —	$ —
Interest-bearing deposits with banks	187,493	187,493	187,493	—	—
Restricted investments in bank stock	7,252	n/a	n/a	n/a	n/a
Investment securities	472,438	472,438	20,101	429,190	23,147
Loans held for sale	8,868	8,868	—	8,868	—
Loans, net of allowance for loan losses	1,958,806	1,946,365	—	—	1,946,365
Derivatives	1,117	1,117	—	764	353
Accrued interest receivable	8,234	8,235	—	2,203	6,032
Financial Liabilities					
Deposits	2,464,929	2,466,191	—	2,466,191	—
Securities sold under agreements to repurchase	23,301	23,301	—	23,301	—
FHLB advances and other	1,896	2,035	—	2,035	—
Subordinated notes	31,963	31,815	—	31,815	—
Derivatives	760	760	—	760	—
Accrued interest payable	154	154	—	154	—
Off-balance sheet instruments	—	—	—	—	—

In accordance with the Company's adoption of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition ar and Financial Liabilities,,* the methods utilized to measure the fair value of financial instruments at December 31, 2022 December 31, approximation of exit price; however, an actual exit price

may differ. For At December 31, 2022, deposits held for assumption in connection with the sale of bank branches includes the Compa

Table of Contents

December 23, 2022 that it had entered into a balance from the Purchase and Assumption Agreement providing entered into by the Co 23, 2022. This agreement provided for the sale of a branch and associated deposit liabilities at an agreed upon premium of 6.0% of t transferred. The Company completed the sale of the subject branch on May 12, 2023.

NOTE 20. 21. REVENUE FROM CONTRACTS WITH CLIENTS

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequ 606"). The update implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of recognize revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which exchange for those goods or services. The majority of the Company's revenue comes from interest income, including loans and secu of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income on the consolida recognized as revenue as the Company satisfies its obligation to the client. Services within the scope of ASC 606 include service cha trust and investment management and brokerage activities and interchange fees from service charges on ATM and debit card transa change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Descriptions of revenue generating activities that are within the scope of ASC 606 are as follows:

Service Charges on Deposit Accounts - The Company earns fees from its deposit clients for transaction-based, account mainte Transaction-based fees, which include services such as ATM use fees to clients and non-clients (included in other service charges, c consolidated statements of income), stop payment charges, statement rendering, and ACH fees, are recognized at the time the trans in time the Company fulfills the client's request. Account maintenance fees, which relate primarily to monthly maintenance, are earne representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in ti charges on deposits are withdrawn from the client's account balance.

Interchange Income - The Company earns interchange fees from debit/credit cardholder transactions conducted through the Ma Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, c processing services provided to the cardholder. Interchange income is presented net of cardholder rewards.

Swap Referral Fee Income - Through May 2020, the Company earned fees from a third-party service provider for loan hedging The Company acted as an agent in arranging the relationship between our client and the third-party service provider. The Company v completion of the loan hedge between our client and the third-party service provider.

Trust and Investment Management Income - The Company earns wealth management and investment brokerage fees from its c management clients to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over tim contracted services and are generally assessed based on a tiered scale of the market value of assets under management. Fees that execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Other related services pro services and the associated fees the Company earns, which are based on a fixed fee schedule, are recognized when the services ar billed in arrears and a receivable is recorded until fees are paid.

Brokerage Income - The Company earns fees from investment management and brokerage services provided to its clients throu Company receives commissions from the third-party service provider and recognizes income on a weekly basis based upon client ac agent in arranging the relationship between the client and the third-party service provider and does not control the services rendered presented net of related costs.

Interchange Income - The Company earns interchange fees from debit/credit cardholder transactions conducted through the Ma Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, c processing services provided to the cardholder. Interchange income is presented net of cardholder rewards.

At December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, the Company had receivables from trust and wealth ma thousand, $641 thousand $702 thousand and $661 $702 thousand, respectively.

[Table of Contents](#)

The following table presents the Company's noninterest income disaggregated by revenue source for the years ended Decemb 2021 2022 and 2020. 2021.

		2022	2021	2020		
	2023				2023	2022
Noninterest income	Noninterest income					
Service charges on deposit accounts and ATM fees	Service charges on deposit accounts and ATM fees	**$ 4,157**	$ 3,337	$ 3,113		
Swap referral fee income		**—**	—	208		
Service charges on deposit accounts and ATM fees						
Service charges on deposit accounts and ATM fees						
Trust and investment management income						
Trust and investment management income						
Trust and investment management income	Trust and investment management income	**7,631**	7,896	6,912		
Brokerage income	Brokerage income	**3,620**	3,571	2,821		
Interchange income	Interchange income	**4,056**	4,129	3,423		
Revenue from contracts with clients	Revenue from contracts with clients	**19,464**	18,933	16,477		
Other service charges	Other service charges	**456**	356	444		
Other service charges						
Other service charges						

Mortgage banking activities	Mortgage banking activities	**407**	5,909	5,274
Gain on sale of commercial loans		**—**	—	2,803
Income from life insurance	Income from life insurance	**2,339**	2,273	2,261
Swap dealer fee income		**2,632**	293	639
Income from life insurance				
Income from life insurance				
Swap fee income				
Other income	Other income	**1,814**	750	427
Investment securities (losses) gains	Investment securities (losses) gains	**(160)**	638	(16)
Total noninterest income	Total noninterest income	**$26,952**	$29,152	$28,309

NOTE 21. 22. ORRSTOWN FINANCIAL SERVICES, INC. (PARENT COMPANY ONLY) CONDENSED FINANCIAL INFORMATION

Condensed Balance Sheets

		December 31,			
		2022	**2021**		
	December 31,				**Decemb**
	2023			**2023**	**2**
Assets	**Assets**				
Cash in bank subsidiary					
Cash in bank subsidiary					
Cash in bank subsidiary	Cash in bank subsidiary	**$ 8,477**	$ 18,545		
Investment in bank subsidiary	Investment in bank subsidiary	**249,266**	284,577		
Investment in bank subsidiary					
Investment in bank subsidiary					
Other assets					
Other assets					
Other assets	Other assets	**3,466**	553		
Total assets	Total assets	**$261,209**	$303,675		
Liabilities	**Liabilities**				
Subordinated notes					
Subordinated notes					
Subordinated notes	Subordinated notes	**$ 32,026**	$ 31,963		
Accrued interest and other liabilities	Accrued interest and other liabilities	**287**	56		
Total liabilities	Total liabilities	**32,313**	32,019		
Shareholders' Equity	**Shareholders' Equity**				
Common stock	Common stock	**584**	586		
Common stock					
Common stock					
Additional paid-in capital	Additional paid-in capital	**189,264**	189,689		

Retained earnings	Retained earnings	**92,473**	78,700
Accumulated other comprehensive (loss) income		**(39,913)**	4,449
Accumulated other comprehensive loss			
Treasury stock	Treasury stock	**(13,512)**	(1,768)
Total shareholders' equity	Total shareholders' equity	**228,896**	271,656
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	**$261,209**	$303,675

Table of Contents

Condensed Statements of Income

		For the Years Ended December 31,					
		2022	**2021**	**2020**			
	For the Years Ended December 31,						**For the Years Ended**
	2023				**2023**	**2022**	**2**
Income	**Income**						
Dividends from bank subsidiary							
Dividends from bank subsidiary							
Dividends from bank subsidiary	Dividends from bank subsidiary	**$27,000**	$16,000	$14,000			
Interest income from bank subsidiary	Interest income from bank subsidiary	**29**	25	76			
Other income	Other income	**16**	119	62			
Total income	Total income	**27,045**	16,144	14,138			
Total income							
Total income							
Expenses	**Expenses**						
Interest on subordinated notes	Interest on subordinated notes	**2,013**	2,009	2,006			
Interest on subordinated notes							
Interest on subordinated notes							
Share-based compensation							
Share-based compensation							
Share-based compensation	Share-based compensation	**511**	433	463			

Management fee to bank subsidiary	Management fee to bank subsidiary	**1,341**	1,089	1,254
Merger-related expenses				
Provision for legal settlement	Provision for legal settlement	**13,000**	—	—
Other expenses	Other expenses	**912**	704	1,324
Total expenses	Total expenses	**17,777**	4,235	5,047
Income before income tax benefit and equity in undistributed income of subsidiaries	Income before income tax benefit and equity in undistributed income of subsidiaries	**9,268**	11,909	9,091
Income tax benefit	Income tax benefit	**(3,726)**	(863)	(1,022)
Income before equity in undistributed income of subsidiaries	Income before equity in undistributed income of subsidiaries	**12,994**	12,772	10,113
Equity in undistributed income of subsidiaries	Equity in undistributed income of subsidiaries	**9,043**	20,109	16,350
Net income	Net income	**$22,037**	$32,881	$26,463

[Table of Contents](#)

Condensed Statements of Cash Flows

		For the Years Ended December 31,				
		2022	2021	2020		
	For the Years Ended December 31,				For the Years End	
	2023				2023	2022
Cash flows from operating activities:	**Cash flows from operating activities:**					
Net income	Net income	**$22,037**	$32,881	$26,463		
Adjustments to reconcile net income to cash provided by (used in) operating activities:						
Net income						
Net income						
Adjustments to reconcile net income to cash provided by operating activities:						

Amortization	Amortization	**63**	59	56
Deferred income taxes		**(7)**	(4)	(39)
Amortization				
Amortization				
Deferred income tax expense (benefit)				
Equity in undistributed income of subsidiaries	Equity in undistributed income of subsidiaries	**(9,043)**	(20,109)	(16,350)
Equity in undistributed income of subsidiaries				
Equity in undistributed income of subsidiaries				
Share-based compensation	Share-based compensation	**511**	433	463
Net change in other liabilities		**231**	(40)	(141)
Net change in other assets		**(2,915)**	375	(221)
Increase (decrease) in accrued interest and other liabilities				
Decrease (increase) in other assets				
Net cash provided by operating activities				
Net cash provided by operating activities				
Net cash provided by operating activities	Net cash provided by operating activities	**10,877**	13,595	10,231
Cash flows from investing activities:	**Cash flows from investing activities:**			
Net cash paid for acquisitions	Net cash paid for acquisitions	**—**	—	(85)
Net cash paid for acquisitions				
Net cash paid for acquisitions				
Net cash used in investing activities				
Net cash used in investing activities				
Net cash used in investing activities	Net cash used in investing activities	**—**	—	(85)
Cash flows from financing activities:	**Cash flows from financing activities:**			
Dividends paid	Dividends paid	**(8,264)**	(8,280)	(7,610)
Dividends paid				

Dividends paid				
Proceeds from issuance of common stock				
Proceeds from issuance of common stock				
Proceeds from issuance of common stock	Proceeds from issuance of common stock	**1,644**	1,516	1,628
Payments to repurchase common stock	Payments to repurchase common stock	**(14,468)**	(2,383)	(1,887)
Other, net	Other, net	**143**	136	116
Net cash used in financing activities	Net cash used in financing activities	**(20,945)**	(9,011)	(7,753)
Net (decrease) increase in cash		**(10,068)**	4,584	2,393
Net cash used in financing activities				
Net cash used in financing activities				
Net increase (decrease) in cash				
Cash, beginning	Cash, beginning	**18,545**	13,961	11,568
Cash, ending	Cash, ending	**$ 8,477**	$18,545	$13,961

NOTE 22. 23. CONTINGENCIES

The nature of the Company's business generates a certain amount of litigation involving matters arising out of the ordinary cour below, in the opinion of management, there are no legal proceedings that might have a material effect on the results of operations, lic Company at this time.

On March 5, 2019, Paul Parshall, a purported individual stockholder of Hamilton, filed, on behalf of himself and all of Hamilton's defendants and their affiliates (the "Purported Class"), a derivative and putative class action complaint in the Circuit Court for Baltimo Parshall v. Carol Coughlin et. al., naming each Hamilton director, Orrstown, and Hamilton as defendants (the "Action"). The Action all Hamilton's directors breached their fiduciary duties to the Purported Class in connection with the merger, and that the Proxy Stateme information regarding the merger. Orrstown was alleged to have aided and abetted the Hamilton directors' alleged breaches of their f among other remedies, to enjoin the merger or, in the event the merger was completed, rescission of the merger or rescissory damag the lawsuit, including attorneys' and experts' fees. A settlement was reached on the Action in March 2020, which resulted in a payme in mootness fees to the defendants in April 2020.

On May 25, 2012, the Southeastern Pennsylvania Transportation Authority ("SEPTA") filed a putative class action complaint in t District of Pennsylvania against the Company, the Bank and nine independent current and former directors and three current and for Bank. The complaint asserted claims under Sections 11, 12(a) and 15 of the Securities Act, Sections 10(b) and 20(a) of the Exchang thereunder, and sought class certification, unspecified money damages, interest, costs, fees and equitable or injunctive relief. Under Act of 1995, the Court appointed SEPTA Lead Plaintiff on August 20, 2012.

On March 4, 2013, SEPTA filed an amended complaint. The amended complaint expanded the list of defendants in the action to independent registered public accounting firm and the underwriters of the Company's

[Table of Contents](#)

March 2010 public offering of common stock. In addition, among other things, the amended complaint extended the purported Excha 2010 through April 5, 2012.

After years of litigation, on November 7, 2022, the Company, in order to avoid the cost, risks and distraction of continued litigatio Understanding (the "MOU") to settle and resolve the lawsuit. The MOU memorialized the parties' agreement to execute and submit a for the Court's approval, setting forth all of the material terms of the settlement reached by the plaintiffs and defendants. On Decemb Stipulation and Agreement of Settlement (the "Stipulation" "Settlement") providing to settle the putative class action lawsuit filed by th Transportation Authority ("SEPTA") in the U.S. District Court for the Middle District of Pennsylvania (the "Court") against the Compan officers and directors of the Company and the Bank, the Company's former independent registered public accounting firm and the un

2010 public offering of common stock asserting claims under the Federal securities laws. The Stipulation provided for a payment to t
$15.0 million, $15.0 million, to which the Company agreed to contribute and has funded $13.0 million in escrow, contributed $13.0 mil
all parties, and a stipulation that the lawsuit will would be dismissed with prejudice. The Stipulation does not include any admission o
Stipulation provides that the defendants have the option to terminate the settlement if class members who in the aggregate purchase
shares of the Company's common stock during the class period, timely and validly exclude themselves from the class.

The Stipulation was filed with the Court on December 8, 2022. On February 1, 2023 May 19, 2023, the Court issued an order w
approved gave final approval to the Stipulation. Stipulation and dismissed the lawsuit and all related claims with prejudice. The Stipul
approval. appeal period for this order expired on June 20, 2023, without any appeals having been filed.

On March 25, 2022, a customer of the Bank filed a putative class action complaint against the Bank in the Court of Common Ple
Pennsylvania, in a case captioned *Alleman, on behalf of himself and all others similarly situated, v. Orrstown Bank. Bank*. The compl
the Bank breached its account agreements by charging certain overdraft fees. The complaint seeks a refund of all allegedly imprope
proven at trial, attorneys' fees and costs, and an injunction against the Bank's allegedly improper overdraft practices. This lawsuit is s
other financial institutions pertaining to overdraft fee disclosures. The Bank believes that the allegations and claims against the Bank

Table of Contents

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

None.

ITEM 9A – CONTROLS AND PROCEDURES

Based on the evaluation required by Securities Exchange Act Rules 13a-15(b) and 15d-15(b), the Company's management, inc
Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Securit
15d-15(e), at December 31, 2022 December 31, 2023. Based on that evaluation, our Chief Executive Officer and Chief Financial Offi
controls and procedures were effective at December 31, 2022 December 31, 2023. There have been no changes in internal control o
materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the fourth quarter o

Management's Report on Internal Controls Over Financial Reporting is included in Part II, Item 8, "Financial Statements and Su
of the Company's internal control over financial reporting at December 31, 2022 December 31, 2023 has been audited by Crowe LLP
accounting firm, as stated in the Report of Independent Registered Public Accounting Firm appearing in Part II, Item 8, "Financial Sta

ITEM 9B – OTHER INFORMATION

None. During the three months and year ended December 31, 2023, none of the Company's directors or executive officers ado
instruction or written plan for the purchase or sale of the Company's common stock that was intended to satisfy the affirmative defen
"non-Rule 10b5-1 trading arrangement" as such term is defined in Item 408(c) of Regulation S-K.

ITEM 9C - DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company has adopted a code of ethics that applies to all senior financial officers (including its Chief Executive Officer, Chie
Officer, and any person performing similar functions). You can find a copy of the Code of Ethics for Senior Financial Officers by visiti
and following the links to "Investor Relations" and "Governance Documents." A copy of the Code of Ethics for Senior Financial Office
charge, by written request to Orrstown Financial Services, Inc., 77 East King Street, PO Box 250, Shippensburg, Pennsylvania 1725
intends to disclose any amendments to or waivers from a provision of the Company's Code of Ethics for Senior Financial Officers in a

All other information required by Item 10 is incorporated by reference from the Company's definitive proxy statement for the 202
Shareholders to be filed pursuant to Regulation 14A, under Delinquent Section 16(a) Reports, Proposal 1 – Election of Directors – Bi
and Directors; Information About Executive Officers; Involvement in Certain Legal Proceedings; and Proposal 1 – Election of Directo
Structure, Committees and Meeting Attendance.

ITEM 11 – EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement for the 2023 20
be filed pursuant to Regulation 14A, under Proposal 1 – Election of Directors – Compensation of Directors, Compensation Discussio

Committee Report, Executive Compensation Tables, Potential Payments Upon Termination or Change in Control, Pay versus Perforr
Interlocks and Insider Participation.

In accordance with Items 402(v) and 407(e)(5) of SEC Regulation S-K, the information set forth under the captions "Pay versus
Committee Report" in such proxy statement will be deemed to be furnished in this

Report and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act as a resu
manner.

Table of Contents

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDEI

The following table presents equity compensation plan information at December 31, 2022 December 31, 2023.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstandin options, warrants and r
	(a)	(b)
Equity compensation plan approved by security holders	—	
Total	—	

All other information required by Item 12 is incorporated, by reference, from the Company's definitive proxy statement for the 20
Shareholders to be filed pursuant to Regulation 14A, under Share Ownership of Certain Beneficial Owners and Management.

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

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement for the 2023 20
be filed pursuant to Regulation 14A, under Proposal 1 – Election of Directors – Director Independence, and Transactions with Relate
Control Persons.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference from the Company's definitive proxy statement for the 2023 20
be filed pursuant to Regulation 14A, under Proposal 4 – Ratification of the Audit Committee's Selection of Crowe LLP as the Compar
Accounting Firm for the Fiscal Year Ending December 31, 2023 December 31, 2024 – Relationship with Independent Registered Pub

Table of Contents

PART IV

ITEM 15 – EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

a. The following documents are filed as part of this report:

(1) – Financial Statements

Consolidated financial statements of the Company and subsidiaries required in response to this Item are incorporated by referen

(2) – Financial Statement Schedules

All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Excha
under the related instructions or are inapplicable and therefore have been omitted.

(3) – Exhibits

2.1	Purchase and Assumption Agreement, dated December 23, 2022December 23, 2022 between Orrstown Bank and tl reference to the Registrant's Form 8-K filed December 28, 2022. December 28, 2022.
2.2	Agreement and Plan of Merger by and between Orrstown Financial Services, Inc. and Codorus Valley Bancorp, Inc. to the Registrant's Form 8-K dated and filed December 12, 2023.
3.1	Articles of Incorporation as amended, incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on J
3.2	By-laws as amended, incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 8-K filed June 2, 2(
4.1	Specimen Common Stock Certificate, incorporated by reference to the Registrant's Registration Statement on Form 333-164780).
4.2	Subordinated Indenture, dated December 19, 2018, by and between Orrstown Financial Services, Inc., and U.S. Bar by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on December 20, 2018.
4.3	Form of Global Note for Subordinated Notes, incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K fil
4.4	Form of Registration Rights Agreement for Subordinated Notes, incorporated by reference to Exhibit 10.2 of the Reg 2018.
4.5	Description of Registrant's Securities, incorporated by reference to Exhibit 4.5 of the Registrant's Form 10-K filed on
10.1	Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Thomas R. Quinn, Jr. 10.2 to the Registrant's Form 8-K filed June 8 2015.
10.2	Amendment No. 1 to Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and T reference to Exhibit 10.2 to the Registrant's Form 8-K filed September 27, 2019.
10.2 10.3	Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Robert G. Coradi, inco to the Registrant's Form 8-K filed June 2, 2015.
10.3 10.4	Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Adam L. Metz, incorpo the Registrant's Form 8-K filed March 14, 2017.
10.4 10.5	Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Christopher D. Holt da reference to Exhibit 10.5 to the Registrant's Form 10-K filed March 15, 2021.
10.510.6	Amended and Restated Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank ar reference to Exhibit 10.1 to the Registrant's Form 8-K filed April 11, 2022.
10.7	Change in Control Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Craig L. Kauffman dat by reference to Exhibit 10.2 to the Registrant's Form 8-K filed December 12, 2023.
10.6 10.8	Salary Continuation Agreement between Orrstown Bank and Thomas R. Quinn, Jr. – incorporated by reference to Ex filed January 8, 2010.
10.7 10.9	First Amendment to the Salary Continuation Agreement between Orrstown Bank and Thomas R. Quinn, Jr. – incorpo the Registrant's Form 8-K filed September 27, 2019.
10.8 10.10	Salary Continuation Agreement between Orrstown Bank and Robert Coradi dated March 26, 2018 – incorporate Registrant's Form 10-Q filed November 5, 2020.
10.9 10.11	Officer Group Term Replacement Plan for Selected Officers – incorporated by reference to Exhibit 10.2 to Registrant December 31, 1999 filed March 28, 2000.
10.10 10.12	Director Retirement Agreement, as amended, between Orrstown Bank and Andrea Pugh, incorporated by reference Form 10-K filed March 15, 2010.

Table of Contents

10.11 10.13	Director Retirement Agreement, as amended, between Orrstown Bank and Glenn W. Snoke, incorporated by referen Form 10-K filed March 15, 2010.
10.12 10.14	Director Retirement Agreement, as amended, between Orrstown Bank and Joel R. Zullinger, incorporated by referen Form 10-K filed March 15, 2010.
10.13 10.15	Revenue neutral retirement plan – incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-K filed Marc
10.14 10.16	2011 Orrstown Financial Services, Inc. Stock Incentive Plan – incorporated by reference to Exhibit 10.1 of the Regist S-8 filed May 27, 2022.
10.15 10.17	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Thomas R. Quinn, Jr. incorp Registrant's Form 8-K filed June 8, 2015.
10.16 10.18	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Robert G. Coradi, incorpora Registrant's Form 8-K filed June 2, 2015.
10.17 10.19	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Adam L. Metz, incorporated Registrant's Form 8-K filed March 14, 2017.
10.18 10.20	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Christopher D. Holt dated Ju to Exhibit 10.24 to the Registrant's Form 10-K filed March 15,2021. March 15, 2021.
10.19 10.21	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Neelesh Kalani incorporated Registrant's Form 8-K filed May 4, 2021.
10.22	Employment Agreement between Orrstown Financial Services, Inc., Orrstown Bank and Craig L. Kauffman dated De reference to Exhibit 10.1 to the Registrant's Form 8-K filed December 12, 2023.
10.20 10.23	Brick Plan – Deferred Income Agreement between Orrstown Bank and Joel R. Zullinger, incorporated by reference to 10-K filed March 15, 2010.
10.21 10.24	Director/Executive Officer Deferred Compensation Plan. Plan, incorporated by reference to Exhibit 10.21 to the Regis 2023.
10.22 10.25	Trust Agreement for Director/Executive Officer Deferred Compensation Plan, incorporated by reference to Exhibit 10 filed March 15, 2010.
10.23 10.26	Deferred Compensation Agreement between Orrstown Bank and Thomas R. Quinn, Jr., incorporated by reference to 8-K filed September 27, 2019.
10.24 10.27	Deferred Compensation Agreement between Orrstown Bank and Christopher D. Holt, dated September 16, 2020, in 10.30 to the Registrant's Form 10-K filed March 15, 2021.
10.25 10.28	Deferred Compensation Agreement between Orrstown Bank and Adam L. Metz, incorporated by reference to Exhibit December 16, 2022December 16, 2022.
10.26 10.29	Form of Subordinated Note Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Registrant's Form
10.27 10.30	Form of Restricted Stock Grant Agreement - Employees, incorporated by reference to Exhibit 10.27 to the Registran
10.28 10.31	Form of Restricted Stock Grant Agreement - Nonemployee Directors, incorporated by reference to Exhibit 10.28 to th 13, 2023.
10.29 10.32	Stipulation and Agreement of Settlement, incorporated by reference to Exhibit 10.1 10.1 of the Registrant's Form 8-K
14	Code of Ethics Policy for Senior Financial Officers posted on Registrant's website.
21	Subsidiaries of the registrant
23.1	Consent of Crowe LLP, Independent Registered Public Accounting Firm
31.1	Rule 13a – 14(a)/15d-14(a) Certification (Chief Executive Officer)
31.2	Rule 13a – 14(a)/15d-14(a) Certifications (Chief Financial Officer)
32.1	Section 1350 Certifications (Chief Executive Officer)
32.2	Section 1350 Certifications (Chief Financial Officer)
97	Orrstown Financial Services, Inc. Compensation Recovery Policy

Table of Contents

101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

All other exhibits for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission ar instructions or are inapplicable and therefore have been omitted.

b. Exhibits – The exhibits to this Form 10-K begin after the signature page.

c. Financial statement schedules – None required.

ITEM 16 – FORM 10-K SUMMARY

Not applicable.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this undersigned, thereunto duly authorized.

ORRSTOWN FINANCIAL SERVICES, INC.
(Registrant)

Dated: March 16, 2023 March 14, 2024

By: /s/ Thomas R. Quinn, Jr.
Thomas R. Quinn, Jr., President and Chief Executive

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below l the registrant and in the capacities and on the dates indicated.

Signature	Title
/s/ Thomas R. Quinn, Jr. Thomas R. Quinn, Jr.	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ Neelesh Kalani Neelesh Kalani	Executive Vice President and Chief Financial Officer (Principal Financi Officer)
/s/ Sean P. Mulcahy Sean P. Mulcahy	Senior Vice President and Chief Accounting Officer (Principal Account Officer)
/s/ Joel R. Zullinger Joel R. Zullinger	Chairman of the Board and Director
/s/ Cindy J. Joiner Cindy J. Joiner	Director
/s/ Mark K. Keller Mark K. Keller	Director
/s/ Thomas D. Longenecker Thomas D. Longenecker	Director
/s/ Meera R. Modi Meera R. Modi	Director
/s/ Andrea Pugh Andrea Pugh	Director
/s/ Michael J. Rice Michael J. Rice	Director
/s/ Eric A. Segal Eric A. Segal	Director
/s/ Glenn W. Snoke Glenn W. Snoke	Director
/s/ Floyd E. Stoner Floyd E. Stoner	Director

ORRSTOWN FINANCIAL SERVICES, INC.
AND ITS WHOLLY OWNED SUBSIDIARIES

DIRECTOR/EXECUTIVE OFFICER DEFERRED COMPENSATION PLAN

WHEREAS, ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARIES, hereinafter collectively c adopted the Orrstown Financial Services, Inc. Director/Executive Officer Deferred Compensation Plan effective September 1, 1995, h attracting and retaining persons of outstanding competence and stature to serve as directors or executive officers by giving them the respective futures by deferring receipt of their fees or compensation.

WHEREAS, the Board of Directors of the Company has previously approved amendments to the Plan;

WHEREAS, in order to reflect the amendments to the Plan previously approved by the Board of Directors of the Company, the as follows:

1. ***Effective Date:*** The Plan shall apply to all fees or compensation payable to directors who joined the board of director prior t
officers for services rendered after August 31, 1995.

2. ***Participation:*** Each director or executive officer of the Company who is entitled to receive fees or compensation for services
elect to defer receipt of the fees or compensation otherwise payable to him/her as provide for in the Plan. Each such director
fees or compensation shall be a participant in the Plan.

3. ***Administration:*** The Company's Compensation Committee shall act as the administrator of the Plan and shall administer, c
administrator(s) shall not be liable for any act done or determination made in good faith.

4. ***Deferrals:***

   a) ***Election:*** Prior to January 1 and July 1 (and with respect to 1995, prior to September 1, 1995), any eligible director
   board of directors and/or administrator(s) of the Plan an election in writing to participate in the Plan for that year or fo
   When such election is filed, fees or compensation will be reduced according to the election for that year, or for that y
   election is filed to participate in the Plan for succeeding years, an election to termination participation in the Plan for
   1 and July 1 of that year. An individual who first becomes a director or executive officer during a calendar year may r
   compensation for the remainder of the year within 30 days of such date.

   b) ***Accounting:*** An appropriate record shall be maintained by the Company called the "Directors'/Executive Officers' C
   each participant and the amount of the individual credits and earnings due. The Company shall add to each participa
   the fees or compensation that would have been paid to the participant if election had not been made to participate in
   on the date on which the fee or compensation would have been paid absent a deferral election

   c) ***Establishment of Trust:*** The Company will establish a trust fund to aid it in accumulating the amounts necessary to
   such benefits.

The Company may make contributions to this trust from time to time, which contributions (if made) will be applied in
to pay such benefits.

The Company will pay all benefits payable under its Directors/Executive Officer Deferred Compensation Plan from its
of this trust shall not reduce or otherwise affect the Company's continuing liability to pay benefits from such assets e
be offset by actual benefit payments made by this trust.

The trust established by this trust agreement is intended to be classified for income tax purposes as a "grantor trust"
trust will be treated as income of the Company pursuant to Subpart E of Subchapter J or Chapter 1, or Subtitle A of t
amended (the code).

   d) ***Investments:*** The trust will establish several investment options for participants in the non-qualified deferred compe
   direct the trustee, in writing, to invest their account in the following investment vehicles:

      1. Orrstown Bank Certificates of Deposit. Minimum Investment $3,000
      2. Life Insurance and annuities
      3. PRS Capital Preservation Model
      4. PRS Income Model
      5. PRS Income & Growth Model
      6. PRS Balanced Model
      7. PRS Growth Model
      8. PRS Aggressive Growth Model

9. Orrstown Financial Services, Inc. common stock

Any uninvested cash shall be held in a money market fund that is designated by the Trustee. Changes in the
a semi-annual basis.

5. ***Distribution*:** Prior to the date on which payment shall commence, the administrator(s) shall determine the method of distrib case of a director, payment must commence not later than January 15 following the year in which the director attains age 75 whichever occurs later. In the case of an executive director, payment must commence not later than January 15 following the attains age 65 or retires, whichever occurs later. Payment may be made in equal monthly or annual installments of the princi determined as of December 31 preceding commencement of distribution over not more than ten years. Monthly principal pay payment of 1/12 of the unpaid earnings credited on or before December 31 of the year ended before payment of the installm

   Notwithstanding the foregoing, the administrator(s) may accelerate distribution to a participant at the participant's request upo the participant has a severe financial hardship which was not foreseeable at the time the deferral election became effective. accelerated distribution shall not exceed the amount needed to alleviate the hardship.

   In the following situations, the administrator shall made immediate distributions in full satisfaction of the participants' deferred thereon:

   a) Development of a hostile takeover b) Failure by an acquiring bank, bank holding company, or other acquiring orga

   c) Bankruptcy of the bank or acquiring bank, holding company, or other acquiring organization

6. ***Death*:** If a participant dies prior to the payment of his entire account, the Company shall pay the balance to the participant's sum payment and shall pay the earnings

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credited to the account for the year of death no later than April 15 of the following year. Such payments shall be in complete participant under the Plan. If the participant has not designated a beneficiary or the designated beneficiary is not living on th participant's estate shall be the beneficiary.

7. ***Assignment and Alienation of Benefits*:** To the maximum extent permitted by law, a participant's rights or benefits under th anticipation, alienation, sale, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, ass same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilitie benefit. If any participant becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, encumber or charge an right or benefit, in the discretion of the administrator(s), may be terminated. In such event the Company may hold or apply th benefit of the participant, his or her spouse, children or other dependents, or any of them, in such manner and portion as the

8. ***Amendment or Termination*:** The board of directors of the Company may amend or terminate this Plan at any time. Any an shall not affect the rights of the participant accrued prior thereto without his written consent. The Plan shall automatically ter Revenue Service to not qualify as a deferred compensation agreement deferring income taxes of the director or officer. Suc effective the first day of the month following the determination by the Internal Revenue Service.

9. ***Status of Amounts Due*:** No liability of the Company hereunder shall be deemed to be secured by any pledge or other encu Company. In not event may the Company create a security interest in the Plan assets in favor of participants or beneficiarie

ORRSTOWN FINANCIAL SERVICES, INC.

RESTRICTED SECURITY GRANT AGREEMENT FOR EMPLOYEES
Pursuant to the 2011 Incentive Stock Plan

This Restricted Security Grant Agreement (this “Agreement”) is delivered by Orrstown Financial corporation (the “Company”), pursuant to the Summary of Grant delivered with this Agreement to the indiv Grant (the "Participant"). The Summary of Grant, which specifies the Participant, the date as of which the gra the type of security granted, the vesting schedule and other specific details of the grant is incorporated herein b

1. **Grant of Restricted Securities.** Upon the terms and conditions set forth in this Agreement and in the C Plan (the “Plan”), the Company hereby grants to the Participant the number of shares of restricted stock or res Summary of Grant (the "Restricted Securities"). The Participant also acknowledges the receipt of a copy of the are availablefrom the Human Resources Department of the Company. Each grant of Restricted Securities will at such time as is determined in accordancewith the provisions of this Agreement, one fully paid, unrestricte Company (the "Company Stock"). This Agreementismade pursuant to the Plan and is subject in its entirety t Plan. Capitalized terms used herein and not otherwise defined will have the meanings set forth in the Plan. Th by all of the terms and conditions of the Plan.

2. **Vesting of Restricted Securities**.

(a) The Restricted Securities will become vested as set forth in the Summary of Grant, provided tha employed by, or provide service to, the Company or any of its Affiliates, collectively referred to as the Employ defined in the Summary of Grant). For purposes of this Agreement, the term "Affiliate" has the meaning ascrib the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

(b) Except as set forth in the Summary of Grant, if the Participant ceases to be employed by, or provide reason prior to the Vesting Date, the Participant will forfeit all rights to receive shares of Company Stock here have any rights with respect to any portion of the shares of Company Stock that have not yet become veste ceases to be employed by, or provide service to, the Employer. Any certificates or book entries for the Restricte this Agreement shall bear an appropriate legend, as determined by the Committee in its sole discretion, to subject to restrictions as set forth herein and in the Plan. The Restricted Securities granted pursuant to th assigned, transferred, pledged or otherwise encumbered or disposed of by the Participant prior to the Vest Grantee pursuant to Article 10 of the Plan.

3. **Issuance of Company Stock**. One share of Company Stock will be issued to the Participant for ea accordance with the vesting schedule set forth in the Summary of Grant. Any Restricted Securities not vested w

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forfeited. Participant understands and agrees that all Restricted Securities that are not fully vested at the employed by, or provide service to, the Employer shall be returned to Company. In no event will any fraction issued. Accordingly, the total number of shares of Company Stock to be issued pursuant to this Agreement rounded down to the next whole share of Company Stock in order to avoid the issuance of a fractional share.

4. **Taxes**.

(a) The Participant acknowledges that the Company has not advised the Participant regarding the Pa connection with the grant or vesting of the Restricted Securities and the delivery of unrestricted shares o therewith. The Participant has reviewed with the Participant's own tax advisors the federal, state, and local ta

vesting of the Restricted Securities and the delivery of unrestricted shares of Company Stock in connection t
Agreement. The Participant is relying solely on such advisors and not on any statements or representatio
agents. The Participant understands that the Participant (and not the Company) will be responsible for the
may arise as a result of the transactions contemplated by this Agreement.

(b) To the extent applicable, the Participant shall, not later than the date as of which the receipt of this g
federal income tax purposes, pay to the Company or make arrangements satisfactory to the Compensati
Board of Directors (the "Committee") for payment of any Federal, state, and local taxes required by law to
taxable event. Except in the case where an election is made pursuant to Paragraph (c) below, the Company
the required tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of
released by the transfer agent a number of shares of Company Stock with an aggregate Fair Market Value (a
satisfy the withholding amount due.

(c) The Participant and the Employer hereby agree that the Participant may, within 30 days following the D
Revenue Service and the Employer an election under Section 83(b) of the Internal Revenue Code. In the eve
election, he or she agrees to provide a copy of the election to the Employer. The Participant acknowledges
obtaining the advice of his or her tax advisors with regard to the Section 83(b) election and that he or she is re
not on any statements or representations of the Employer or any of its agents with regard to such election.

5. **Rights of Participant**.

(a) Prior to the issuance, if any, of unrestricted shares of Company Stock to the Participant pursuant to
the Summary of Grant, the Participant will not have any rights of a shareholder of the Company on account o
than, with respect to shares of restricted stock but not with respect to restricted stock units, to vote said Restric

(b) Notwithstanding the foregoing, if any dividend or other distribution, whether regular or extraordina
securities or other

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property (other than shares of Company Stock), is declared and paid on the outstanding Company Stock pri
shares of Company Stock with respect to the shares of restricted stock pursuant to the vesting schedule (i.e. t
and outstanding for purposes of entitlement to the dividend or distribution), then a special book account will
and credited with a phantom dividend equal to the actual dividend or distribution which would have been paid
subject to this Agreement had shares been issued unrestricted with respect to such shares of restricted
entitled to that dividend or distribution. The phantom dividend equivalents so credited will vest at the same
stock to which they relate and will be distributed to the Participant (in the same form the actual dividend or di
of the Company Stock entitled to that dividend or distribution or in such other form as the Committee deems
issuance of shares of Company Stock pursuant to the vesting schedule set forth in the Summary of Grant. R
entitled to any dividend or other distribution, whether regular or extraordinary and whether payable in cas
declared and paid on the outstanding Company Stock prior to the issuance of unrestricted shares of Compa
restricted stock units.

6. **Restrictions on Issuance of Company Stock**. The obligation of the Company to deliver unrestricted
Participant with respect to vested Restricted Securities will be subject to the condition that, if at any time
discretion that the listing, registration or qualification of the shares of Company Stock upon any securities
federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a c
the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in pa
qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to t

7. **Recoupment Policy**. The Participant agrees that the Participant will be subject to any compensation, cl
that may be applicable to the Participant as an employee of the Company, as in effect from time to time a
Directors or a duly authorized committee thereof, whether or not approved before or after the Date of Grant.

8. **Successors and Assigns**. Except to the extent otherwise provided in this Agreement, the provisions o
benefit of, and be binding upon, the Company and its successors and assigns. During the period prior to the
shares of Company Stock may not be assigned, transferred, pledged or otherwise disposed of by the Partic
the Plan or by the Committee. Any attempt to assign, transfer, pledge or otherwise dispose of the right to re
contrary to the provisions the Summary of Grant, this Agreement and the Plan, and the levy of any executio
upon the right to receive the shares, will be null, void and without effect.

9. **Entire Agreement**. This Agreement contains the entire agreement of the parties with respect to the Res
and supersedes all prior agreements and discussions between the parties concerning such subject matte
changed orally but only by an instrument in writing signed by

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the party against whom enforcement of any change, modification or extension is sought.

10. **Grant Subject to Plan Provisions**. This grant is made pursuant to the Plan, the terms of which are i
and in all respects will be interpreted in accordance with the Plan. This grant is subject to interpretations,
concerning the Plan established from time to time by the Committee in accordance with the provisions of the
provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualifi
changes in capitalization of the Company and (d) other requirements of applicable law. The Committee will h
construe this grant pursuant to the terms of the Plan, and its decisions will be conclusive as to any questions a

11. **No Obligation to Continue Employment or Service as a Director**. This Agreement will not confer up
retained in the employment or service as a director of the Company and will not interfere in any way with the r
the Participant's employment, if applicable, at any time. The right of the Company to terminate at will the Part
for any reason is specifically reserved.

12. **Notice**. Any notice to the Company provided for in this instrument will be addressed to the Company in c
the Company's corporate headquarters, and any notice to the Participant will be addressed to such Participant
the payroll records of the Company, or to such other address as the Participant may designate to the Comp
delivered by hand, sent by email or enclosed in a properly sealed envelope addressed as stated above, re
prepaid, in a post office regularly maintained by the United States Postal Service or by overnight courier.

13. **Applicable Law**. The validity, construction, interpretation and effect of this Agreement will be governed
with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflicts of laws provisions the

14. **Application of Section 409A of the Code**. This Agreement is intended to comply with section 409A
1986, as amended (the "Code") and will in all respects be administered in accordance with section 409A
Company Stock pursuant this Agreement is intended to be subject to a "substantial risk of forfeiture" under
issued within the "short term deferral" exception under such statute following the lapse of the applicable forf
any provision in this Agreement to the contrary, if the Participant is a "specified employee" (as defined in se
necessary to postpone the commencement of any payments otherwise payable under this Agreement to prev
tax under section 409A of the Code, then the Company will postpone the payment until five (5) days after
following the original payment date. If the Participant dies during the postponement period prior to the pay
amounts withheld on account of section 409A of the Code will be paid to the personal representative of the Pa
days after the date of the Participant's death. The determination of who is a specified employee, including the
considered specified employees and the

4

identification date, will be made by the Board of Directors or its delegate in accordance with the provisions of Code. In no event will the Participant, directly or indirectly, designate the calendar year of distribution. Th without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary with section 409A of the Code.

15. **Data Privacy Consent**. In order to administer the Plan and this Agreement and to implement or st Employer and certain agents thereof (together, the "Relevant Companies") may process any and all personal d not limited to Social Security or other identification number, home address and telephone number, date of b necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). the Participant (i) authorizes the Company to collect, process, register and transfer to the Relevant Compan waives any privacy rights the Participant may have with respect to the Relevant Information; (iii) authorizes t and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Informatio Relevant Companies consider appropriate. The Participant shall have access to, and the right to change, the Information will only be used in accordance with applicable law.

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IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound, have executed this Agreem

ORRSTOWN FINANCIAL SERVICES, INC.

Thomas R. Quinn, Jr.
President and Chief Executive Officer

Date

PARTICIPANT

0000826154-23-000067image_0a.jpg*

Name:

0000826154-23-000067image_1.jpg*

Date

6

ORRSTOWN FINANCIAL SERVICES, INC.

RESTRICTED SECURITY GRANT AGREEMENT
FOR
NON-EMPLOYEE DIRECTORS
Pursuant to the 2011 Incentive Stock Plan

This Restricted Security Grant Agreement (this “Agreement”) is delivered by Orrstown Financial Services, (the “Company”), pursuant to the Summary of Grant delivered with this Agreement to the individual name "Participant"). The Summary of Grant, which specifies the Participant, the date as of which the grant is made Schedule and other specific details of the grant is incorporated herein by reference.

1. **Grant of Restricted Stock.** Upon the terms and conditions set forth in this Agreement and in the Comp (the “Plan”), the Company hereby grants to the Participant the number of shares of Restricted Stock set for "Restricted Stock"). The Participant acknowledges the receipt of a copy of the Plan and that copies of the Pl Resources Department of the Company. Each grant of Restricted Stock will entitle the Participant to receive, accordancewith the provisions of this Agreement, one fully paid, unrestricted share of common stock of the C This Agreementismade pursuant to the Plan and is subject in its entirety to all applicable provisions of the Pla and not otherwise defined will have the meanings set forth in the Plan. The Participant agrees to be bound by the Plan.

2. **Vesting of Restricted Stock**.

(a) The Restricted Stock will become vested as set forth in the Summary of Grant, provided that employed by, or provide service to, the Company or any of its Affiliates, collectively referred to as the Employ defined in the Summary of Grant). For purposes of this Agreement, the term "Affiliate" has the meaning ascrib the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

(b) Except as set forth in the Summary of Grant, if the Participant ceases to be employed by, or provide reason prior to the Vesting Date, the Participant will forfeit all rights to receive shares of Company Stock here have any rights with respect to any portion of the shares of Company Stock that have not yet become veste ceases to be employed by, or provide service to, the Employer. Any certificates or book entries for the Restricte Agreement shall bear an appropriate legend, as determined by the Committee in its sole discretion, to the effe restrictions as set forth herein and in the Plan. The Restricted Stock granted pursuant to this Agreeme transferred, pledged or otherwise encumbered or disposed of by the Participant prior to the Vesting Date pursuant to Article 10 of the Plan.

3. **Issuance of Company Stock**. One share of Company Stock will be issued to the Participant for each ve accordance with the Vesting Schedule set forth in the Summary of Grant. Any shares of Restricted Stock not v understands and agrees that all shares of Restricted Stock that are not fully vested at the time Participan provide service to, the Employer shall be returned to Company. In no event will any fractional shares of Compa the total number of shares of Company Stock to be issued pursuant to this Agreement will, to the extent nec next whole share of Company Stock in order to avoid the issuance of a fractional share.

4. **Taxes**.

(a) The Participant acknowledges that the Company has not advised the Participant regarding the P connection with the grant or vesting of the Restricted Stock and the delivery of unrestricted shares of Compar The Participant has reviewed with the Participant's own tax advisors the federal, state, and local tax consequ the Restricted Stock and the delivery of unrestricted shares of Company Stock in connection therewith as c The Participant is relying solely on such advisors and not on any statements or representations of the Cor

Participant understands that the Participant (and not the Company) will be responsible for the Participant's ow result of the transactions contemplated by this Agreement.

(b) To the extent applicable, the Participant shall, not later than the date as of which the receipt of this g federal income tax purposes, pay to the Company or make arrangements satisfactory to the Compensatic Board of Directors (the “Committee”) for payment of any Federal, state, and local taxes required by law to taxable event. Except in the case where an election is made pursuant to Paragraph (c) below, the Company the required tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of released by the transfer agent a number of shares of Company Stock with an aggregate Fair Market Value (a satisfy the withholding amount due.

(c) The Participant and the Employer hereby agree that the Participant may, within 30 days followin Internal Revenue Service and the Employer an election under Section 83(b) of the Internal Revenue Code. Ir such an election, he or she agrees to provide a copy of the election to the Employer. The Participant responsible for obtaining the advice of his or her tax advisors with regard to the Section 83(b) election and t such advisors and not on any statements or representations of the Employer or any of its agents with regard to

5. **Rights of Participant**. Prior to the issuance, if any, of unrestricted shares of Company Stock to the F Restricted Stock pursuant to the Vesting Schedule set forth in the Summary of Grant, the Participant will not ha the Company on account of the Restricted Stock, other than as follows: Participant shall have the right to vote on, said shares of Restricted Stock.

6. **Restrictions on Issuance of Company Stock**. The obligation of the Company to deliver unrestricted Participant with respect to vested shares of Restricted Stock will be subject to the condition that, if at any time discretion that the listing, registration or qualification of the shares of Company Stock upon any securities federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a c the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in par qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to t

7. **Recoupment Policy**. The Participant agrees that the Participant will be subject to any compensation, cl that may be applicable to the Participant as a director of the Company, as in effect from time to time and as ap or a duly authorized committee thereof, whether or not approved before or after the Date of Grant.

8. **Successors and Assigns**. Except to the extent otherwise provided in this Agreement, the provisions o benefit of, and be binding upon, the Company and its successors and assigns. During the period prior to the shares of Company Stock may not be assigned, transferred, pledged or otherwise disposed of by the Partic the Plan or by the Committee. Any attempt to assign, transfer, pledge or otherwise dispose of the right to re contrary to the provisions the Summary of Grant, this Agreement and the Plan, and the levy of any executio upon the right to receive the shares, will be null, void and without effect.

9. **Entire Agreement**. This Agreement contains the entire agreement of the parties with respect to the Res supersedes all prior agreements and discussions between the parties concerning such subject matter. This orally but only by an instrument in writing signed by the party against whom enforcement of any change, modifi

10. **Grant Subject to Plan Provisions**. This grant is made pursuant to the Plan, the terms of which are i and in all respects will be interpreted in accordance with the Plan. This grant is subject to interpretations, concerning the Plan established from time to time by the Committee in accordance with the provisions of the provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualifi changes in capitalization of the Company and (d) other requirements of applicable law. The Committee will h construe this grant pursuant to the terms of the Plan, and its decisions will be conclusive as to any questions a

11. **No Obligation to Continue Employment or Service as a Director**. This Agreement will not confer up retained in the employment or service as a director of the Company and will not interfere in any way with the r the Participant's employment, if applicable, at any time.

12. **Notice**. Any notice to the Company provided for in this instrument will be addressed to the Company in c the Company's

corporate headquarters, and any notice to the Participant will be addressed to such Participant at the curre records of the Company, or to such other address as the Participant may designate to the Company in writing hand, sent by email or enclosed in a properly sealed envelope addressed as stated above, registered and post office regularly maintained by the United States Postal Service or by overnight courier.

13. **Applicable Law**. The validity, construction, interpretation and effect of this Agreement will be governed with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflicts of laws provisions the

14. **Application of Section 409A of the Code**. This Agreement is intended to comply with section 409A 1986, as amended (the "Code") and will in all respects be administered in accordance with section 409A Company Stock pursuant this Agreement is intended to be subject to a "substantial risk of forfeiture" under issued within the "short term deferral" exception under such statute following the lapse of the applicable forf any provision in this Agreement to the contrary, if the Participant is a "specified employee" (as defined in sec necessary to postpone the commencement of any payments otherwise payable under this Agreement to prev tax under section 409A of the Code, then the Company will postpone the payment until five (5) days after following the original payment date. If the Participant dies during the postponement period prior to the pay amounts withheld on account of section 409A of the Code will be paid to the personal representative of the Pa days after the date of the Participant's death. The determination of who is a specified employee, including the considered specified employees and the identification date, will be made by the Board of Directors or its provisions of sections 416(i) and 409A of the Code. In no event will the Participant, directly or indirectly, distribution. This Agreement may be amended without the consent of the Participant in any respect deemed by be necessary in order to preserve compliance with section 409A of the Code.

15. **Data Privacy Consent**. In order to administer the Plan and this Agreement and to implement or st Employer and certain agents thereof (together, the “Relevant Companies”) may process any and all personal d not limited to Social Security or other identification number, home address and telephone number, date of b necessary or desirable for the administration of the Plan and/or this Agreement (the “Relevant Information”). the Participant (i) authorizes the Company to collect, process, register and transfer to the Relevant Compan waives any privacy rights the Participant may have with respect to the Relevant Information; (iii) authorizes t and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information Relevant Companies consider appropriate. The Participant shall have access to, and the right to change, the Information will only be used in accordance with applicable law.

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound, have executed this Agreem

PARTICIPANT **ORRSTOWN FINANCIAL SERVICES, INC.**

____________________________ ____________________________

Name: Thomas R. Quinn, Jr.
President and Chief Executive Officer

____________________________ ____________________________

Date Date

5 144

SUBSIDIARIES OF THE REGISTRANT

1. Orrstown Bank, Shippensburg, Pennsylvania; a state-chartered bank organized under the Pennsylvania Banking Code of 1965.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-265279, 333-225169, 333-196239, 333-1747
Registration Statement Nos. 333-268171 and 333-53405 on Form S-3 of Orrstown Financial Services, Inc. of our report dated Mar
the consolidated financial statements and effectiveness of internal control over financial reporting appearing in this Annual Report on

/s/ Crowe LLP

Washington, D.C.
March 16, 2023 14, 2024

CERTIFICATION

I, Thomas R. Quinn, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Orrstown Financial Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fac made, in light of the circumstances under which such statements were made, not misleading with respect to the period cov
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in a 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 proce Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) a have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be des that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by 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 provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial staten accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluatio
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reas registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over fi auditors and the audit committee of 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 repo 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 financial reporting.

Date: March 16, 2023 March 14, 2024 By: /s/ Thomas R. Quinn, Jr.
Thomas R. Quinn, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Neelesh Kalani, certify that:

1. I have reviewed this annual report on Form 10-K of Orrstown Financial Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fac made, in light of the circumstances under which such statements were made, not misleading with respect to the period cov
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all m 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 proce Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) a have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be de ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known 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 provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial state accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our c the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluat
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is rea registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over fi auditors and the audit committee of 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 re 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 financial reporting.

Date: March 16, 2023 March 14, 2024 By: /s/ Neelesh Kalani
Neelesh Kalani
Executive Vice President and Chief Financial O
(Principal 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 Annual Report of Orrstown Financial Services, Inc. (the “Company”) on Form 10-K for the period endir 2023 as filed with the Securities and Exchange Commission on the date therein specified (the “Report”), I, Thomas R. Quinn, Jr., Pre the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, tha

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 ope the period covered by the Report.

Date: March 16, 2023 March 14, 2024

By: /s/ Thomas R. Quinn, Jr.
Thomas R. Quinn, Jr.
President and Chief Executive 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 Annual Report of Orrstown Financial Services, Inc. (the “Company”) on Form 10-K for the period endir 2023 as filed with the Securities and Exchange Commission on the date therein specified (the “Report”), I, Neelesh Kalani, Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act o

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 ope the period covered by the Report.

Date: March 16, 2023 March 14, 2024

By: /s/ Neelesh Kalani
Neelesh Kalani
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

ORRSTOWN FINANCIAL SERVICES, INC.

COMPENSATION RECOVERY POLICY

Adopted as of October 8, 2023

Orrstown Financial Services, Inc. (the “Company”) has adopted a Compensation Recovery Policy (this “Policy”

1. Overview

The Policy sets forth the circumstances and procedures under which the Company shall recover Erroneously A Covered Persons (as defined below) in accordance with rules issued by the United States Securities and Exch under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Nasdaq Stock Market. otherwise defined herein shall have the meanings given in Section 3 below.

2. Compensation Recovery Requirement

In the event the Company is required to prepare a Financial Restatement, the Company shall recover reasonal Awarded Compensation with respect to such Financial Restatement.

3. Definitions

a. "Applicable Recovery Period" means the three completed fiscal years immediately preceding the Re Restatement. In addition, in the event the Company has changed its fiscal year: (i) any transition per occurring within or immediately following such three completed fiscal years shall also be part of such and (ii) any transition period of nine to 12 months will be deemed to be a completed fiscal year.

b. "Applicable Rules" means any rules or regulations adopted by the Exchange pursuant to Rule 10D- any applicable rules or regulations adopted by the SEC pursuant to Section 10D of the Exchange Ac

c. "Board" means the Board of Directors of the Company.

d. "Committee" means the Compensation Committee of the Board or, in the absence of such committe directors serving on the Board.

e. "Covered Person" means any Executive Officer and any other person designated by the Board or th this Policy. A person's status as a Covered Person with respect to Erroneously Awarded Compensat time of receipt of such Erroneously Awarded Compensation regardless of the person's current role o if a person began service as an Executive Officer after the beginning of an Applicable Recovery Peri considered a Covered Person with respect to

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Erroneously Awarded Compensation received before the person began service as an Executive Offic Covered Person with respect to Erroneously Awarded Compensation received after the person bega Officer where such person served as an Executive Officer at any time during the performance period Compensation).

f. "Effective Date" means October 1, 2023.

g. "Erroneously Awarded Compensation" means the amount of any Incentive-Based Compensation re or after the Effective Date and during the Applicable Recovery Period that exceeds the amount that c received by the Covered Person had such compensation been determined based on the restated am Restatement, computed without regard to any taxes paid. Calculation of Erroneously Awarded Comp Incentive-Based Compensation based on stock price or total shareholder return, where the amount c Compensation is not subject to mathematical recalculation directly from the information in a Financia on a reasonable estimate of the effect of the Financial Restatement on the stock price or total shareh Incentive-Based Compensation was received, and the Company shall maintain documentation of the reasonable estimate and provide such documentation to the Exchange in accordance with the Applic Compensation is deemed received, earned, or vested when the Financial Reporting Measure is attai payment, grant, or vesting occurs.

h. "Exchange" means the Nasdaq Stock Market LLC.

i. An "Executive Officer" means any person who served the Company in any of the following roles at a period applicable to Incentive-Based Compensation such person received during service in such role

financial officer, principal accounting officer (or if there is no such accounting officer the controller), a
principal business unit, division, or function (such as sales, administration, or finance), any other offic
making function, or any other person who performs similar policy making functions for the Company.
subsidiaries of the Company may be deemed executive officers of the Company if they perform such
Company.

j. "Financial Reporting Measures" mean measures that are determined and presented in accordance w
used in preparing the Company's financial statements, any measures that are derived wholly or in pa
(including, for example, a non-GAAP financial measure), and stock price and total shareholder return

k. "Incentive-Based Compensation" means any compensation provided, directly or indirectly, by the Co
that is granted, earned, or vested based, in whole or in part, upon the attainment of a Financial Repo

any equity-based compensation provided by the Company or any of its subsidiaries, including, witho
restricted stock awards, restricted stock units and stock appreciation rights.

l. A "Financial Restatement" means a restatement of previously issued financial statements of the Com
noncompliance of the Company with any financial reporting requirement under the securities laws, in
restatement to correct an error in previously-issued financial statements that is material to the previo
or that would result in a material misstatement if the error were corrected in the current period or left
period.

m. "Restatement Date" means, with respect to a Financial Restatement, the earlier to occur of: (i) the d
Committee of the Board concludes, or reasonably should have concluded, that the Company is requ
Restatement or (ii) the date a court, regulator or other legally authorized body directs the Company t
Restatement.

4. Exception to Compensation Recovery Requirement

The Company may elect not to recover Erroneously Awarded Compensation pursuant to this Policy if the Com
would be impracticable, and one or more of the following conditions, together with any further requirements set
are met: (i) the direct expense paid to a third party, including outside legal counsel, to assist in enforcing this Po
to be recovered, and the Company has made a reasonable attempt to recover such Erroneously Awarded Com
likely cause an otherwise tax-qualified retirement plan to fail to be so qualified under applicable regulations.

5. Recovery from Participating Employees

In addition to (and without limiting) the provisions of paragraph 2 above, in the event the Company is required t
Restatement after the Effective Date, the Company may recover from any current or former employee of the C
Person (each a "Participating Employee") and who received Incentive-Based Compensation from the Company
fiscal years immediately preceding the date on which the Board or the Audit Committee determines that the Co
Financial Restatement, the amount that exceeds what would have been paid to the Participating Employee und
provided that, this paragraph 5 will apply only to the extent the Board (or a duly established committee thereof)
determines that the Participating Employee committed any act or omission that materially contributed to the cir
Financial Restatement and such act or omission involved any of the following: (i) misconduct, wrongdoing or a
Company's rules or of any applicable legal or regulatory requirements in the course of the Participating Employ
Company; or (ii) a breach of a fiduciary duty to the Company or its stockholders by the Participating Employee.

6. Recovery Where Intentional Misconduct

In addition to (and without limiting) the provisions of paragraph 2 and 5 above, in the event the Company is req
Restatement after the Effective Date and the Board (or a duly established committee thereof), in its sole discre
Person's or a Participating Employee's act or omission contributed to the circumstances requiring the Financia
omission involved any of the following: (i) willful, knowing or intentional misconduct or a willful, knowing or inter
Company's rules or any applicable legal or regulatory requirements in the course of the Covered Person's or th
employment by the Company or (ii) fraud in the course of the Covered Person's or the Participating Employee's
the Company may recover from such Covered Person or Participating Employee up to 100% (as determined by
committee thereof in its sole discretion) of the Incentive-Based Compensation received by such Covered Perso

from the Company during the three fiscal years preceding the date on which the Company determined that it is
Restatement.

7. Tax Considerations

To the extent that, pursuant to this Policy, the Company is entitled to recover any Erroneously Awarded Compe
Covered Person, the gross amount received (i.e., the amount the Covered Person received, or was entitled to
for tax withholding or other payments) shall be returned by the Covered Person.

8. Method of Compensation Recovery

The Committee shall determine, in its sole discretion, the method for recovering Erroneously Awarded Compen
include, without limitation, any one or more of the following:

a. requiring reimbursement of cash Incentive-Based Compensation previously paid;

b. seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other awards;

c. cancelling or rescinding some or all outstanding vested or unvested equity-based awards;

d. adjusting or withholding from unpaid compensation or other set-off;

e. cancelling or offsetting against planned future grants of equity-based awards; and/or f. any oth applicable law or contract.

Notwithstanding the foregoing, a Covered Person will be deemed to have satisfied such person's obligation to
Compensation to the Company if such Erroneously Awarded Compensation is returned in the exact same form
provided that equity withheld to satisfy tax obligations will be deemed to have been received in cash in an amo
payment made.

9. Policy Interpretation

This Policy shall be interpreted in a manner that is consistent with the Applicable Rules and any other applicab
into consideration any applicable interpretations and guidance of the SEC in interpreting this Policy, including, t
whether a financial restatement qualifies as a Financial Restatement hereunder. To the extent the Applicable R
Incentive-Based Compensation in additional circumstances besides those specified above, nothing in this Polic
restrict the right or obligation of the Company to recover Incentive-Based Compensation to the fullest extent re

10. Policy Administration

This Policy shall be administered by the Committee. The Committee shall have such powers and authorities re
Policy as are consistent with the governing documents of the Company and applicable law. The Committee sha
to take, or direct the taking of, all actions and to make all determinations required or provided for under this Pol
authority to take, or direct the taking of, all such other actions and make all such other determinations not incor
and provisions of this Policy that the Committee deems to be necessary or appropriate to the administration of
and construction by the Committee of any provision of this Policy and all determinations made by the Committe
binding and conclusive.

11. Compensation Recovery Repayments not Subject to Indemnification

Notwithstanding anything to the contrary set forth in any agreement with, or the organizational documents of, th
subsidiaries, Covered Persons are not entitled to indemnification for Erroneously Awarded Compensation or fo
of or in any way related to Erroneously Awarded Compensation recovered under this Policy.

DISCLAIMER