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of Contents UNITED STATESSECURITIES AND EXCHANGE COMMISSIONWASHINGTON, D.C. 20549FORM 10-Qâ˜'QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the quarterly period ended JuneÂ 30, 2024 orâ˜TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the transition period from Â to Â Commission file number: 001-34292ORRSTOWN FINANCIAL SERVICES, INC.(Exact Name of Registrant as Specified in its Charter)Pennsylvania23-2530374(State or Other Jurisdiction of Incorporation or Organization)(I.R.S. Employer Identification No.)4750 Lindle RoadHarrisburgPennsylvania17111(Address of Principal Executive Offices)(Zip Code)Registrantâ€™s Telephone Number, Including Area Code:(717)532-6114 Â Securities registered pursuant to Section 12(b) of the Act:Title of each classTrading symbol(s)Name of each exchange on which registeredCommon Stock, no par valueORRFNasdaq Stock MarketIndicate by check mark whether the registrant (1)Â has filed all reports required to be filed by SectionÂ 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)Â has been subject to such filing requirements for the past 90 days.Â Â Â Â YesÂ Â xÂ Â Â NoÂ Â¨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 (Â§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).Â Â Â Â YesÂ Â xÂ Â Â NoÂ Â¨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 â€œlarge accelerated filer,â€ â€œaccelerated filer,â€ â€œsmaller reporting company,â€ and "emerging growth company" in Rule 12b-2 of the Exchange Act.LargeÂ acceleratedÂ filerÂ Â¨Â Â Accelerated filerÂ â˜'Non-accelerated filerÂ Â¨Â Â SmallerÂ reportingÂ companyÂ â˜'Emerging growth companyâ˜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.oIndicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.).Â Â Â Â YesÂ Â ˜Â Â Â Â NoÂ Â xNumber of shares outstanding of the registrantâ€™s Common Stock as of AugustÂ 5, 2024: 19,370,897.Table of ContentsORRSTOWN FINANCIAL SERVICES, INC.INDEXÂ Â PagePart I â€" FINANCIAL INFORMATIONGlossary of Defined Terms3ItemÂ 1.Financial Statements4Condensed Consolidated Balance Sheets (Unaudited)4Condensed Consolidated Statements of Income (Unaudited)5Condensed Consolidated Statements of Comprehensive Income (Unaudited)7Condensed Consolidated Statements of Changes in Shareholdersâ€™ Equity (Unaudited)8Condensed Consolidated Statements of Cash Flows (Unaudited)10Notes to Condensed Consolidated Financial Statements (Unaudited)12ItemÂ 2Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations48ItemÂ 3.Quantitative and Qualitative Disclosures About Market Risk79ItemÂ 4.Controls and Procedures80PART II â€" OTHER INFORMATIONItemÂ 1.Legal Proceedings81ItemÂ 1A.Risk Factors81ItemÂ 2.Unregistered Sales of Equity Securities and Use of Proceeds81ItemÂ 3.Defaults upon Senior Securities81ItemÂ 4.Mine Safety Disclosures81ItemÂ 5.Other Information81ItemÂ 6.Exhibits82SIGNATURES832Table of ContentsGlossary of Defined TermsThe following terms may be used throughout this Report, including the unaudited condensed consolidated financial statements and related notes.TermDefinitionACLAllowance for credit lossesAFSAvailable-for-saleAOCIAccumulated other comprehensive income (loss)ASCAccounting Standards CodificationASUAccounting Standards UpdateBankOrrstown Bank, the commercial banking subsidiary of Orrstown Financial Services, Inc.CECLCurrent expected credit lossesCMOCollateralized mortgage obligationCodorus

ValleyCodorus Valley Bancorp, Inc.DCFDiscounted cash flowERMEnterprise Risk ManagementExchange ActSecurities Exchange Act of 1934, as amendedFASBFinancial Accounting Standards BoardFDICFederal Deposit Insurance CorporationFDMFinancial difficulty modificationFHLBFederal Home Loan BankFOMCFederal Open Market CommitteeFRBBoard of Governors of the Federal Reserve SystemGAAPAccounting principles generally accepted in the United States of AmericaGDPGross Domestic ProductGSEU.S. government-sponsored enterpriseIELIndividually evaluated loanIRCInternal Revenue Code of 1986, as amendedLHFSLoans held for saleMBSMortgage-backed securitiesMSRMortgage servicing rightOCIOther comprehensive income (loss)OREOOther real estate owned (foreclosed real estate)2011 Plan2011 Orrstown Financial Services, Inc. Incentive Stock PlanPACEProperty Assessed Clean Energy loansPCD loansPurchased credit deteriorated loansPCEPersonal Consumption ExpendituresPPPPaycheck Protection ProgramReRemicRe-securitization of Real Estate Mortgage Investment ConduitsROURight of use (leases)SBAU.S. Small Business AdministrationSECSecurities and Exchange CommissionSecurities ActSecurities Act of 1933, as amendedSOFRSecured Overnight Financing RateTDRTroubled debt restructuringUnless the context otherwise requires, the terms â€œOrrstown,â€ â€œwe,â€ â€œus,â€ â€œour,â€ and â€œCompanyâ€ refer to Orrstown Financial Services, Inc. and its subsidiaries.3Table of ContentsPART I â€“ FINANCIAL INFORMATIONÂ ItemÂ 1. Â Â Â Â Financial StatementsCondensed Consolidated Balance Sheets (Unaudited)ORRSTOWN FINANCIAL SERVICES, INC.(Dollars in thousands, except per share amounts)June 30,2024December 31,2023AssetsCash and due from banks$35,951Â $32,586Â Interest-bearing deposits with banks96,558Â 32,575Â Cash and cash equivalents132,509Â 65,161Â Restricted investments in bank stocks11,147Â 11,992Â Securities available for sale (amortized cost of $566,421 and $549,089 at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively) 529,082Â 513,519Â Loans held for sale, at fair value1,562Â 5,816Â Loans2,347,603Â 2,298,313Â Less: Allowance for credit losses(29,864)(28,702)Net loans2,317,739Â 2,269,611Â Premises and equipment, net28,484Â 29,393Â Cash surrender value of life insurance74,119Â 73,204Â Goodwill18,724Â 18,724Â Other intangible assets, net1,974Â 2,414Â Accrued interest receivable14,120Â 13,630Â Deferred tax assets, net21,674Â 22,017Â Other assets47,648Â 38,759Â Total assets$3,198,782Â $3,064,240Â LiabilitiesDeposits:Noninterest-bearing$425,255Â $430,959Â Interest-bearing2,277,629Â 2,127,855Â Total deposits2,702,884Â 2,558,814Â Securities sold under agreements to repurchase and federal funds purchased14,625Â 9,785Â FHLB advances and other borrowings115,000Â 137,500Â Subordinated notes32,128Â 32,093Â Other liabilities55,769Â 60,992Â Total liabilities2,920,406Â 2,799,184Â Commitments and contingenciesShareholdersâ€™ EquityPreferred stock, $1.25 par value per share; 500,000 shares authorized; no shares issued or outstandingâ€”Â â€”Â Common stock, no par valueâ€”$0.05205 stated value per share; 50,000,000 shares authorized; 11,201,269 shares issued and 10,720,225 outstanding at JuneÂ 30, 2024; 11,204,599 shares issued and 10,612,390 outstanding at DecemberÂ 31, 2023583Â 583Â Additional paid - in capital187,694Â 189,027Â Retained earnings 129,670Â 117,667Â Accumulated other comprehensive loss(28,404)(28,476)Treasury stockâ€”481,044 and 592,209 shares, at cost at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively(11,167)(13,745)Total shareholdersâ€™ equity278,376Â 265,056Â Total liabilities and shareholdersâ€™ equity$3,198,782Â $3,064,240Â The Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.4Table of ContentsCondensed Consolidated Statements of Income (Unaudited)ORRSTOWN FINANCIAL SERVICES, INC.Â Three Months EndedSix Months Ended(Dollars in thousands, except per share amounts)June 30, 2024June 30, 2023June 30, 2024June 30, 2023Interest incomeLoans$35,537Â $31,203Â $71,770Â $59,947Â Investment securities - taxable4,999Â 4,415Â 9,583Â 8,785Â Investment securities - tax-exempt881Â 865Â 1,758Â 1,730Â Short-term investments1,864Â 418Â 2,820Â 716Â Total interest income43,281Â 36,901Â 85,931Â 71,178Â Interest expenseDeposits15,265Â 8,608Â 28,781Â 14,810Â Securities sold under agreements to repurchase and federal funds purchased27Â 28Â 52Â 53Â FHLB advances and other borrowings1,152Â 1,386Â 2,626Â 2,638Â Subordinated notes734Â 504Â 1,488Â 1,008Â Total interest expense17,178Â 10,526Â 32,947Â 18,509Â Net interest income26,103Â 26,375Â 52,984Â 52,669Â Provision for credit losses812Â 399Â 1,110Â 1,128Â Net interest income after provision for credit losses25,291Â 25,976Â 51,874Â 51,541Â Noninterest incomeService charges on deposit accounts1,018Â 984Â 2,023Â 1,946Â Interchange income961Â 993Â 1,872Â 1,958Â Other service charges, commissions and fees265Â 267Â 460Â 462Â Swap fee income375Â 196Â 574Â 196Â Trust and investment management income2,132Â 1,927Â 4,156Â 3,815Â Brokerage income1,180Â 895Â 2,258Â 1,754Â Mortgage banking activities369Â 112Â 827Â 590Â Income from life insurance646Â 645Â 1,280Â 1,235Â Investment securities losses(12)(2)(17)(10)Other income 238Â 1,141Â 369Â 1,290Â Total noninterest income7,172Â 7,158Â 13,802Â 13,236Â Noninterest expensesSalaries and employee benefits13,195Â 13,054Â 26,947Â 25,250Â Occupancy1,178Â 1,054Â 2,379Â 2,160Â Furniture and equipment1,527Â 1,212Â 2,965Â 2,439Â Data processing1,237Â 1,201Â 2,502Â 2,418Â Automated teller and interchange fees341Â 308Â 692Â 606Â Advertising and bank promotions774Â 919Â 1,172Â 1,324Â FDIC insurance419Â 519Â 860Â 1,023Â Professional services801Â 504Â 1,432Â 1,238Â Directors' compensation272Â 221Â 523Â 468Â Taxes other than income49Â 3Â 543Â 460Â Intangible asset amortization215Â 239Â 440Â 489Â Merger-related expenses1,135Â â€”Â 1,807Â â€”Â Other operating expenses1,496Â 1,515Â 2,846Â 3,129Â Total noninterest expenses22,639Â 20,749Â 45,108Â 41,004Â continued5Table of ContentsThree Months EndedSix Months EndedJune 30,2024June 30,2023June 30,2024June 30,2023Income before income tax expense 9,824Â 12,385Â 20,568Â 23,773Â Income tax expense2,086Â 2,547Â 4,299Â 4,779Â Net income$7,738Â $9,838Â $16,269Â $18,994Â Per share information:Basic earnings per share$0.74Â $0.95Â $1.57Â $1.83Â Diluted earnings per share0.73Â 0.94Â 1.55Â 1.82Â Dividends paid per share0.20Â 0.20Â 0.40Â 0.40Â The Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.6Table of ContentsCondensed Consolidated Statements of Comprehensive Income (Unaudited)ORRSTOWN FINANCIAL SERVICES, INC. Â Â ThreeÂ MonthsÂ EndedSix Months Ended(Dollars in thousands)June 30,2024June 30,2023June 30,2024June 30,2023Net income$7,738Â $9,838Â $16,269Â $18,994Â Other comprehensive (loss) income, net of tax:Unrealized (losses) gains on securities available for sale arising during the period(93)(2,836)(1,769)5,938Â Reclassification adjustment for losses realized in net incomeâ€”Â â€”Â â€”Â â€”Â Net unrealized (losses) gains on securities available for sale(93)(2,836)(1,769)5,938Â Tax effect21Â 624Â 395Â (1,306)Total other comprehensive (loss) income, net of tax and reclassification adjustments on securities available for sale(72)(2,212)(1,374)4,632Â Unrealized gains on interest rate swaps used in cash flow hedges434Â 1,073Â 1,862Â 1,392Â Reclassification adjustment for losses realized in net incomeâ€”Â â€”Â â€”Â â€”Â Net unrealized gains on interest rate swaps used in cash flow hedges434Â 1,073Â 1,862Â 1,392Â Tax effect(98)(232)(416)(306)Total other comprehensive income, net of tax and reclassification adjustments on interest rate swaps used in cash flow hedges 336Â 841Â 1,446Â 1,086Â Total other comprehensive income (loss), net of tax and reclassification adjustments264Â (1,371)72Â 5,717Â Total comprehensive income$8,002Â $8,467Â $16,341Â $24,711Â The Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.7Table of Contents Condensed Consolidated Statements of Changes in Shareholdersâ€™ Equity (Unaudited)ORRSTOWN FINANCIAL SERVICES, INC. Three Months Ended JuneÂ 30, 2024(Dollars in thousands, except per share amounts)CommonStockAdditionalPaid-InCapitalRetainedEarningsAccumulatedOtherComprehensiveLossTreasuryStockTotalShareholdersâ€™EquityBalance, April 1, 2024$583Â $187,267Â $124,075Â $(28,668)$(11,575)$271,682Â Net incomeâ€”Â â€”Â 7,738Â â€”Â â€”Â 7,738Â Total other comprehensive income, net of taxesâ€”Â â€”Â â€”Â 264Â â€”Â 264Â Cash dividends ($0.20 per share) â€”Â â€”Â (2,143)â€”Â â€”Â (2,143)Share-based compensation plans:1,952 net common shares acquired and 17,100 net treasury shares issued, including compensation expense totaling $864â€”Â 457Â â€”Â â€”Â 408Â 865Â Payment for fractional shares of common stock pursuant to mergerâ€”Â (30)â€”Â â€”Â â€”Â (30)Balance, June 30, 2024$583Â $187,694Â $129,670Â $(28,404)$(11,167)$278,376Â Six Months Ended JuneÂ 30, 2024(Dollars in thousands, except per share amounts)CommonStockAdditionalPaid-InCapitalRetainedEarningsAccumulated Other Comprehensive LossTreasuryStockTotalShareholdersâ€™EquityBalance, January 1, 2024$583Â $189,027Â $117,667Â $(28,476)$(13,745)$265,056Â Net incomeâ€”Â â€”Â 16,269Â â€”Â â€”Â 16,269Â Total other comprehensive income, net of taxesâ€”Â â€”Â â€”Â 72Â â€”Â 72Â Cash dividends ($0.40 per share)â€”Â â€”Â (4,266)â€”Â â€”Â (4,266)Share-based compensation plans:3,330 net common shares acquired and 111,165 net treasury shares issued, including compensation expense totaling $1,831â€”Â (1,303)â€”Â â€”Â 2,578Â 1,275Â Payment for fractional shares of common stock pursuant to mergerâ€”Â (30)â€”Â â€”Â â€”Â (30)Balance, June 30, 2024$583Â $187,694Â $129,670Â $(28,404)$(11,167)$278,376Â 8Table of ContentsThree Months Ended JuneÂ 30, 2023(Dollars in thousands, except per share amounts)CommonStockAdditionalPaid-InCapitalRetainedEarningsAccumulatedOtherComprehensiveLossTreasuryStockTotalShareholdersâ€™EquityBalance, April 1, 2023$584Â $187,572Â $97,519Â $(32,825)$(12,689)$240,161Â Net incomeâ€”Â â€”Â 9,838Â â€”Â â€”Â 9,838Â Total other comprehensive loss, net of taxesâ€”Â â€”Â â€”Â (1,371)â€”Â (1,371)Cash dividends ($0.20 per share)â€”Â â€”Â (2,118)â€”Â â€”Â (2,118)Share-based compensation plans:14,652 net common shares acquired and 65,830 net treasury shares acquired, including compensation expense totaling $535(1)287Â â€”Â â€”Â (1,155)(869)Balance, June 30, 2023$583Â $187,859Â $105,239Â $(34,196)$(13,844)$245,641Â Six Months Ended JuneÂ 30, 2023(Dollars in thousands, except per share amounts)CommonStockAdditionalPaid-InCapitalRetainedEarningsAccumulatedOtherComprehensiveLossTreasuryStockTotalShareholdersâ€™EquityBalance, January 1, 2023$584Â $189,264Â $92,473Â $(39,913)$(13,512)$228,896Â Cumulative effect of change in accounting principle - CECL (Note 4)â€”Â â€”Â (1,984)â€”Â â€”Â (1,984)Net incomeâ€”Â â€”Â 18,994Â â€”Â â€”Â 18,994Â Total other comprehensive income, net of taxesâ€”Â â€”Â â€”Â 5,717Â â€”Â 5,717Â Cash dividends ($0.40 per share)â€”Â â€”Â (4,244)â€”Â â€”Â (4,244)Share-based compensation plans:21,162 net common shares acquired and 38,826 net treasury shares acquired, including compensation expense totaling $1,154(1)(1,405)â€”Â â€”Â (332)(1,738)Balance, June 30, 2023$583Â $187,859Â $105,239Â $(34,196)$(13,844)$245,641Â The Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.9Table of ContentsCondensed Consolidated Statements of Cash Flows (Unaudited)ORRSTOWN FINANCIAL SERVICES, INC.Â Six Months Ended(Dollars in thousands)June 30, 2024June 30, 2023Cash flows from operating activitiesNet income$16,269Â $18,994Â Adjustments to reconcile net income to net cash provided by operating activities:Net premium amortization836Â 978Â Depreciation and amortization expense2,136Â 2,114Â Provision for credit losses1,110Â 1,128Â Share-based compensation1,831Â 1,154Â Gains on sales of loans originated for sale(427)(118)Fair value adjustments on loans held for sale(31)(187)Mortgage loans originated for sale(16,472)(9,829)Proceeds from sales of loans originated for sale21,184Â 14,564Â Net gain on sale of OREO and premises held for saleâ€”Â (301)Net loss on disposal of premises and equipmentâ€”Â 226Â Deferred income tax expense321Â 886Â Investment securities losses17Â 10Â Return on investments in limited partnerships(39)(12)Net (gains) losses on derivatives(168)199Â Income from life insurance(1,280)(1,235)Premium on branch saleâ€”Â (1,166)(Increase) decrease in accrued interest receivable and other assets(2,752)2,816Â Decrease in accrued interest payable and other liabilities(3,799)(8,900)Other, net367Â 335Â Net cash provided by operating activities19,103Â 21,656Â Cash flows from investing activitiesMaturities, repayments and calls of AFS securities31,841Â 19,182Â Purchases of AFS securities(50,289)(9,532)Net redemptions (purchases) of restricted investments in bank stocks845Â (1,960)Net increase in loans(51,088)(83,157)Investment in limited partnerships(4,521)(716)Purchases of bank premises and equipment(100)(1,505)Proceeds from disposal of OREO and premises held for saleâ€”Â 1,662Â Proceeds from disposal of premises and equipmentâ€”Â 43Â Net cash paid in branch saleâ€”Â (17,656)Death benefit proceeds from life insurance contractsâ€”Â 342Â Net cash used in investing activities(73,312)(93,297)continued10Table of ContentsSix Months EndedJune 30, 2024June 30, 2023Cash flows from financing activitiesNet increase in deposits144,070Â 65,432Â Net decrease in borrowings with original maturities less than 90 days(17,660)(10,933)Proceeds from FHLB advances with original maturities greater than 90 daysâ€”Â 40,000Â Payments on FHLB advances with original maturities greater than 90 daysâ€”Â (228)Dividends paid(4,266)(4,244)Acquisition of treasury stockâ€”Â (2,579)Shares repurchased as treasury stock for employee taxes associated with restricted stock vesting(637)(378)Proceeds from issuance of employee stock purchase plan shares80Â 66Â Other(30)â€”Â Net cash provided by financing activities121,557Â 87,136Â Net increase in cash and cash equivalents67,348Â 15,495Â Cash and cash equivalents at beginning of period65,161Â 60,823Â Cash and cash equivalents at end of period$132,509Â $76,318Â Six Months EndedJune 30, 2024June 30, 2023Supplemental disclosures of cash flow information:Cash paid during the period for:Interest$33,044Â $17,934Â Income taxes4,625Â 1,950Â Supplemental schedule of noncash activities:OREO acquired in settlement of loansâ€”Â 85Â Lease liabilities arising from obtaining ROU assetsâ€”Â 2,416Â The Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.11Table of ContentsNotes to Condensed Consolidated Financial Statements (Unaudited)(All dollar amounts presented in the tables, except per share amounts, are in thousands)NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESSee the Glossary of Defined Terms at the beginning of this Report for terms used throughout the unaudited condensed consolidated financial statements and related notes of this Form 10-Q.Nature of Operations â€“ 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 Companyâ€™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. 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 â€“ The accompanying unaudited condensed consolidated financial statements include the accounts of Orrstown Financial Services, Inc. and its wholly owned subsidiary, the Bank. The Company has prepared these unaudited condensed consolidated financial statements in accordance with GAAP for interim financial information, SEC rules that permit reduced disclosure for interim periods, and Article 10 of Regulation S-X.Â In the opinion of management, all adjustments (all of which are of a normal recurring nature) that are necessary for a fair statement are reflected in the unaudited condensed consolidated financial statements.Â There have been no material changes to the Company's significant accounting policies for the three and six months ended JuneÂ 30, 2024. TheÂ DecemberÂ 31, 2023Â consolidated balance sheet information contained in this Quarterly Report on FormÂ 10-Q was derived from theÂ Company's 2023Â audited consolidated financial statements.Â The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Companyâ€™s Annual Report on FormÂ 10-K for the year endedÂ DecemberÂ 31, 2023. Operating results for the three and six months ended JuneÂ 30, 2024 are not necessarily indicative of the results that may be expected for the year ending DecemberÂ 31, 2024. All significant intercompany transactions and accounts have been eliminated. Certain reclassifications have been made to the prior period amounts to conform with 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.The Company's management has evaluated all activity of the Company and concluded that subsequent events are properly reflected in the Company's unaudited condensed 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.Allowance for Credit Losses - LoansOn JanuaryÂ 1, 2023, the Company adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("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 organization to measure all expected credit losses over the contractual term for 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.The Company calculates credit losses over the estimated life of the applicable financial assets using 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 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 validation of credit models also included determining the length of the reasonable and supportable forecast 12Table of Contentsand regression period and utilizing national peer group historical loss rates. For the consumer loan segments, the remaining life methodology is applied as a practical expedient based on the risk characteristics.Allowance for Credit Losses on LoansThe ACL represents the amount that, in management's judgment, appropriately reflects credit losses inherent in the loan portfolio at the balance sheet date. Loans deemed to be uncollectible are charged against the

ACL on loans and subsequent recoveries, if any, are credited to the ACL on loans when received. Changes to the ACL are recorded through the provision for credit losses on loans in the unaudited condensed consolidated statements of income. 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 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. For purposes of estimating the Companyâ€™s ACL, management generally evaluates collectively evaluated loans by federal call code, which represents the loan classes based upon U.S. regulatory loan classification rules, 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 of economic conditions 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. 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 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 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 instead dependent only on the operation, rather than the sale of the collateral, the measure of the ACL does not incorporate estimated costs to sell. For loans evaluated on the basis of projected future principal and interest cash flows, the Company discounts the expected cash flows at the effective 13Table of Contentsinterest rate of the loan. An ACL will result if the present value of expected cash flows is less than the amortized cost basis of the loan.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 include significant or unexpected changes in:â€¢Lending policies, procedures, underwriting standards and recovery practices;â€¢Nature and volume of loans;â€¢Concentrations of credit; â€¢Collateral valuation trends;â€¢Delinquency and classified loan trends;â€¢Experience, ability and depth of management and lending staff;â€¢Quality of loan review system; andâ€¢Economic conditions and other external factors.For PCD loans, the nonaccrual status is determined in the same manner as for other loans. In accordance with the CECL standard, the Company accounts for its PCD loans under ASC 310-20, Receivables - Nonrefundable Fees and Other Assets ("ASC 310-20"). These loans are initially recorded at fair value and 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. Under ASC 310-20, the acquired loans are evaluated on an individual asset level, and not maintained in pools and accounted for as units of accounts, which would permit treating each pool as a single asset.On JanuaryÂ 1, 2023, the Company adopted ASU No. 2022-02, Financial Instruments â€“ Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures (â€œASU 2022-02â€). ASU 2022-02 requires that the Company evaluate, based on the guidance for 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 requires all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables â€“ Nonrefundable Fees and Other Costs, and subjects 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.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.See Note 4, Loans and Allowance for Credit Losses, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information," for a description of the Companyâ€™s loan classes and differing levels of associated credit risk.Allowance for Credit Losses on AFS SecuritiesUnder CECL, 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 14Table of Contentssecurity'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. 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 unaudited condensed consolidated statements of financial condition. Accrued interest receivable on AFS securities is excluded from the estimate of credit losses.See Note 3, Investment Securities, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information," for a description of the Companyâ€™s investment securities and impairment evaluation. Recent Accounting PronouncementsIn November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): 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 included in an operating segment's measures of profit or loss. Other required disclosures include the composition of other segment items, the title and position of the CODM and an explanation on how the CODM evaluates and uses the reportable segment's performance. This guidance for segment reporting is effective for fiscal years beginning after December 15, 2023 and interim periods with fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will adopt the new standard for the annual reporting period beginning January 1, 2024 and for interim periods beginning January 1, 2025. The Company is not currently required to report segment information and, as such, does not anticipate that the updated guidance will have a significant impact on its consolidated financial statements.In December 2023, the Financial Accounting Standards Board issued ASU No. 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, management does not expect it will have a significant impact on its consolidated financial statements.In March 2024, the SEC adopted the final rule under SEC Release No. 33-11275, â€œThe Enhancement and Standardization of Climate-Related Disclosures for Investorsâ€. This rule will require registrants to disclose certain climate-related information in registration statements and annual reports. The disclosure requirements will apply to the Company's fiscal year beginning January 1, 2026. The Company is currently evaluating the final rule to determine its impact on the Company's consolidated financial statements and disclosures.NOTE 2. MERGEROn JulyÂ 1, 2024, Orrstown completed the previously announced merger of equals (the â€œMergerâ€) with Codorus Valley, pursuant to that certain Agreement and Plan of Merger (the â€œMerger Agreementâ€), dated as of DecemberÂ 12, 2023, by and between Orrstown and Codorus Valley. At the effective time of the Merger (the â€œEffective Timeâ€), Codorus Valley was merged with and into Orrstown, with Orrstown as the surviving corporation, which was promptly followed by the merger of Codorus Valleyâ€™s wholly-owned bank subsidiary, PeoplesBank, A Codorus Valley Company, with and into Orrstown Bank, a wholly-owned subsidiary of Orrstown, with Orrstown Bank as the surviving bank.Pursuant to the terms of the Merger Agreement, each share of Codorus Valley common stock, $2.50 par value per share (â€œCodorus Common Stockâ€), outstanding immediately prior to the Effective Time was canceled and converted into the right to receive 0.875 shares (the â€œExchange Ratioâ€) of Orrstown common stock, no par value per share (â€œOrrstown Common Stockâ€), with an amount in cash, without interest, to be paid in lieu of fractional shares.15Table of ContentsIn addition, at the Effective Time, (i) each option to purchase Codorus Valley common stock issued under Codorus Valleyâ€™s 2007 Long-Term Incentive Plan, as amended, 2017 Long-Term Incentive Plan, as amended, and any other similar plan (collectively, the â€œCodorus Valley Equity Plansâ€), outstanding immediately prior to the Effective Time was automatically converted into an option to purchase a number of shares of Orrstown common stock equal to the product of the number of shares of Codorus Valley common stock subject to such stock option immediately prior to the Effective Time and the Exchange Ratio, at an exercise price per share (rounded up to the nearest whole cent) equal to (a) the exercise price per share of Codorus Valley common stock of such stock option immediately prior to the Effective Time divided by (b) the Exchange Ratio; (ii) all time-based restricted stock awards and time-based restricted stock unit awards granted under the Codorus Valley Equity Plans were vested in full; and (iii) all performance-based restricted stock awards and performance-based restricted stock unit awards granted under the Codorus Valley Equity Plans were vested in full. In addition, the 2007 Codorus Valley Bancorp, Inc. Restated Employee Stock Purchase Plan was terminated prior to the closing date of the Merger. Each outstanding share of Orrstown Common Stock remained outstanding and was unaffected by the Merger.As of JuneÂ 30, 2024 and DecemberÂ 31, 2023, Codorus Valley had total assets of $2.2 billion, total loans of $1.7 billion and total deposits of $1.9 billion. Common shares outstanding totaled 9,751,323 and 9,642,851 at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. PeoplesBank operated 22 full-service branches and eight limited purpose branches in Pennsylvania and Maryland as of JuneÂ 30, 2024. Following the Merger, Orrstown operated 51 branches as of JulyÂ 1, 2024. On AugustÂ 5, 2024, Orrstown announced the Bank intends to close six of its branches. Five of the branch closures are subject to regulatory approval and are expected to be completed in the fourth quarter of 2024 and one of the branch closures qualifies as a branch consolidation and will be completed in the third quarter of 2024. After the branch closures are complete, the Bank will have 38 full-service branches and seven limited purpose branches.The total aggregate consideration delivered to holders of Codorus Valley common stock was approximately 8,532,107 shares of Orrstown common stock. The issuance of shares of Orrstown common stock in connection with the Merger was registered under the Securities Act on a registration statement initially filed by Orrstown with the SEC on March 29, 2024 and declared effective on April 23, 2024 (the â€œRegistration Statementâ€). The consideration transferred at the close of the transaction is estimated at $233.4 million based on the closing market price of Orrstown common stock of $27.36 on JuneÂ 28, 2024.The Merger accomplishes the Companyâ€™s objectives of providing increased market opportunities and expanding its branch network through a contiguous footprint in Central and Eastern Pennsylvania and the Greater Baltimore, Maryland area. Further, the merger creates an expanded product suite based on the complementary nature of the products and customers of both companies and increases lending capacity, which will support growth of the existing client base and is expected to provide an opportunity to mitigate risks and increase potential returns.The initial purchase accounting for the Merger in accordance with GAAP for this business combination is not finalized, therefore the Company is not yet able to disclose the preliminary fair value of the Codorus Valley assets acquired and liabilities assumed.16Table of ContentsNOTE 3. INVESTMENT SECURITIESAt JuneÂ 30, 2024 and DecemberÂ 31, 2023, all investment securities were classified as AFS. The following table summarizes amortized cost, fair value and ACL of investment securities, and the corresponding amounts of gross unrealized gains and losses recognized in AOCI, and the allowance for credit losses at JuneÂ 30, 2024 and DecemberÂ 31, 2023: AmortizedÂ CostGrossÂ UnrealizedGainsGrossÂ UnrealizedLossesAllowance for Credit LossesFair ValueJune 30, 2024U.S. Treasury securities$20,050Â $â€”Â $2,337Â $â€”Â $17,713Â U.S. Government Agencies3,444Â 129Â â€”Â â€”Â 3,573Â States and political subdivisions221,404Â 7Â 20,965Â â€”Â 200,446Â GSE residential MBSs60,430Â â€”Â 3,587Â â€”Â 56,843Â GSE commercial MBSs3,778Â 311Â â€”Â â€”Â 4,089Â GSE residential CMOs123,116Â 71Â 6,944Â â€”Â 116,243Â Non-agency CMOs34,704Â 248Â 3,544Â â€”Â 31,408Â Asset-backed99,386Â 487Â 1,215Â â€”Â 98,658Â Other109Â â€”Â â€”Â â€”Â 109Â Totals$566,421Â $1,253Â $38,592Â $â€”Â $529,082Â December 31, 2023U.S. Treasury securities$20,057Â $â€”Â $2,217Â $â€”Â $17,840Â U.S. Government Agencies3,994Â 157Â â€”Â â€”Â 4,151Â States and political subdivisions221,624Â 28Â 18,530Â â€”Â 203,122Â GSE residential MBSs61,669Â â€”Â 4,037Â â€”Â 57,632Â GSE commercial MBS4,387Â 356Â â€”Â â€”Â 4,743Â GSE residential CMOs79,284Â 18Â 6,200Â â€”Â 73,102Â Non-agency CMOs48,162Â 316Â 3,809Â â€”Â 44,669Â Asset-backed109,786Â 442Â 2,094Â â€”Â 108,134Â Other126Â â€”Â â€”Â â€”Â 126Â Totals$549,089Â $1,317Â $36,887Â $â€”Â $513,519Â The following table summarizes investment securities with unrealized losses at JuneÂ 30, 2024 and DecemberÂ 31, 2023, aggregated by major investment security type and the length of time in a continuous unrealized loss position.Â Less Than 12 Months12 Months or MoreTotal# of SecuritiesFairÂ ValueUnrealizedLosses# of SecuritiesFairÂ ValueUnrealizedLosses# of SecuritiesFairÂ ValueUnrealizedLossesJune 30, 2024U.S. Treasury securitiesâ€”Â $â€”Â $â€”Â 3Â $17,713Â $2,337Â 3Â $17,713Â $2,337Â States and political subdivisions6Â 2,029Â 45Â 42Â 197,920Â 20,920Â 48Â 199,949Â 20,965Â GSE residential MBSsâ€”Â â€”Â â€”Â 15Â 56,843Â 3,587Â 15Â 56,843Â 3,587Â GSE residential CMOs10Â 42,061Â 326Â 16Â 59,426Â 6,618Â 26Â 101,487Â 6,944Â Non-agency CMOs1Â 929Â 2Â 5Â 22,280Â 3,542Â 6Â 23,209Â 3,544Â Asset-backed3Â 18,648Â 54Â 10Â 51,393Â 1,161Â 13Â 70,041Â 1,215Â Totals20Â $63,667Â $427Â 91Â $405,575Â $38,165Â 111Â $469,242Â $38,592Â December 31, 2023U.S. Treasury securitiesâ€”Â $â€”Â â€”Â 3Â $17,840Â $2,217Â 3Â $17,840Â $2,217Â States and political subdivisions4Â 2,419Â 53Â 40Â 199,933Â 18,477Â 44Â 202,352Â 18,530Â GSE residential MBSsâ€”Â â€”Â â€”Â 15Â 57,632Â 4,037Â 15Â 57,632Â 4,037Â GSE residential CMOs4Â 12,710Â 186Â 14Â 56,765Â 6,014Â 18Â 69,475Â 6,200Â Non-agency CMOs3Â 11,531Â 83Â 4Â 16,334Â 3,726Â 7Â 27,865Â 3,809Â Asset-backed1Â 865Â 4Â 15Â 74,407Â 2,090Â 16Â 75,272Â 2,094Â Totals12Â $27,525Â $326Â 91Â $422,911Â $36,561Â 103Â $450,436Â $36,887Â 17Table of ContentsThe Company 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 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 issuers, 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 unaudited condensed consolidated balance sheets.The Company did not record an ACL on the AFS securities at JuneÂ 30, 2024, DecemberÂ 31, 2023 or upon implementation of CECL on JanuaryÂ 1, 2023. As of these periods, 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. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, unrealized losses were due to market uncertainty resulting from inflation and higher interest rates from the time of the security purchase.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 declines in fair value are due to credit factors.States and Political Subdivisions. The unrealized losses presented in the table above have been caused by a rise in interest rates from the time these securities were purchased. Management evaluates the financial performance of the issuers, including the investment rating, the state of the issuer of the security and other support in determining whether declines in fair value are due to 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 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.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. Management considers the investment rating and other credit support in its evaluation, including delinquencies and credit enhancements, in determining whether declines in fair value are due to credit factors.Asset-backed. 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. Management considers the investment rating and other credit support in its evaluation, including delinquencies and credit enhancements, in determining whether declines in fair value are due to credit factors.The Company does not intend to sell the aforementioned investment securities 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 may be maturity. In addition, the unrealized losses are not credit related. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at JuneÂ 30, 2024.18Table of ContentsThe following table summarizes amortized cost and fair value of investment securities by contractual maturity at JuneÂ 30, 2024. Expected maturities may differ from contractual maturities if issuers 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.AmortizedÂ CostFairÂ ValueDue in one year or less$â€”Â $â€”Â Due after one year through five years36,406Â 32,567Â Due after five years through ten years58,620Â 53,071Â Due after ten years149,981Â 136,203Â CMOs and MBSs222,028Â 208,583Â Asset-backed99,386Â 98,658Â Totals$566,421Â $529,082Â The following table summarizes proceeds from sales of investment securities and gross gains and gross losses for the three and six months ended JuneÂ 30, 2024 and 2023:Three months ended June 30,Six months ended June 30,2024202320242023Proceeds from sale of investment securities$â€”Â $â€”Â $â€”Â $â€”Â Gross gainsâ€”Â â€”Â â€”Â â€”Â Gross losses12Â 2Â 17Â 10Â During the three and six months ended JuneÂ 30, 2024, the Company recorded investment security losses of $12 thousand and $17 thousand, respectively, compared to net losses of $2 thousand and $10 thousand for the three and six months ended JuneÂ 30, 2023, from mark-to-market losses on an equity security. During the three and six months ended JuneÂ 30, 2024 and 2023, the Company did not sell any investment securities. Investment securities with a fair value of $480.7 million and $439.7 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively, were pledged to secure public funds and for other purposes as required or permitted by law. NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSESThe Companyâ€™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 borrowerâ€™s ability to repay its loans and the value of its 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 borrowerâ€™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 borrowerâ€™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 borrowerâ€™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 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 Companyâ€™s ability to assess the propertyâ€™s value at the completion of the project, which should exceed the propertyâ€™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 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.19Table of ContentsCommercial and industrial loans include advances to 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 borrowerâ€™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 ownerâ€™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 is typical. However, these procedures cannot eliminate the risk of loss associated with commercial and industrial lending. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, commercial and industrial loans include $5.2 million and $5.7 million, respectively, net of deferred fees and costs, originated through the SBA PPP. At JuneÂ 30, 2024, the Bank has $43 thousand of net deferred SBA PPP fees remaining to be recognized through net interest income over the remaining life of the loans. As these loans are 100% guaranteed by the SBA, there is no associated ACL at JuneÂ 30, 2024 and DecemberÂ 31, 2023.Municipal loans consist of extensions of credit to municipalities and school districts within the Companyâ€™s market area. These loans generally present a lower risk than commercial and industrial loans, as they are generally secured by the municipalityâ€™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 Companyâ€™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 also considered, including credit scores and debt-to-income ratios.Installment and other loansâ€™ credit risk is 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 1-4Â family residential loans.20Table of ContentsThe following table presents the loan portfolio by segment and class, excluding residential LHFS, at JuneÂ 30, 2024 and DecemberÂ 31, 2023:June 30, 2024December 31, 2023Commercial real estate:Owner occupied$371,301Â $373,757Â Non-owner occupied710,477Â 694,638Â Multi-family151,542Â 150,675Â Non-owner occupied residential89,156Â 95,040Â Acquisition and development:1-4 family residential construction32,439Â 24,516Â Commercial and land development129,883Â 115,249Â Commercial and industrial374,976Â 367,085Â Municipal10,594Â 9,812Â Residential mortgage:First lien271,153Â 266,239Â Home equity - term4,633Â 5,078Â Home equity - lines of credit192,736Â 186,450Â Installment and other loans8,713Â 9,774Â Total loans $2,347,603Â $2,298,313Â 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 â€œPassâ€ 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 may determine to be either individually evaluated, referred to as "Substandard - Individually Evaluated Loan," or collectively evaluated, referred to as "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 loanâ€™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 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 reaffirmed by the Company's Problem Loan Committee, with subsequent reporting to the Management ERM Committee and the Board of Directors.21Table of ContentsThe following table presents the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of JuneÂ 30, 2024 and DecemberÂ 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.Term Loans Amortized Cost Basis by Origination YearAs of June 30, 202420242023202220212020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial Real Estate:Owner-occupied:Risk ratingPass$16,172Â $54,321Â $99,774Â $68,370Â $20,368Â $78,843Â $5,518Â $â€”Â $343,366Â Special mentionâ€”Â â€”Â 1,370Â 1,154Â 508Â 165Â â€”Â 3,197Â Substandard - Non-IELâ€”Â 704Â 10,000Â 2,957Â 5,994Â 1,538Â 95Â â€”Â 21,288Â Substandard - IELâ€”Â â€”Â â€”Â 1,239Â â€”Â 2,211Â â€”Â â€”Â 3,450Â Total owner-occupied loans$16,172Â $55,025Â $109,774Â $73,936Â $27,516Â $83,100Â $5,778Â $â€”Â $371,301Â Current period gross charge offs - owner-occupied$â€”Â $â€”Â $â€”Â $12Â $â€”Â $â€”Â $â€”Â $12Â Non-owner occupied:Risk ratingPass$38,792Â $79,834Â $99,324Â $227,068Â $82,064Â $176,728Â $643Â $â€”Â $704,453Â Special mentionâ€”Â â€”Â â€”Â 341Â â€”Â 2,124Â â€”Â â€”Â 2,465Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 2,697Â â€”Â 862Â 3,559Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total non-owner occupied loans$38,792Â $79,834Â $99,324Â $227,409Â $82,064Â $181,549Â $643Â $862Â $710,477Â Current period gross charge offs - non-owner occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Multi-family:Risk ratingPass$5,844Â $2,823Â $61,840Â $28,489Â $12,511Â $38,021Â $346Â $â€”Â $149,874Â Special mentionâ€”Â â€”Â 1,119Â â€”Â â€”Â 237Â â€”Â â€”Â 1,356Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 312Â â€”Â â€”Â 312Â Total multi-family loans$5,844Â $2,823Â $62,959Â $28,489Â $12,511Â $38,570Â $346Â $â€”Â $151,542Â Current period gross charge offs - multi-family$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied residential:Risk ratingPass$2,901Â $10,156Â $20,153Â $16,307Â $6,810Â $31,235Â $399Â $â€”Â $87,961Â Special mentionâ€”Â â€”Â â€”Â â€”Â â€”Â 504Â â€”Â â€”Â 504Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 425Â â€”Â â€”Â 425Â Substandard - IELâ€”Â 2Â â€”Â 185Â â€”Â 79Â â€”Â â€”Â 266Â Total non-owner occupied residential loans$2,901Â $10,158Â $20,153Â $16,492Â $6,810Â $32,243Â $399Â $â€”Â $89,156Â Current period gross charge offs - non-owner occupied residential$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â continued22Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of June 30, 202420242023202220212020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalAcquisition and development:1-4 family residential construction:Risk ratingPass$13,971Â $17,179Â $865Â $â€”Â $â€”Â $â€”Â $â€”Â $129Â $32,144Â Special mention74Â 221Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â 295Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total 1-4 family residential construction loans$14,045Â $17,400Â $865Â $â€”Â $â€”Â $â€”Â $â€”Â $129Â $32,439Â Current period gross charge offs - 1-4 family residential construction$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Commercial and land development:Risk ratingPass$15,213Â $39,209Â $43,482Â $5,455Â $9,826Â $1,567Â $5,533Â $8,818Â $129,103Â Special mentionâ€”Â â€”Â â€”Â â€”Â 780Â â€”Â â€”Â 780Â Substandard - Non-

IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total commercial and land development loans$15,213Â $39,209Â $43,482Â $5,455Â $10,606Â $1,567Â $5,533Â $8,818Â $129,883Â Current period gross charge offs - commercial and land development$â€”Â $23Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $23Â Commercial and Industrial:Risk ratingPass$30,700Â $60,734Â $63,069Â $57,202Â $21,753Â $26,589Â $95,701Â $3,249Â $358,997Â Special mentionâ€”Â â€”Â â€”Â 31Â 7Â 946Â 320Â â€”Â 1,304Â Substandard - Non-IELâ€”Â â€”Â 5,861Â â€”Â 217Â 8,568Â â€”Â 14,646Â Substandard - IELâ€”Â 12Â â€”Â â€”Â 2Â â€”Â 15Â â€”Â 29Â Total commercial and industrial loans$30,700Â $60,746Â $63,069Â $63,094Â $21,762Â $27,752Â $104,604Â $3,249Â $374,976Â Current period gross charge offs - commercial and industrial$â€”Â $54Â $â€”Â $â€”Â $6Â $â€”Â $â€”Â $60Â Municipal:Risk ratingPass$1,577Â $â€”Â $â€”Â $3,124Â $â€”Â $5,893Â $â€”Â $â€”Â $10,594Â Total municipal loans$1,577Â $â€”Â $â€”Â $3,124Â $â€”Â $5,893Â $â€”Â $â€”Â $10,594Â Current period gross charge offs - municipal$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Residential mortgage:First lien:Payment performancePerforming$18,111Â $44,351Â $65,479Â $33,167Â $7,856Â $98,520Â $â€”Â $630Â $268,114Â Nonperformingâ€”Â â€”Â 248Â 232Â â€”Â 2,559Â â€”Â â€”Â 3,039Â Total first lien loans$18,111Â $44,351Â $65,727Â $33,399Â $7,856Â $101,079Â $â€”Â $630Â $271,153Â Current period gross charge offs - first lien$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â continued23Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of June 30, 20242024202320222021 2020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalHome equity - term:Payment performancePerforming$183Â $473Â $674Â $71Â $390Â $2,840Â $â€”Â $â€”Â $4,631Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â 2Â â€”Â â€”Â 2Â Total home equity - term loans$183Â $473Â $674Â $71Â $390Â $2,842Â $â€”Â $â€”Â $4,633Â Current period gross charge offs - home equity - term$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Home equity - lines of credit:Payment performancePerforming$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $190,786Â $535Â $191,321Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â 1,199Â 216Â 1,415Â Total residential real estate - home equity - lines of credit loans$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $191,985Â $751Â $192,736Â Current period gross charge offs - home equity - lines of credit$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $50Â $â€”Â $50Â Installment and other loans:Payment performancePerforming$593Â $568Â $316Â $281Â $78Â $848Â $6,011Â $â€”Â $8,695Â Nonperformingâ€”Â 3Â â€”Â â€”Â â€”Â 15Â â€”Â â€”Â 18Â Total Installment and other loans$593Â $571Â $316Â $281Â $78Â $863Â $6,011Â $â€”Â $8,713Â Current period gross charge offs - installment and other$74Â $12Â $â€”Â $â€”Â $â€”Â $18Â $14Â $â€”Â $118Â Term Loans Amortized Cost Basis by Origination YearAs of December 31, 20232023202220212020 2019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial Real Estate:Owner-occupied:Risk ratingPass$50,829Â $103,192Â $69,888Â $21,232Â $21,251Â $62,634Â $4,941Â $â€”Â $333,967Â Special mentionâ€”Â â€”Â 2,517Â 1,176Â â€”Â 1,314Â â€”Â â€”Â 5,007Â Substandard - Non-IELâ€”Â 9,923Â â€”Â 6,075Â â€”Â 2,687Â 312Â â€”Â 18,997Â Substandard - IELâ€”Â â€”Â â€”Â 13,366Â â€”Â 2,420Â â€”Â â€”Â 15,786Â Total owner-occupied loans$50,829Â $113,115Â $72,405Â $41,849Â $21,251Â $69,055Â $5,253Â $â€”Â $373,757Â Current period gross charge offs - owner-occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied:Risk ratingPass$82,879Â $102,212Â $235,031Â $83,652Â $63,176Â $120,696Â $509Â $â€”Â $688,155Â Special mentionâ€”Â â€”Â â€”Â 524Â â€”Â 2,112Â â€”Â â€”Â 2,636Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 2,739Â â€”Â 868Â 3,607Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 240Â â€”Â â€”Â 240Â Total non-owner occupied loans$82,879Â $102,212Â $235,031Â $84,176Â $63,176Â $125,787Â $509Â $868Â $694,638Â Current period gross charge offs - non-owner occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â continued24Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of December 31, 20232023202220212020 2019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalMulti-family:Risk ratingPass$2,701Â $61,805Â $28,541Â $12,694Â $7,437Â $33,895Â $117Â $â€”Â $147,190Â Special mentionâ€”Â â€”Â â€”Â â€”Â 244Â 2,008Â â€”Â â€”Â 2,252Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 1,233Â â€”Â â€”Â 1,233Â Total multi-family loans$2,701Â $61,805Â $28,541Â $12,694Â $7,681Â $37,136Â $117Â $â€”Â $150,675Â Current period gross charge offs - multi-family$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied residential:Risk ratingPass$10,075Â $20,473Â $16,947Â $7,974Â $6,444Â $28,319Â $1,130Â $â€”Â $91,362Â Special mentionâ€”Â â€”Â â€”Â â€”Â â€”Â 731Â â€”Â â€”Â 731Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 375Â â€”Â â€”Â 375Â Substandard - IEL2Â â€”Â 192Â 1,461Â â€”Â 917Â â€”Â â€”Â 2,572Â Total non-owner occupied residential loans$10,077Â $20,473Â $17,139Â $9,435Â $6,444Â $30,342Â $1,130Â $â€”Â $95,040Â Current period gross charge offs - non-owner occupied residential$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $12Â $â€”Â $â€”Â $12Â Acquisition and development:1-4 family residential construction:Risk ratingPass$18,820Â $5,400Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $24,220Â Special mention222Â â€”Â 74Â â€”Â â€”Â â€”Â â€”Â â€”Â 296Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total 1-4 family residential construction loans$19,042Â $5,400Â $74Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $24,516Â Current period gross charge offs - 1-4 family residential construction$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Commercial and land development:Risk ratingPass$28,829Â $48,453Â $9,847Â $9,927Â $110Â $1,774Â $6,574Â $6,936Â $112,450Â Special mentionâ€”Â â€”Â â€”Â 1,001Â â€”Â 437Â â€”Â â€”Â 1,438Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 1,361Â â€”Â â€”Â 1,361Â Total commercial and land development loans$28,829Â $48,453Â $9,847Â $10,928Â $110Â $3,572Â $6,574Â $6,936Â $115,249Â Current period gross charge offs - commercial and land development$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â continued 25Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of December 31, 20232023202220212020 2019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial and Industrial:Risk ratingPass$67,735Â $69,670Â $67,117Â $24,580Â $10,753Â $20,775Â $86,475Â $1,522Â $348,627Â Special mentionâ€”Â 4,251Â 4,364Â 11Â 552Â 356Â 2,258Â â€”Â 11,792Â Substandard - Non-IELâ€”Â â€”Â 4,682Â â€”Â 5Â 225Â 1,082Â â€”Â 5,994Â Substandard - IELâ€”Â 69Â â€”Â 7Â â€”Â 455Â 141Â â€”Â 672Â Total commercial and industrial loans$67,735Â $73,990Â $76,163Â $24,598Â $11,310Â $21,811Â $89,956Â $1,522Â $367,085Â Current period gross charge offs - commercial and industrial$â€”Â $161Â $106Â $â€”Â $â€”Â $8Â $473Â $â€”Â $748Â Municipal:Risk ratingPass$â€”Â $â€”Â $3,403Â $â€”Â $â€”Â $6,409Â $â€”Â $â€”Â $9,812Â Total municipal loans$â€”Â $â€”Â $3,403Â $â€”Â $â€”Â $6,409Â $â€”Â $â€”Â $9,812Â Current period gross charge offs - municipal$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Residential mortgage:First lien:Payment performancePerforming$43,641Â $71,311Â $34,704Â $8,056Â $7,465Â $97,943Â $â€”Â $638Â $263,758Â Nonperformingâ€”Â â€”Â â€”Â â€”Â 120Â 2,361Â â€”Â â€”Â 2,481Â Total first lien loans$43,641Â $71,311Â $34,704Â $8,056Â $7,585Â $100,304Â $â€”Â $638Â $266,239Â Current period gross charge offs - first lien$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $58Â $â€”Â $â€”Â $58Â Home equity - term:Payment performancePerforming$607Â $732Â $90Â $426Â $115Â $3,105Â $â€”Â $â€”Â $5,075Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â 3Â â€”Â â€”Â 3Â Total home equity - term loans$607Â $732Â $90Â $426Â $115Â $3,108Â $â€”Â $â€”Â $5,078Â Current period gross charge offs - home equity - term$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Home equity - lines of credit:Payment performancePerforming$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $107,967Â $77,171Â $185,138Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â 1,296Â 16Â 1,312Â Total residential real estate - home equity - lines of credit loans$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $109,263Â $77,187Â $186,450Â Current period gross charge offs - home equity - lines of credit$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $40Â $â€”Â $40Â Installment and other loans:Payment performancePerforming$758Â $413Â $332Â $106Â $670Â $947Â $6,500Â $â€”Â $9,726Â Nonperforming3Â â€”Â â€”Â â€”Â 33Â 12Â â€”Â â€”Â 48Â Total Installment and other loans$761Â $413Â $332Â $106Â $703Â $959Â $6,500Â $â€”Â $9,774Â Current period gross charge offs - installment and other$181Â $24Â $â€”Â $â€”Â $4Â $10Â $28Â $â€”Â $247Â 26Table of ContentsFor commercial real estate, acquisition and development, commercial and industrial and municipal segments, a loan is 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 expected credit losses, and whether the loan will be individually evaluated, 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 individually evaluated. Generally, loans that are more than 90 days past due 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 borrowerâ€™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 are, by definition, deemed to be individually evaluated under CECL. A specific reserve allocation for individually evaluated loans is measured on a loan-by-loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loanâ€™s effective interest rate, the loanâ€™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 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 analysis in the next reporting period.Loan charge-offs, which may include partial charge-offs, are taken on an individually evaluated loan that is collateral dependent if the carrying balance of the loan exceeds 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, loans with a charge-off or partial charge-off will continue to be individually evaluated. Generally, an individually evaluated loan with a partial charge-off may continue to have a specific reserve on it after the partial charge-off, if factors warrant.At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Companyâ€™s individually evaluated loans were measured based on the estimated fair value of the collateral securing the loan, except for purchased auto loans on nonaccrual status and accruing loans accounted for as TDRs prior to the adoption of ASU 2022-02. For real estate loans, collateral generally consists of commercial or residential real estate, 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, secured by commercial real estate, in excess of $250 thousand. The â€œas 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, commercial loans secured by real estate 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 propertyâ€™s fair value. In those situations in which it is determined an updated appraisal is not required for loans individually evaluated for credit expected losses, fair values are based on either an existing appraisal or a DCF analysis as determined by management. The approaches are discussed below:â€¢Existing appraisal â€“ 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.â€¢Discounted cash flows â€“ in limited cases, 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 loans evaluated individually is not limited to real estate, and may consist of accounts receivable, inventory, equipment or other business assets. Estimated fair values are determined based on borrowersâ€™ financial statements, inventory ledgers, accounts receivable 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 evaluation policies.The Company distinguishes substandard loans for both loans individually and collectively evaluated, as it places less emphasis on a loanâ€™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 an individually evaluated loan. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual extensions of credit classified as substandard. As a result, the Companyâ€™s methodology includes an evaluation of certain accruing commercial 27Table of Contentsreal estate, acquisition and development, commercial and industrial and municipal loans rated substandard to be collectively evaluated for 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.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 JuneÂ 30, 2024 and DecemberÂ 31, 2023. The Company did not recognize interest income on nonaccrual loans during the three and six months ended JuneÂ 30, 2024 and 2023. During the six months ended JuneÂ 30, 2024, the Company recorded interest income previously applied to principal of $1.6 million from the payoff of a commercial real estate loan, which totaled $13.4 million at DecemberÂ 31, 2023.June 30, 2024December 31, 2023Nonaccrual loans with a related ACLNonaccrual loans with no related ACLTotal nonaccrual loansLoans Past Due 90+ AccruingNonaccrual loans with a related ACLNonaccrual loans with no related ACLTotal nonaccrual loansLoans Past Due 90+ AccruingCommercial real estate:Owner-occupied$â€”Â $3,450Â $3,450Â $â€”Â $â€”Â $15,786Â $15,786Â $â€”Â Non-owner occupiedâ€”Â â€”Â â€”Â â€”Â â€”Â 240Â 240Â â€”Â Multi-familyâ€”Â 312Â 312Â â€”Â â€”Â 1,233Â 1,233Â â€”Â Non-owner occupied residentialâ€”Â 266Â 266Â â€”Â â€”Â 2,572Â 2,572Â â€”Â Acquisition and development:Commercial and land developmentâ€”Â â€”Â â€”Â â€”Â â€”Â 1,361Â 1,361Â â€”Â Commercial and industrialâ€”Â 29Â 29Â â€”Â 68Â 604Â 672Â â€”Â Residential mortgage:First lienâ€”Â 2,871Â 2,871Â 187Â â€”Â 2,309Â 2,309Â 66Â Home equity â€“ termâ€”Â 2Â 2Â â€”Â â€”Â 3Â 3Â â€”Â Home equity â€“ lines of creditâ€”Â 1,415Â 1,415Â â€”Â â€”Â 1,312Â 1,312Â â€”Â Installment and other loans3Â 15Â 18Â â€”Â 3Â 36Â 39Â â€”Â Total$3Â $8,360Â $8,363Â $187Â $71Â $25,456Â $25,527Â $66Â A loan is considered to be collateral-dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, substantially all individually evaluated loans were collateral-dependent and consisted primarily of commercial real estate, acquisition and development and residential mortgage loans, which were primarily secured by commercial or residential real estate. All of the Companyâ€™s collateral-dependent loans had appraised collateral values which exceeded the amortized cost basis of the related loan except for one consumer installment loan as of JuneÂ 30, 2024 and one commercial and industrial loan and one consumer installment loan as of DecemberÂ 31, 2023.28Table of ContentsThe following table presents the amortized cost basis of collateral-dependent loans by class as of JuneÂ 30, 2024 and DecemberÂ 31, 2023: Type of CollateralJune 30, 2024Business AssetsCommercial Real EstateEquipmentLandResidential Real EstateOtherTotalCommercial real estate:Owner occupied$â€”Â $3,449Â $â€”Â $â€”Â $â€”Â $â€”Â $3,449Â Non-owner occupiedâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Multi-familyâ€”Â 312Â â€”Â â€”Â â€”Â â€”Â 312Â Non-owner occupied residentialâ€”Â 266Â â€”Â â€”Â â€”Â â€”Â 266Â Acquisition and development:Commercial and land developmentâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Commercial and industrial15Â â€”Â 17Â â€”Â â€”Â â€”Â 32Â Residential mortgage:First lienâ€”Â â€”Â â€”Â â€”Â 2,797Â â€”Â 2,797Â Home equity - termâ€”Â â€”Â â€”Â â€”Â 2Â â€”Â 2Â Home equity - lines of creditâ€”Â â€”Â â€”Â â€”Â 1,415Â â€”Â 1,415Â Installment and other loansâ€”Â â€”Â 3Â â€”Â â€”Â â€”Â 3Â Total$15Â $4,027Â $20Â $â€”Â $4,214Â $â€”Â $8,276Â December 31, 2023Commercial real estate:Owner occupied$â€”Â $15,786Â $â€”Â $â€”Â $â€”Â $â€”Â $15,786Â Non-owner occupiedâ€”Â 240Â â€”Â â€”Â â€”Â â€”Â 240Â Multi-familyâ€”Â 1,233Â â€”Â â€”Â â€”Â â€”Â 1,233Â Non-owner occupied residentialâ€”Â 2,572Â â€”Â â€”Â â€”Â â€”Â 2,572Â Acquisition and development:Commercial and land developmentâ€”Â â€”Â â€”Â 1,361Â â€”Â â€”Â 1,361Â Commercial and industrial2Â 76Â 594Â â€”Â â€”Â â€”Â 672Â Residential mortgage:First lienâ€”Â â€”Â â€”Â â€”Â 2,231Â â€”Â 2,231Â Home equity - termâ€”Â â€”Â â€”Â â€”Â 3Â â€”Â 3Â Home equity - lines of creditâ€”Â â€”Â â€”Â â€”Â 1,312Â â€”Â 1,312Â Installment and other loansâ€”Â â€”Â 18Â â€”Â â€”Â â€”Â 18Â Total$2Â $19,907Â $612Â $1,361Â $3,546Â $â€”Â $25,428Â ASU 2022-02 requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and 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 requires all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables â€“ Nonrefundable Fees and Other Costs, and subjects entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty.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. During the six months ended JuneÂ 30, 2024 and 2023, the Company did not extend any modifications to borrowers experiencing financial difficulty that had a more-than-insignificant direct change in the contractual cash flows of the loan. For loans previously modified to borrowers experiencing financial difficulty, there was a payoff of a loan within the Acquisition and Development segment totaling $1.3 million during the six months ended JuneÂ 30, 2024. In addition, there were no payment defaults in the subsequent twelve months and the Company has not committed to lend additional amounts to those borrowers.29Table of ContentsManagement 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 its delinquencies. The following table presents the classes of the loan portfolio summarized by aging categories at JuneÂ 30, 2024 and DecemberÂ 31, 2023:30-59 Days Past Due60-89 Days Past Due90+ Days Past DueTotalPastÂ DueLoans Not Past DueTotalLoansJune 30, 2024Commercial real estate:Owner occupied$328Â $â€”Â $1,327Â $1,655Â $369,646Â $371,301Â Non-owner occupiedâ€”Â â€”Â â€”Â â€”Â 710,477Â 710,477Â Multi-familyâ€”Â â€”Â â€”Â â€”Â 151,542Â 151,542Â Non-owner occupied residential79Â 69Â 185Â 333Â 88,823Â 89,156Â Acquisition and development:1-4 family residential constructionâ€”Â â€”Â â€”Â â€”Â 32,439Â 32,439Â Commercial and land developmentâ€”Â â€”Â â€”Â â€”Â 129,883Â 129,883Â Commercial and industrial168Â 3,022Â 33Â 3,223Â 371,753Â 374,976Â Municipalâ€”Â â€”Â â€”Â â€”Â 10,594Â 10,594Â Residential mortgage:First lien976Â 935Â 1,078Â 2,989Â 268,164Â 271,153Â Home equity - termâ€”Â â€”Â â€”Â â€”Â 4,633Â 4,633Â Home equity - lines of credit683Â 1,120Â 762Â 2,565Â 190,171Â 192,736Â Installment and other loans91Â 45Â 3Â 139Â 8,574Â 8,713Â $2,325Â $5,191Â $3,388Â $10,904Â $2,336,699Â $2,347,603Â December 31, 2023Commercial real estate:Owner occupied$13,852Â $â€”Â $117Â $13,969Â $359,788Â $373,757Â Non-owner occupied152Â â€”Â â€”Â 152Â 694,486Â 694,638Â Multi-familyâ€”Â â€”Â â€”Â â€”Â 150,675Â 150,675Â Non-owner occupied residentialâ€”Â â€”Â 192Â 192Â 94,848Â 95,040Â Acquisition and development:1-4 family residential constructionâ€”Â â€”Â â€”Â â€”Â 24,516Â 24,516Â Commercial and land development16Â â€”Â â€”Â 16Â 115,233Â 115,249Â Commercial and industrial27Â 69Â 625Â 721Â 366,364Â 367,085Â Municipalâ€”Â â€”Â â€”Â â€”Â 9,812Â 9,812Â Residential mortgage:First lien5,433Â 1,058Â 721Â 7,212Â 259,027Â 266,239Â Home equity - term20Â 2Â â€”Â 22Â 5,056Â 5,078Â Home equity - lines of credit1,801Â 100Â 839Â 2,740Â 183,710Â 186,450Â Installment and other loans84Â 28Â 19Â 131Â 9,643Â 9,774Â $21,385Â $1,257Â $2,513Â $25,155Â $2,273,158Â $2,298,313Â The Companyâ€™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 Companyâ€™s ACL, management generally evaluates collectively evaluated loans by 30Table of Contentsfederal call code, which represents the loan classes based upon U.S. regulatory loan classification rules, in order to group loans with similar risk characteristics. 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 and may include accruing loans that do not share similar risk characteristics to other accruing loans that are collectively evaluated on a loan pool basis. A specific analytical method 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 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. 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 adoption of CECL and include significant or unexpected changes in:Nature and Volume of Loans â€“ including loan growth in the current and subsequent quarters based on the Companyâ€™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 â€“ including the composition of the Companyâ€™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 â€“ 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 â€“ including delinquency percentages and internal loan ratings noted in the portfolio relative to economic conditions, severity of the delinquencies and the ratings and whether the ratios are trending upwards or downwards.Collateral Valuation Trends â€“ including underlying market conditions and impact on the collateral values securing the loans.Experience, Ability and Depth of Management/Lending staff â€“ including the level of experience of senior and middle management and the lending staff, turnover of the staff, and instances of repeat criticisms.Quality of Loan Review System â€“ including the level of experience of the loan review staff, in-house versus outsourced provider of review, turnover of the staff and instances of repeat criticisms from independent testing, which includes the evaluation of internal loan ratings of the portfolio.Economic Conditions â€“ including trends in the international, national, regional and local conditions that monitor the interest rate environment, inflationary pressures, the consumer price index, the housing price index, housing statistics, and bankruptcy rates.Other External Factors - including regulatory and legal environment risks and competition.All factors noted above were deemed appropriate at JuneÂ 30, 2024. For the three and six months ended JuneÂ 30, 2024, these factors were unchanged from DecemberÂ 31, 2023, except for the removal of the Economic Conditions qualitative factor for the residential mortgage loan segment during the three months ended June 30, 2024 and a decrease in the Collateral Valuation Trends qualitative factor from a moderate to low level in the ACL model for the residential mortgage and installment and other loan segments applied during the three months ended March 31, 2024. These changes were based on the stabilization in real estate collateral valuations and housing demand and overall portfolio performance.31Table of ContentsThe following table presents the activity in the ACL for the three and six months ended JuneÂ 30, 2024 and 2023:CommercialConsumerCommercialReal EstateAcquisitionandDevelopmentCommercialandIndustrialMunicipalTotalResidentialMortgageInstallmentand OtherTotalUnallocatedTotalThree Months EndedJune 30, 2024Balance, beginning of period$17,975Â $2,233Â $5,389Â $164Â $25,761Â $3,193Â $211Â $3,404Â $â€”Â $29,165Â Provision for credit losses236Â 423Â 267Â (3)923Â (126)15Â (111)â€”Â 812Â Charge-offs(12)(23)(14)â€”Â (49)(50)(65)(115)â€”Â (164)Recoveries4Â 1Â 10Â â€”Â 15Â 6Â 30Â 36Â â€”Â 51Â Balance, end of period$18,203Â $2,634Â $5,652Â $161Â $26,650Â $3,023Â $191Â $3,214Â $â€”Â $29,864Â June 30, 2023Balance, beginning of period$16,697Â $3,217Â $5,787Â $177Â $25,878Â $2,278Â $208Â $2,486Â $â€”Â $28,364Â Provision for loan losses246Â (451)440Â (10)225Â 64Â 110Â 174Â â€”Â 399Â Charge-offs(12)â€”Â (395)â€”Â (407)(98)(67)(165)â€”Â (572)Recoveries65Â 1Â 22Â â€”Â 88Â 63Â 41Â 104Â â€”Â 192Â Balance, end of period$16,996Â $2,767Â $5,854Â $167Â $25,784Â $2,307Â $292Â $2,599Â $â€”Â $28,383Â Six Months EndedJune 30, 2024Balance, beginning of period$17,873Â $2,241Â $5,806Â $157Â $26,077Â $2,424Â $201Â $2,625Â $â€”Â $28,702Â Provision for credit losses314Â 414Â (194)4Â 538Â 637Â 58Â 695Â â€”Â 1,233Â Charge-offs(12)(23)(60)â€”Â (95)(50)(118)(168)â€”Â (263)Recoveries28Â 2Â 100Â â€”Â 130Â 12Â 50Â 62Â â€”Â 192Â Balance, end of period$18,203Â $2,634Â $5,652Â $161Â $26,650Â $3,023Â $191Â $3,214Â $â€”Â $29,864Â June 30, 2023Balance, beginning of period$13,558Â $3,214Â $4,505Â $24Â $21,301Â $3,444Â $188Â $3,632Â $245Â $25,178Â Impact of adopting ASC 3262,857Â (214)928Â 169Â 3,740Â (1,121)49Â (1,072)(245)2,423Â Provision for loan losses508Â (236)852Â (26)1,098Â (76)106Â 30Â â€”Â 1,128Â Charge-offs(12)â€”Â (481)â€”Â (493)(98)(123)(221)â€”Â (714)Recoveries85Â 3Â 50Â â€”Â 138Â 158Â 72Â 230Â â€”Â 368Â Balance, end of period$16,996Â $2,767Â $5,854Â $167Â $25,784Â $2,307Â $292Â $2,599Â $â€”Â $28,383Â NOTE 5. LEASESA 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 4 to 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 unaudited condensed 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 operating leases at JuneÂ 30, 2024 and DecemberÂ 31, 2023:June 30, 2024December 31, 2023Operating lease ROU assets$10,360Â $10,824Â Operating lease ROU liabilities11,189Â 11,614Â Weighted-average remaining lease term (in years)14.915.1Weighted-average discount rate4.4Â %4.4Â %32Table of ContentsThe following table presents information related to the Company's operating leases for the three and six months ended JuneÂ 30, 2024 and 2023: Three Months EndedSix Months EndedJune 30, 2024June 30, 2023June 30, 2024June 30, 2023Cash paid for operating lease liabilities$336Â $287Â $671Â $571Â Operating lease expense355Â 302Â 711Â 611Â The following table presents expected future maturities of the Company's lease liabilities as of JuneÂ 30, 2024:2024$678Â 20251,371Â 20261,403Â 20271,437Â 20281,194Â Thereafter10,187Â 16,270Â Less: imputed interest5,081Â Total lease liabilities$11,189Â NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETSAt JuneÂ 30, 2024 and DecemberÂ 31, 2023, goodwill was $18.7 million. No impairment charges were recorded in the three and six months ended JuneÂ 30, 2024 and 2023.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, 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 JuneÂ 30, 2024.The following table presents changes in and components of other intangible assets for the three and six months ended JuneÂ 30, 2024 and 2023. No impairment charges were recorded on other intangible assets during the three and six months ended JuneÂ 30, 2024 and JuneÂ 30, 2023.Three Months Ended June 30,Six Months Ended June 30,2024202320242023Beginning of period$2,189Â $2,828Â $2,414Â $3,078Â Amortization expense(215)(239)(440)(489)Balance, end of period$1,974Â $2,589Â $1,974Â $2,589Â The following table presents the components of other identifiable intangible assets at JuneÂ 30, 2024 and DecemberÂ 31, 2023:June 30, 2024December 31, 2023GrossÂ AmountAccumulatedAmortizationGrossÂ AmountAccumulatedAmortizationAmortized intangible assets:Core deposit intangibles$8,390Â $6,651Â $8,390Â $6,247Â Other customer relationship intangibles289Â 54Â 289Â 18Â Total$8,679Â $6,705Â $8,679Â $6,265Â 33Table of ContentsThe following table presents future estimated aggregate amortization expense for other identifiable intangible assets at JuneÂ 30, 2024:2024$396Â 2025656Â 2026476Â 2027297Â 2028120Â Thereafter29Â $1,974Â NOTE 7. 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, and 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 Committeeâ€™s discretion. At JuneÂ 30, 2024, 1,281,920 shares of the common stock of the Company were reserved, of which 267,885 shares are available to be issued.The following table presents a summary of nonvested restricted shares activity for the six months ended JuneÂ 30, 2024:SharesWeighted Average Grant Date Fair ValueNonvested shares, beginning of year291,231Â $22.85Â Granted158,684Â 27.48Â Forfeited(3,330)23.62Â Vested(128,574)21.02Â Nonvested shares, at period end318,011Â $25.89Â The following table presents restricted share compensation expense, with tax benefit information, and fair value of shares vested, for the three and six months ended JuneÂ 30, 2024 and 2023:Three months ended June 30,Six months ended June 30,2024202320242023Restricted share award expense$864Â $534Â $1,809Â $1,150Â Restricted share award tax benefit181Â 112Â 380Â 242Â Fair value of shares vested578Â 423Â 3,466Â 2,460Â The unrecognized compensation expense related to the share awards totaled $5.9 million at JuneÂ 30, 2024 and $3.4 million at DecemberÂ 31, 2023. The unrecognized compensation expense at JuneÂ 30, 2024 is expected to be recognized over a weighted-average period of 0.7 years, which reflects the accelerated vesting of time-based restricted stock awards totaling 198,462 shares with compensation expense of $4.0 million recognized on July 1, 2024 pursuant to the Merger closing.The Company maintains an employee stock purchase plan to provide employees of the Company with an opportunity to purchase Company common stock. Eligible employees may purchase shares in an amount that does not exceed the lesser of the IRS limit of $25,000 or 10% of their annual salary at the lower of 95% of the fair market value of the shares on the semi-annual offering date, or related purchase date. The purchases occur in March and September of each year. The Company reserved 350,000 shares of its common stock to be issued under the employee stock purchase plan. At JuneÂ 30, 2024, 135,296 shares were available to be issued. 34Table of ContentsThe following table presents information for the employee stock purchase plan for the three and six months ended JuneÂ 30, 2024 and 2023:Three months ended June 30,Six months ended June 30,2024202320242023Shares purchasedâ€”Â â€”Â 3,850Â 3,003Â Weighted average price of shares purchased$â€”Â $â€”Â $20.67Â $21.85Â Compensation expense recognizedâ€”Â â€”Â $22Â $3Â The Company issues new shares or treasury shares, depending on market conditions, in its share-based compensation plans.NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or 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 management tools by the Company to manage differences in the amount, timing, and duration of the Companyâ€™s known or expected cash receipts and its known or expected cash payments principally related to the Companyâ€™s investment securities and borrowings and are not used for trading or speculative purposes.The Companyâ€™s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company 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 limiting the Company's exposure to fluctuations in future cash flows through 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. 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. 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 hedge are recognized in earnings. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had two interest rate swaps designated as cash flow hedges with a total notional value of $125.0 million, which included a pay-fixed hedge with a notional value of $75.0 million for the purpose of hedging variable cash flows associated with the Company's borrowings and a pay-float hedge of $50.0 million for the purpose of hedging the variable cash flows of selected AFS securities or loans. During the three and six months ended JuneÂ 30, 2024, the Company did not enter into new interest rate swaps designated as cash flow hedges.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. 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 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.At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had three pay-fixed interest rate swaps on certain closed portfolio loans with our commercial clients with a total notional value of $100.0 million. The commercial loans are scheduled to mature at various dates ranging from December 2026 to October 2054. The interest rate swaps are designated as fair value hedges and allow the Company to offer long-term fixed rate loans to commercial clients while mitigating the interest rate risk of a long-term asset by converting fixed rate interest payments to floating rate interest payments indexed to a synthetic U.S. SOFR rate. During the three and six months ended JuneÂ 30, 2024, the Company did not enter into new interest rate swaps designated as fair value hedges.The Company enters into interest rate swap agreements that allow its commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company 35Table of Contentsenters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customerâ€™s variable-rate loan into a fixed-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 provide an upper limit, or cap, on the 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 customer agreement. The interest rate swaps and interest rate caps with both the customers and third parties are not designated as hedges and are marked through earnings. At JuneÂ 30, 2024, the Company had 39 customer and 39 corresponding third-party broker interest rate derivatives not designated as a hedging instrument with an aggregate notional amount of $593.4 million compared to $444.8 million in notional amount of such derivative instruments at DecemberÂ 31, 2023. During the three and six months ended JuneÂ 30, 2024, the Company entered into four and five, respectively, new interest rate swaps with a commercial loan customer and recorded swap fee income of $375Â thousand and $574 thousand, respectively. The Company entered into two new interest rate swaps and recorded $196Â thousand in swap fee income during the three and six months ended JuneÂ 30, 2023. Swap fee income is included in noninterest income in the unaudited condensed consolidated statements of income. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had cash collateral of $6.8 million and $6.6 million with third parties for certain of these derivatives, respectively. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company held cash collateral of $9.8 million and $4.4 million from a counterparty for 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 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 the risk participation agreement by monitoring the creditworthiness of the borrower, which is based on the same credit review process as though the Company had entered into the derivative instruments directly with the borrower. The notional amount of such risk participation agreement reflects the Companyâ€™s pro-rata share of the derivative instrument, consistent with its share of the related participated loan. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had four risk participation agreements with sold protection with a notional value of $33.0 million and $32.7 million, respectively. In addition, the Company had five risk participations with purchased protection with a notional value of $23.8 million at JuneÂ 30, 2024 compared to three risk participations with purchased protection with a notional value of $11.0 million at DecemberÂ 31, 2023. The Company did not enter into any risk participation agreements during the three months ended JuneÂ 30, 2024. For the six months ended JuneÂ 30, 2024, the Company entered into two risk participation agreements with purchased protection. The Company entered into one new risk participation with sold protection during the three and six months ended JuneÂ 30, 2023.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 transactions for the held for sale loan pipeline. 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. 36Table of ContentsThe following table summarizes the fair value of the Company's derivative instruments at JuneÂ 30, 2024 and DecemberÂ 31, 2023: June 30, 2024December 31, 2023Notional AmountBalance Sheet LocationFair ValueNotional AmountBalance Sheet LocationFair ValueDerivatives designated as hedging instruments:Cash flow hedge designation:Interest rate swaps -FHLB advances$75,000Â Other assets$1,746Â $75,000Â Other assets$135Â Interest rate swaps - AFS securities50,000Â Other liabilities(175)50,000Â Other liabilities(426)Fair value hedge designation:Interest rate swaps - commercial loans100,000Â Other assets414Â â€”Â Other assetsâ€”Â Interest rate swaps - commercial loansâ€”Â Other liabilitiesâ€”Â 100,000Â Other liabilities(1,718)Total derivatives designated as hedging instruments$1,985Â $(2,009)Derivatives not designated as hedging instruments:Interest rate swaps$262,458Â Other assets$11,803Â $216,485Â Other assets$11,157Â Interest rate swaps262,458Â Other liabilities(11,828)216,485Â Other liabilities(11,253)Purchased options â€“ rate cap5,861Â Other assets7Â 5,909Â Other assets8Â Written options â€“ rate cap5,861Â Other liabilities(7)5,909Â Other liabilities(8)Risk participations - sold credit protection32,952Â Other liabilities(30)32,722Â Other liabilities(59)Risk participations - purchased credit protection23,832Â Other assets72Â 11,035Â Other assets28Â Interest rate lock commitments with customers3,133Â Other assets71Â 2,181Â Other assets55Â Forward sale commitments1,538Â Other assets4Â 688Â Other assets(4)Total derivatives not designated as hedging instruments$92Â $(76)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 the carrying amount of hedged assets as of JuneÂ 30, 2024 and 2023. Carrying Amounts of Hedged AssetsCumulative Amounts of Fair Value Hedging Adjustments Included in the Carrying Amounts of the Hedged AssetsThree Months Ended June 30,Six Months Ended June 30,2024202320242023Commercial loans$100,000Â $â€”Â (415)â€”Â The following tables summarize the effect of the Company's derivative financial instruments on OCI and net income for the three and six months ended JuneÂ 30, 2024 and 2023:Amount of Gain Recognized in OCI on DerivativeAmount of Gain Recognized in OCI on DerivativeThree Months Ended June 30,Six Months Ended June 30,2024202320242023Derivatives in cash flow hedging relationships:Interest rate products$434Â $1,073Â $1,862Â $1,392Â Total$434Â $1,073Â $1,862Â $1,392Â 37Table of ContentsAmount of Loss Reclassified from AOCI into IncomeAmount of Loss Reclassified from AOCI into IncomeLocation of Loss Recognized from AOCI into IncomeThree Months Ended June 30,Six Months Ended June 30,2024202320242023Derivatives in cash flow hedging relationships:Interest rate products$â€”Â $â€”Â $â€”Â $â€”Â Interest incomeTotal$â€”Â $â€”Â $â€”Â $â€”Â Amount of Gain Recognized in IncomeAmount of Gain Recognized in IncomeLocation of Gain Recognized in IncomeThree Months Ended June 30,Six Months Ended June 30,2024202320242023Derivatives designated as hedging instrumentsFair value hedge designation:Interest rate swaps - commercial loans (1)$5Â n/a$8Â n/aInterest income on loansDerivatives not designated as hedging instruments:Interest rate products$27Â $40Â $71Â $(119)Other operating expensesRisk participation agreements(8)37Â 73Â 27Â Other operating expensesInterest rate lock commitments with customers15Â 10Â 17Â 32Â Mortgage banking activitiesForward sale commitments5Â (7)7Â (139)Mortgage banking activitiesTotal derivatives not designated as hedging instruments$39Â $80Â $168Â $(199)(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.The following table is a summary of components for interest rate swaps designated as hedging instruments at JuneÂ 30, 2024 and DecemberÂ 31, 2023: Weighted Average Pay RateWeighted Average Receive RateWeighted Average Maturity in YearsJune 30, 2024Cash flow hedge designation:Interest rate swaps - FHLB advances3.49Â %5.34Â %3.8Interest rate swaps - AFS securities5.33Â %3.73Â %0.2Fair value hedge designation:Interest rate swaps - commercial loans4.12Â %5.34Â %3.2December 31, 2023Cash flow hedge designation:Interest rate swaps - FHLB advances3.49Â %5.34Â %4.3Interest rate swaps - AFS securities5.34Â %3.73Â %0.7Fair value hedge designation:Interest rate swaps - commercial loans4.12Â %5.34Â %3.738Table of ContentsNOTE 9. SHORT-TERM BORROWINGSThe Company has short-term borrowing capability from the FHLB and the FRB discount window. The following table summarizes these short-term borrowings at JuneÂ 30, 2024 and DecemberÂ 31, 2023, and for the six and twelve months then ended:June 30, 2024December 31, 2023Balance at period-end$75,000Â $97,500Â Weighted average interest rate during the period5.67Â %5.68Â %Average balance during the period$75,000Â $87,370Â Average interest rate during the period5.77Â %5.46Â %Maximum month-end balance during the period$105,000Â $120,984Â At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Company had availability under FHLB lines for its short-term borrowings totaling $75.0 million and $52.5 million, respectively.NOTE 10. LONG-TERM DEBTThe following table presents components of the Companyâ€™s long-term debt at JuneÂ 30, 2024 and DecemberÂ 31, 2023:Â AmountWeightedÂ AverageÂ RateJune 30, 2024December 31, 2023June 30, 2024December 31, 2023FHLB fixed rate advances maturing:2025$15,000Â $15,000Â 4.57Â %4.57Â %202825,000Â 25,000Â 3.98Â %3.98Â %Total FHLB Advances$40,000Â $40,000Â 4.20Â %4.20Â %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 for advances, lines and letters of credit 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 $1.1 billion at both JuneÂ 30, 2024 and DecemberÂ 31, 2023. The Bank had additional availability of $1.0 billion at the FHLB on JuneÂ 30, 2024, based on its qualifying collateral, net of short-term borrowings and long-term debt detailed above, deposit letters of credit of $1.0 million and non-deposit letters of credit of $609 thousand at JuneÂ 30, 2024. At DecemberÂ 31, 2023, the Bank had additional availability of $973.3 million at the FHLB and $609 thousand of non-deposit letters of credit. There were zero deposit letters of credit at DecemberÂ 31, 2023.The Bank had available unsecured lines of credit, with interest based on the daily Federal Funds rate, with two correspondent banks totaling $20.0 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023. There were no borrowings under these lines of credit at JuneÂ 30, 2024 and DecemberÂ 31, 2023. NOTE 11. SHAREHOLDERSâ€™ EQUITY AND REGULATORY CAPITAL Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Under the Basel Committee on Banking Supervision's capital guidelines for U.S. Banks, an 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 unrealized gains or losses included in AOCI in computing regulatory capital. On JanuaryÂ 1, 2023, the Company adopted ASU No. 2016-13, which replaced the existing incurred loss model for recognizing credit losses with an expected loss model referred to as the CECL model, and resulted in a reduction to opening retained earnings, net of income tax, and an increase to the allowance for credit losses for loans of approximately $2.4 million and allowance for credit losses for off-balance sheet exposures of $100Â thousand, which combined totals $2.5 million. The federal bank regulatory agencies issued a rule, which provided for the option to elect a three-year transition provision of the 39Table of Contentsday-one impact of the CECL model beginning with regulatory capital at March 31, 2023. The Company elected the three-year phase in option.The Company and the Bank met all capital adequacy requirements to which they are subject at JuneÂ 30, 2024 and DecemberÂ 31, 2023. Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At JuneÂ 30, 2024, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's classification.The following table presents capital amounts and ratios at JuneÂ 30, 2024 and DecemberÂ 31, 2023:Â ActualFor Capital Adequacy Purposes(includes applicable capital conservation buffer)ToÂ BeÂ WellCapitalizedÂ UnderPrompt CorrectiveÂ ActionÂ ProvisionsAmountRatioAmountRatioAmountRatioJune 30, 2024Total risk-based capital:Orrstown Financial Services, Inc.$341,909Â 13.3Â %$269,335Â 10.5Â %n/an/aOrrstown Bank337,000Â 13.1Â %$269,264Â 10.5Â %$256,442Â 10.0Â %Tier 1 risk-based capital:Orrstown Financial Services, Inc.286,005Â 11.1Â %$218,033Â 8.5Â %n/an/aOrrstown Bank306,798Â 12.0Â %$217,976Â 8.5Â %$205,154Â 8.0Â %Tier 1 common equity risk-based capital:Orrstown Financial Services, Inc.286,005Â 11.1Â %$179,557Â 7.0Â %n/an/aOrrstown Bank306,798Â 12.0Â %$179,509Â 7.0Â %$166,687Â 6.5Â %Tier 1 leverage capital:Orrstown Financial Services, Inc.286,005Â 8.9Â %$129,255Â 4.0Â %n/an/aOrrstown Bank306,798Â 9.5Â %$129,231Â 4.0Â %$161,539Â 5.0Â %December 31, 2023Total risk-based capital:Orrstown Financial Services, Inc.$326,878Â 13.0Â %$264,019Â 10.5Â %n/an/aOrrstown Bank320,687Â 12.8Â %$263,942Â 10.5Â %$251,373Â 10.0Â %Tier 1 risk-based capital:Orrstown Financial Services, Inc.272,677Â 10.8Â %$213,730Â 8.5Â %n/an/aOrrstown Bank292,160Â 11.6Â %$213,667Â 8.5Â %$201,099Â 8.0Â %Tier 1 common equity risk-based capital:Orrstown Financial Services, Inc.272,677Â 10.8Â %$176,013Â 7.0Â %n/an/aOrrstown Bank292,160Â 11.6Â %$175,961Â 7.0Â %$163,393Â 6.5Â %Tier 1 leverage capital:Orrstown Financial Services, Inc.272,677Â 8.9Â %$122,907Â 4.0Â %n/an/aOrrstown Bank292,160Â 9.5Â %$122,907Â 4.0Â %$153,634Â 5.0Â %The Company maintains a stockholder dividend reinvestment and stock purchase plan. Under the plan, shareholders may purchase additional shares of the Companyâ€™s common stock at the prevailing market prices with reinvested dividends and voluntary cash payments. The Company reserved 1,045,000 shares of its common stock to be issued under the dividend reinvestment and stock purchase plan. At JuneÂ 30, 2024, approximately 665,000 shares were 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 Company could repurchase up to 416,000 shares of the Company's outstanding shares of common stock, in accordance with all 40Table of Contentsapplicable securities laws and regulations, including Rule 10b-18 of the Exchange Act, as amended. On April 19, 2021, the Board of Directors authorized the additional 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 the 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 and six months ended JuneÂ 30, 2024, the Company repurchased zero shares of its common stock. At JuneÂ 30, 2024, 949,533 shares had been repurchased at a total cost of $21.2 million, or $22.36 per share. Common stock available for future repurchase totals 28,467 shares, or 0.3% of the Company's outstanding common stock at JuneÂ 30, 2024.On JulyÂ 17, 2024, the Board of Directors declared a cash dividend of $0.23 per common share, which will be paid on AugustÂ 15, 2024 to shareholders of record at AugustÂ 8, 2024.NOTE 12. EARNINGS PER SHAREThe following table presents earnings per share for the three and six months ended JuneÂ 30, 2024 and 2023: Three Months Ended June 30,Six Months Ended June 30,(shares presented in the table are in thousands)2024202320242023Net income$7,738Â $9,838Â $16,269Â $18,994Â Weighted average shares outstanding - basic10,393Â 10,336Â 10,371Â 10,360Â Dilutive effect of share-based compensation160Â 85Â 146Â 98Â Weighted average shares outstanding - diluted10,553Â 10,421Â 10,517Â 10,458Â Per share information:Basic earnings per share$0.74Â $0.95Â $1.57Â $1.83Â Diluted earnings per share0.73Â 0.94Â 1.55Â 1.82Â For the three and six months ended JuneÂ 30, 2024, there were average outstanding restricted award shares totaling 2 and 775, respectively, compared to 14,268 and 9,891 shares for the three and six months ended JuneÂ 30, 2023, respectively, excluded from the computation of earnings per share because the effect was antidilutive, as the grant price exceeded the average market price. The dilutive effect of share-based compensation in each period above relates principally to restricted stock awards.NOTE 13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKThe Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the unaudited condensed consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.The Companyâ€™s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table presents these contractual, or notional, amounts at JuneÂ 30, 2024 and DecemberÂ 31, 2023.ContractualÂ orÂ NotionalÂ AmountJune 30, 2024December 31, 2023Commitments to fund:Home equity lines of credit$343,976Â $337,460Â 1-4 family residential construction loans49,901Â 40,330Â Commercial real estate, construction and land development loans150,073Â 132,607Â Commercial, industrial and other loans357,150Â 357,099Â Standby letters of credit30,653Â 24,529Â Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment 41Table of Contentsamounts do not necessarily represent future cash requirements. The Company evaluates each clientâ€™s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on managementâ€™s credit evaluation of the client. Collateral varies but may include accounts receivable, inventory, equipment, residential real estate, and income-producing commercial properties.Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a client to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients. The Company holds collateral supporting those commitments when deemed necessary by management. The liability at JuneÂ 30, 2024 and DecemberÂ 31, 2023 for guarantees under standby letters of credit issued was not considered to be material.The Company maintains a reserve on its off-balance sheet credit exposures, which totaled approximately $1.6 million and $1.7 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively, and is recorded in other liabilities on the unaudited condensed consolidated balance sheets. On JanuaryÂ 1, 2023, the Company adopted CECL and recorded a day-one adjustment, which increased the allowance for credit losses for off-balance sheet credit exposures by $100Â thousand. The reserve is based on management's estimate of expected losses in its off-balance sheet credit exposures. The reserve specific to unfunded loan commitments is determined by applying utilization assumptions based on historical experience and applying the expected loss rates by loan class. Following adoption of CECL, the change in the reserve for off-balance sheet credit exposures is recorded as a provision or reduction to expense through the provision for credit losses in the unaudited condensed consolidated statements of income. The Company recorded no provision for credit losses and a reversal of $123Â thousand for off-balance sheet credit exposures for the three and six months ended JuneÂ 30, 2024. For the three and six months ended JuneÂ 30, 2023, the Company recorded expense of zero to other operating expenses in the unaudited condensed consolidated statements of income associated with its reserve for off-balance sheet credit exposures.NOTE 14. FAIR VALUEFair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:Level 1 â€“ quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date. Level 2 â€“ significant other observable inputs other than Level 1 prices such as prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or other inputs that are observable or can be corroborated by observable market data. LevelÂ 3 â€“ at least one significant unobservable input that reflects a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.The Company used the following methods and significant assumptions to estimate fair value for instruments measured on a recurring basis:Where quoted prices are available in an active market, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, investment securities are classified within Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or DCF. Level 2 investment securities include U.S. agency securities, MBS, obligations of states and political subdivisions and certain corporate, asset backed and 42Table of Contentsother securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. The Companyâ€™s investment securities are classified as AFS.The fair values of interest rate swaps, interest rate caps and risk participation derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Company and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements. The following table summarizes assets and liabilities measured at fair value on a recurring basis at JuneÂ 30, 2024 and DecemberÂ 31, 2023:Level 1Level 2Level 3Total FairValueMeasurementsJune 30, 2024Financial AssetsInvestment securities:U.S. Treasury securities$17,713Â $â€”Â $â€”Â $17,713Â U.S. Government Agenciesâ€”Â 3,573Â â€”Â 3,573Â States and political subdivisionsâ€”Â 194,114Â 6,332Â 200,446Â GSE residential MBSsâ€”Â 56,843Â â€”Â 56,843Â GSE commercial MBSsâ€”Â 4,089Â â€”Â 4,089Â GSE residential CMOsâ€”Â 116,243Â â€”Â 116,243Â Non-agency CMOsâ€”Â 20,173Â 11,235Â 31,408Â Asset-backedâ€”Â 98,658Â â€”Â 98,658Â Other109Â â€”Â â€”Â 109Â Loans held for saleâ€”Â 1,562Â â€”Â 1,562Â Derivativesâ€”Â 14,042Â 71Â 14,113Â Totals$17,822Â $509,297Â $17,638Â $544,757Â Financial LiabilitiesDerivatives$â€”Â $12,040Â $â€”Â $12,040Â December 31, 2023Financial AssetsInvestment securities:U.S. Treasury securities$17,840Â $â€”Â $â€”Â $17,840Â U.S. Government Agenciesâ€”Â 4,151Â â€”Â 4,151Â States and political subdivisionsâ€”Â 197,060Â 6,062Â 203,122Â GSE residential MBSsâ€”Â 57,632Â â€”Â 57,632Â GSE commercial MBSsâ€”Â 4,743Â â€”Â 4,743Â GSE residential CMOsâ€”Â 73,102Â â€”Â 73,102Â Non-agency CMOsâ€”Â 22,878Â 21,791Â 44,669Â Asset-backedâ€”Â 108,134Â â€”Â 108,134Â Other126Â â€”Â â€”Â 126Â Loans held for saleâ€”Â 5,816Â â€”Â 5,816Â Derivativesâ€”Â 11,328Â 55Â 11,383Â Totals$17,966Â $484,844Â $27,908Â $530,718Â Financial LiabilitiesDerivatives$â€”Â $13,464Â $â€”Â $13,464Â The Company had one municipal bond and two CMOs measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at JuneÂ 30, 2024 and DecemberÂ 31, 2023. During the six months ended JuneÂ 30, 2024, the 43Table of ContentsCompany had one non-agency CMO security totaling $2.9 million called by the issuer. The Level 3 valuation is based on a non-executable broker quote, which is considered a significant unobservable input. Such quotes are updated as available and may remain constant for a period of time for certain broker-quoted securities that do not move with the market or that are not interest rate sensitive as a result of their structure or overall attributes. The Companyâ€™s residential mortgage LHFS are recorded at fair value utilizing Level 2 measurements. This fair value measurement is determined based upon third party quotes obtained on similar loans. For loans held-for-sale, for which the fair value option has been elected, the aggregate fair value was greater than the aggregate principal balance by $31 thousand as of JuneÂ 30, 2024 and below the aggregate principal balance by $1.5 million as of DecemberÂ 31, 2023.The determination of the fair value of interest rate lock commitments on residential mortgages is based on agreed upon pricing with the respective investor on each loan and includes a pull through percentage. The pull through percentage represents an estimate of loans in the pipeline to be delivered to an investor versus the total loans committed for delivery. Significant changes in this input could result in a significantly higher or lower fair value measurement. As the pull through percentage is a significant unobservable input, this is deemed a Level 3 valuation input. The average pull through percentage, which is based upon historical experience, was 92% as of JuneÂ 30, 2024. An increase or decrease of 5% in the pull through assumption would result in a positive or negative change of $4 thousand in the fair value of interest rate lock commitments at JuneÂ 30, 2024. The following provides details of the Level 3 fair value measurement activity for the periods ended JuneÂ 30, 2024 and 2023:Investment securities:Three Months Ended June 30,Six Months Ended June 30,2024202320242023Balance, beginning of period$17,734Â $28,190Â $27,853Â $27,193Â Unrealized (losses) gains included in OCI(14)(84)82Â 136Â Purchasesâ€”Â â€”Â â€”Â 871Â Net discount accretion16Â 10Â 33Â 23Â Principal payments and other(169)(122)(294)(229)Callsâ€”Â â€”Â (10,107)â€”Â Balance, end of period$17,567Â $27,994Â $17,567Â $27,994Â Interest rate lock commitments on residential mortgages:Three Months Ended June 30,Six Months Ended June 30,2024202320242023Balance, beginning of period$56Â $57Â $55Â $35Â Total gains included in earnings15Â 10Â 16Â 32Â Balance, end of period$71Â $67Â $71Â $67Â Certain financial assets are measured at fair value on a nonrecurring basis. Adjustments to the fair value of these assets usually result from the application of lower of cost or market accounting or write-downs of individual assets. The Company used the following methods and significant assumptions to estimate fair value for these financial assets.There were no transfers into or out of Level 3 at JuneÂ 30, 2024 and 2023.Individually Evaluated LoansLoans individually evaluated for credit expected losses include nonaccrual loans and other loans that do not share similar risk characteristics to loans in the CECL loan pools, which have been classified as Level 3. Individually evaluated loans with an allocation to the ACL are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the unaudited condensed consolidated statements of income. The measurement of loss associated with loans evaluated individually for all loan classes was based on either the observable market price of the loan, the fair value of the collateral or DCF. For collateral-dependent loans, fair value was measured based on the value of the collateral securing the loan, less estimated costs to sell. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The value of the real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed 44Table of Contentsappraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if management adjusts the appraisal value, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable businessâ€™ financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3).Changes in the fair value of individually evaluated loans still held and considered in the determination of the provision for credit losses were declines of $136 thousand and $431 thousand for the three and six months ended JuneÂ 30, 2024, respectively, compared to increases of $285 thousand and $510 thousand for the three and six months ended JuneÂ 30, 2023.Mortgage Servicing Rights MSRs are evaluated for impairment by comparing the carrying value to the fair value, which is determined through a DCF valuation. To the extent the amortized cost of the MSRs exceeds their estimated fair values, a valuation allowance is established for such impairment. Fair value adjustments on the MSRs only occurs if there is an impairment charge. At both JuneÂ 30, 2024 and DecemberÂ 31, 2023, the MSR impairment reserve was zero. For both the three and six months ended JuneÂ 30, 2024 and 2023, there were no impairment valuation allowance adjustments in mortgage banking activities on the unaudited condensed consolidated statements of income.The following table summarizes assets measured at fair value on a nonrecurring basis at JuneÂ 30, 2024 and DecemberÂ 31, 2023:LevelÂ 1LevelÂ 2Level 3TotalFairÂ ValueMeasurementsJune 30, 2024Individually Evaluated LoansCommercial real estate:Owner occupied$â€”Â $â€”Â $46Â $46Â Residential mortgage:First lienâ€”Â â€”Â 206Â 206Â Home equity - lines of creditâ€”Â â€”Â 45Â 45Â Total individually evaluated loans$â€”Â $â€”Â $297Â $297Â December 31, 2023Individually Evaluated LoansCommercial real estate:Owner occupied$â€”Â $â€”Â $75Â $75Â Commercial and industrialâ€”Â â€”Â 164Â 164Â Residential mortgage:First lienâ€”Â â€”Â 219Â 219Â Home equity - lines of creditâ€”Â â€”Â 56Â 56Â Total individually evaluated loans$â€”Â $â€”Â $514Â $514Â The following table presents additional qualitative information about assets measured on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:FairÂ ValueEstimateValuationTechniquesUnobservable InputRangeJune 30, 2024Individually evaluated loans$297Â AppraisalÂ of collateralManagement adjustments on appraisals for property type and recent activity10%Â -Â 25%Â discountÂ - Management adjustments for liquidation expenses6.78% -Â 12.30% discountDecember 31, 2023Individually evaluated loans$514Â AppraisalÂ of collateralManagement adjustments on appraisals for property type and recent activity10%Â -Â 70%Â discountÂ - Management adjustments for liquidation expenses3.30% -Â 12.30% discount45Table of ContentsFair values of financial instrumentsGAAP requires disclosure of the fair value of financial assets and liabilities, including those that are not measured and reported at fair value on a recurring or nonrecurring basis. The following table presents carrying amounts and estimated fair values of the financial assets and liabilities at JuneÂ 30, 2024 and DecemberÂ 31, 2023:CarryingAmountFair ValueLevel 1Level 2Level 3June 30, 2024Financial AssetsCash and due from banks$35,951Â $35,951Â $35,951Â $â€”Â $â€”Â Interest-bearing deposits with banks96,558Â 96,558Â 96,558Â â€”Â â€”Â Restricted investments in bank stock11,147Â n/an/an/an/aInvestment securities529,082Â 529,082Â 17,822Â 493,693Â 17,567Â Loans held for sale1,562Â 1,562Â â€”Â 1,562Â â€”Â Loans, net of allowance for credit losses2,317,739Â 2,215,206Â â€”Â â€”Â 2,215,206Â Derivatives14,113Â 14,113Â â€”Â 14,042Â 71Â Accrued interest receivable14,120Â 14,120Â â€”Â 4,891Â 9,229Â Financial LiabilitiesDeposits2,702,884Â 2,700,274Â â€”Â 2,700,274Â â€”Â Securities sold under agreements to repurchase and federal funds purchased14,625Â 14,625Â â€”Â 14,625Â â€”Â FHLB advances and other borrowings115,000Â 114,541Â â€”Â 114,541Â â€”Â Subordinated notes32,128Â 30,631Â â€”Â 30,631Â â€”Â Derivatives12,040Â 12,040Â â€”Â 12,040Â â€”Â Accrued interest payable2,463Â 2,463Â â€”Â 2,463Â â€”Â Off-balance sheet instrumentsâ€”Â â€”Â â€”Â â€”Â â€”Â December 31, 2023Financial AssetsCash and due from banks$32,586Â $32,586Â $32,586Â $â€”Â $â€”Â Interest-bearing deposits with banks32,575Â 32,575Â 32,575Â â€”Â â€”Â Restricted investments in bank stock11,992Â n/an/an/an/aInvestment securities513,519Â 513,519Â 17,966Â 467,700Â 27,853Â Loans held for sale5,816Â 5,816Â â€”Â 5,816Â â€”Â Loans, net of allowance for loan losses2,269,611Â 2,159,745Â â€”Â â€”Â 2,159,745Â Derivatives11,383Â 11,383Â â€”Â 11,328Â 55Â Accrued interest receivable13,630Â 13,630Â â€”Â 4,987Â 8,643Â Financial LiabilitiesDeposits2,558,814Â 2,555,904Â â€”Â 2,555,904Â â€”Â Securities sold under agreements to repurchase9,785Â 9,785Â â€”Â 9,785Â â€”Â FHLB advances and other borrowings137,500Â 137,500Â â€”Â 137,500Â â€”Â Subordinated notes32,093Â 29,887Â â€”Â 29,887Â â€”Â Derivatives13,464Â 13,464Â â€”Â 13,464Â â€”Â Accrued interest payable2,560Â 2,560Â â€”Â 2,560Â â€”Â Off-balance sheet instrumentsâ€”Â â€”Â â€”Â â€”Â â€”Â In accordance with the Company's adoption of ASU 2016-01, Financial Instruments â€“ Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, the methods utilized to measure the fair value of financial instruments at JuneÂ 30, 2024 and DecemberÂ 31, 2023 represent an approximation of exit price; however, an actual exit price may differ.46Table of ContentsNOTE 15. CONTINGENCIESThe nature of the Companyâ€™s business generates a certain amount of litigation involving matters arising out of the ordinary course of business. Except as described below, in the opinion of management, there are no legal proceedings that might have a material effect on the results of operations, liquidity, or the financial position of the Company at this time.On March 25, 2022, a customer of the Bank filed a putative class action complaint against the Bank in the Court of Common Pleas of Cumberland County, Pennsylvania, in a case captioned Alleman, on behalf of himself and all others similarly situated, v. Orrstown Bank. The complaint alleges, among other things, that the Bank breached its account agreements by charging certain overdraft fees. The complaint seeks a refund of all allegedly improper fees, damages in an amount to be proven at trial, attorneysâ€™ fees and costs, and an injunction against the Bankâ€™s allegedly improper overdraft practices. This lawsuit is similar to lawsuits filed against other financial institutions pertaining to overdraft fee disclosures.47Table of ContentsItemÂ 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of OperationsThe following discussion and analysis is intended to assist readers in understanding the consolidated financial condition and results of operations of Orrstown and should be read in conjunction with the preceding unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q, as well as with the audited consolidated financial statements and notes thereto for the year ended DecemberÂ 31, 2023, included in our Annual Report on Form 10-K filed with the SEC on March 14, 2024. Throughout this discussion, the yield on earning assets is stated on a fully taxable-equivalent basis and balances represent average daily balances unless otherwise stated. OverviewThe Company, headquartered in Harrisburg, 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 JuneÂ 30, 2024, the Company had total assets of $3.2 billion, total liabilities of $2.9 billion and total shareholdersâ€™ equity of $278.4 million.For the three months ended JuneÂ 30, 2024 and 2023, the Company had net income of $7.7 million and $9.8 million, respectively. For the six months ended JuneÂ 30, 2024 and 2023, the Company had net income of $16.3 million and $19.0 million, respectively. Diluted earnings per share were $0.73 and $0.94 for the three months ended JuneÂ 30, 2024 and 2023, respectively. Diluted earnings per share were $1.55 and $1.82 for the six months ended JuneÂ 30, 2024 and 2023, respectively. The Company is focused on limiting net interest margin compression in an elevated interest rate environment while generating prudent growth. For the three and six months ended JuneÂ 30, 2024, the Company incurred merger-related expenses of $1.1 million and $1.8 million, respectively, which were included in non-interest expenses in the unaudited condensed consolidated statements of income. Cautionary Note About Forward-Looking StatementsCertain 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 â€œmay,â€ â€œshould,â€ â€œcould,â€ â€œpredict,â€ â€œpotential,â€ â€œbelieve,â€ â€œwill likely result,â€ â€œexpect,â€ â€œcontinue,â€ â€œwill,â€ â€œanticipate,â€ â€œseek,â€ â€œestimate,â€ â€œintend,â€ â€œplan,â€ â€œproject,â€ â€œforecast,â€ â€œgoal,â€ â€œtarget,â€ â€œwouldâ€ and â€œoutlook,â€ 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; 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; changes in consumer behavior due to changing political, business and economic conditions, or legislative or regulatory initiatives; changes in laws and regulations; 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; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; expenses associated with litigation and legal proceedings; the possibility that the anticipated benefits of the merger with Codorus Valley (the â€œMergerâ€) are not realized when expected or at all; the possibility that the Merger may be more expensive to complete and integrate than anticipated; the possibility that revenues following the Merger may be lower than expected; potential adverse reactions or changes to business or employee relationships, including those resulting from the 48Table of Contentscompletion of the Merger; the ability to complete the integration of the two companies successfully; the dilution caused by the Companyâ€™s issuance of additional shares of its capital stock in connection with the Merger; and other risks and uncertainties, including those detailed in our Annual Report on FormÂ 10-K for the year ended DecemberÂ 31, 2023, and our Quarterly Reports on Form 10-Q under the sections titled â€œRisk Factorsâ€ and â€œManagementâ€™s Discussion and Analysis of Financial Condition and Results of Operationsâ€ and in other filings made with the SEC. The statements are valid only as of the date hereof and we disclaim any obligation to update this information.Economic Climate, Inflation and Interest RatesPreliminary real GDP for the second quarter of 2024 increased 2.8% on an annualized basis, which represents an increase from 1.4% during the first quarter of 2024 and an increase from 2.1% during the second quarter of 2023. The increase in preliminary GDP during the second quarter of 2024 compared to the first quarter of 2024 reflected increases in consumer spending, wholesale and retail trade and nonresidential fixed investment, specifically within equipment and intellectual property. The notable drivers to the increase in consumer spending were health care, housing, utilities and recreational services and goods and purchases of motor vehicles and household equipment. Fluctuations in real GDP in recent periods, due to inflation, credit conditions and geopolitical tensions, continue to create uncertainty in the current economic environment. The personal consumption expenditures ("PCE") price index increased by 2.6% in the second quarter of 2024 compared to an increase of 3.4% for first quarter of 2024 and 3.0% for the second quarter of 2023. Excluding food and energy prices, the PCE price index increased by 2.9% in the second quarter of 2024 compared to 3.7% in the first quarter of 2024 and 4.2% in the second quarter of 2023.The national unemployment rate increased to 4.1% in June 2024 compared to 3.8% in March 2024 and 3.6% in June 2023. Within the Company's geographic footprint, the unemployment rate decreased in Pennsylvania from 3.8% in June 2023 to 3.4% in June 2024. The unemployment rate increased in Maryland from 2.0% in June 2023 to 2.8% in June 2024; however, it remains significantly below the national level. These state-wide unemployment rates are consistent with those experienced by the counties in which the Company operates branches and other corporate offices. There were notable job gains nationally in healthcare, construction and government during the second quarter of 2024.At JuneÂ 30, 2024, the 10-year Treasury bond yield was 4.36%, a considerable increase from 3.88% at DecemberÂ 31, 2023 and 3.81% at JuneÂ 30, 2023 due to current economic conditions influenced by the labor market and inflationary pressures. In an attempt to combat the impact of inflation, the current level in the consumer price index and geopolitical tensions, the FOMC has increased the Fed Funds rate by 525 basis points since March 2022. In June of 2024, the FOMC signaled that job gains and the low unemployment rate have demonstrated progress towards its 2.0% target; however, economic concerns persist due to inflationary risks. The Fed Funds rate remains unchanged during 2024 as the FOMC does not believe it is appropriate yet to reduce the rate until there is greater certainty in the economic outlook and inflation trending towards the 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.Critical Accounting EstimatesThe Companyâ€™s accounting and reporting policies are in accordance with GAAP and follow accounting and reporting guidelines prescribed by bank regulatory authorities and general practices within the financial services industry in which it operates. Our financial position and results of operations are affected by management's application of accounting policies, including estimates, and assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the balance sheet date and through the date the financial statements are filed with the SEC. Different assumptions in the application of these policies could result in material changes in the consolidated financial position and/or consolidated results of operations and related disclosures. The more critical accounting estimates include accounting for credit losses and income tax methodologies. Accordingly, these critical accounting estimates are discussed in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year endedÂ DecemberÂ 31, 2023. Significant accounting policies and any changes in accounting principles and effects of new accounting pronouncements are discussed in Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," in our Annual Report on Form 10-K for the year endedÂ DecemberÂ 31, 2023.49Table of ContentsRESULTS OF OPERATIONSThree months ended JuneÂ 30, 2024 compared with three months ended JuneÂ 30, 2023 SummaryNet income totaled $7.7 million for the three months ended JuneÂ 30, 2024 compared to $9.8 million for the same period in 2023. Diluted earnings per share for the three months ended JuneÂ 30, 2024 totaled $0.73 compared to $0.94 for the three months ended JuneÂ 30, 2023. For the three months ended JuneÂ 30, 2024, the Company incurred merger-related expenses of $1.1 million, which were included in non-interest expenses of the unaudited condensed consolidated statement of income. Excluding the merger-related expenses incurred during the second quarter of 2024, net income and diluted earnings per share totaled $8.7 million and $0.83, respectively, for the three months ended JuneÂ 30, 2024. For the three months ended JuneÂ 30, 2023, the Company recorded a gain of $1.2 million from the sale of the Bank's Path Valley branch. See â€œSupplemental Reporting of Non-GAAP Measuresâ€ for additional information. Net interest income totaled $26.1 million for the three months ended JuneÂ 30, 2024 compared to $26.4 million for the three months ended JuneÂ 30, 2023.The provision for credit losses on loans and off-balance sheet reserves totaled $812 thousand and $399 thousand for the three months ended JuneÂ 30, 2024 and 2023, respectively.Noninterest income totaled $7.2 million for both the three months ended JuneÂ 30, 2024 and 2023. There was an increase of $14 thousand during the second quarter of 2024 due to an increase in wealth management income of $490 thousand and an increase in swap fee income of $179 thousand. During the second quarter of 2023, other income increased primarily due to the impact from the sale of the Path Valley branch of $1.2 million.Noninterest expenses totaled $22.6 million for theÂ threeÂ months endedÂ JuneÂ 30, 2024Â compared to $20.7 million for theÂ threeÂ months ended JuneÂ 30, 2023. The increase of $1.9 million is primarily due to merger-related expenses of $1.1 million. Income tax expense totaled $2.1 million and $2.5 million for the three months endedÂ JuneÂ 30, 2024 and 2023, respectively. The Company's effective tax rate was 21.2% for the three months ended JuneÂ 30, 2024 compared to 20.6% for the three months ended JuneÂ 30, 2023. Net Interest IncomeNet interest income decreased by $272 thousand from $26.4 million for the three months ended JuneÂ 30, 2023 to $26.1 million for the three months ended JuneÂ 30, 2024. Interest income on loans increased by $4.3 million, from $31.2 million to $35.5 million. Interest income on investment securities increased by $600 thousand, from $5.3 million to $5.9 million, for the three months ended JuneÂ 30, 2024 compared to the same period in the prior year. Total interest expense increased by $6.7 million from $10.5 million for the three months ended JuneÂ 30, 2023 to $17.2 million for the three months ended JuneÂ 30, 2024. Interest expense on deposits increased by $6.7 million from $8.6 million for the three months ended JuneÂ 30, 2023 to $15.3 million for the three months ended JuneÂ 30, 2024. Interest expense on borrowings was relatively flat at $1.9 million for both the three months ended JuneÂ 30, 2024 and 2023.50Table of ContentsThe following table presents net interest income, net interest spread and net interest margin for the three months ended JuneÂ 30, 2024 and 2023 on a taxable-equivalent basis:Three Months Ended JuneÂ 30, 2024Three Months Ended JuneÂ 30, 2023AverageBalanceTaxable-EquivalentInterestTaxable-EquivalentRateAverageBalanceTaxable-EquivalentInterestTaxable-EquivalentRateAssetsFederal funds soldÂ & interest-bearing bank balances$142,868Â $1,864Â 5.25Â %$37,895Â $418Â 4.42Â %Investment securities (1)(2)538,451Â 6,114Â 4.54Â 526,225Â 5,510Â 4.19Â Loans (1)(3)(4)2,324,942Â 35,690Â 6.17Â 2,233,312Â 31,329Â 5.63Â Total interest-earning assets3,006,261Â 43,668Â 5.84Â 2,797,432Â 37,257Â 5.34Â Other assets204,863Â 191,983Â Total$3,211,124Â $2,989,415Â Liabilities and Shareholdersâ€™ EquityInterest-bearing demand deposits$1,649,753Â 10,118Â 2.47Â $1,511,468Â 6,273Â 1.66Â Savings deposits165,467Â 140Â 0.34Â 204,584Â 135Â 0.26Â Time deposits481,721Â 5,007Â 4.18Â 326,034Â 2,200Â 2.71Â Total interest-bearing deposits2,296,941Â 15,265Â 2.67Â 2,042,086Â 8,608Â 1.69Â Securities sold under agreements to repurchase and federal funds purchased13,412Â 27Â 0.81Â 13,685Â 28Â 0.82Â FHLB advances and other borrowings115,000Â 1,152Â 4.03Â 132,094Â 1,386Â 4.21Â Subordinated notes32,118Â 734Â 9.19Â 32,049Â 504Â 6.29Â Total interest-bearing liabilities2,457,471Â 17,178Â 2.81Â 2,219,914Â 10,526Â 1.90Â Noninterest-bearing demand deposits423,037Â 476,123Â Other liabilities57,828Â 50,851Â Total liabilities2,938,336Â 2,746,888Â Shareholdersâ€™ equity272,788Â 242,527Â Total$3,211,124Â $2,989,415Â Taxable-equivalent net interest income / net interest spread26,490Â 3.02Â %26,731Â 3.44Â %Taxable-equivalent net interest margin3.54Â %3.83Â %Taxable-equivalent adjustment(387)(356)Net interest income$26,103Â $26,375Â 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.(4)Interest income on loans includes prepayment and late fees, where applicable.51Table of ContentsThe following table presents changes in net interest income on a taxable-equivalent basis for the three months ended JuneÂ 30, 2024 and 2023 by rate and volume components.Three Months Ended JuneÂ 30, 2024 Versus 2023 Increase (Decrease) Due to Change In(in thousands)Average VolumeAverage RateTotalInterest IncomeFederal funds sold and interest-bearing bank balances$1,154Â $292Â $1,446Â Taxable securities157Â 427Â 584Â Tax-exempt securities(22)42Â 20Â Loans1,226Â 3,135Â 4,361Â Total interest income2,515Â 3,896Â 6,411Â Interest ExpenseInterest-bearing demand deposits649Â 3,196Â 3,845Â Savings deposits(26)31Â 5Â Time deposits1,048Â 1,759Â 2,807Â Total interest-bearing deposits1,671Â 4,986Â 6,657Â Securities purchases under agreements to repurchase and federal funds purchased(1)â€”Â (1)FHLB advances and other borrowings(179)(55)(234)Subordinated notes1Â 229Â 230Â Total interest expense1,492Â 5,160Â 6,652Â Taxable-Equivalent Net Interest Income$1,023Â $(1,264)$(241)Net interest income on a taxable-equivalent basis decreased by $241 thousand to $26.5 million for the three months ended JuneÂ 30, 2024 from $26.7 million for the three months ended JuneÂ 30, 2023. The Company's net interest spread decreased by 42 basis points from 3.44% for the three months ended JuneÂ 30, 2023 to 3.02% for the three months ended JuneÂ 30, 2024 primarily due to the increase in cost of funds.Taxable-equivalent net interest margin decreased by 29 basis points to 3.54% for the three months ended JuneÂ 30, 2024 from 3.83% for the three months ended JuneÂ 30, 2023. The taxable-equivalent yield on interest-earning assets increased by 50 basis points from 5.34% for the three months ended JuneÂ 30, 2023 to 5.84% for the three months ended JuneÂ 30, 2024, reflecting the benefit of both the deployment of cash into higher yielding loans and investment securities and the impact of higher interest rates on these interest-earning assets. This increase in yield on interest earning assets was more than offset by the increase of 91 basis points in the cost of interest-bearing liabilities from 1.90% to 2.81% due to increased funding costs on deposits from higher market interest rates and competitive pressures.Average loans increased by $91.6 million to $2.3 billion for the three months ended JuneÂ 30, 2024 compared to $2.2 billion for the three months ended JuneÂ 30, 2023. Average investment securities increased by $12.2 million from $526.2 million for the three months ended JuneÂ 30, 2023 to $538.5 million for the three months ended JuneÂ 30, 2024. Average interest-bearing liabilities increased by $237.6 million to $2.5 billion for the three months ended JuneÂ 30, 2024 from $2.2 billion for the three months ended JuneÂ 30, 2023.The yield on loans increased by 54 basis points to 6.17% for the three months ended JuneÂ 30, 2024 compared to 5.63% for the three months ended JuneÂ 30, 2023. Taxable-equivalent interest income earned on loans increased by $4.4 million due to higher interest rates, which increased interest income by $3.1 million, and an increase in the average balances of loans resulted in an increase to interest income by $1.2 million.The average balance of commercial loans, excluding SBA PPP loan forgiveness activity, increased by $51.5 million from the three months ended JuneÂ 30, 2023 to the three months ended JuneÂ 30, 2024. SBA PPP loans, net of deferred fees and costs, averaged $9.1 million for the three months ended JuneÂ 30, 2023 compared to $5.3 million for the three months ended JuneÂ 30, 2024. This decrease was due to forgiveness of SBA PPP loans. 52Table of ContentsAverage residential mortgage loans increased by $39.0 million from $237.7 million during the three months ended JuneÂ 30, 2023 to $276.7 million during the three months ended JuneÂ 30, 2024, primarily due to mortgages originated for the portfolio. Average home equity loans increased by $9.0 million from $188.1 million for the three months ended JuneÂ 30, 2023 to $197.1 million for the three months ended JuneÂ 30, 2024. Average installment and other consumer loans decreased by $4.1 million from $20.3 million for the three months ended JuneÂ 30, 2023 to $16.2 million for the three months ended JuneÂ 30, 2024. Accretion of purchase accounting adjustments included in interest income was $152 thousand and $215 thousand for the three months ended JuneÂ 30, 2024 and 2023, respectively. The decrease in accretion was primarily due to a decline in accelerated accretion from acquired loan payoffs or significant loan repayments. Accelerated accretion totaled $72 thousand and $138 thousand for the three months ended JuneÂ 30, 2024 and 2023, respectively. For the three months ended JuneÂ 30, 2024, interest income on loans included $12 thousand of interest and net deferred fee income associated with SBA PPP loans compared to $66 thousand of such interest and fee income for the three months ended JuneÂ 30, 2023. Interest income on investment securities on a tax-equivalent basis increased by $604 thousand to $6.1 million for the three months ended JuneÂ 30, 2024 from $5.5 million for the three months ended JuneÂ 30, 2023, with the taxable equivalent yield increasing from 4.19% for the three months ended JuneÂ 30, 2023 to 4.54% for the three months ended JuneÂ 30, 2024. The 35 basis point increase primarily reflected the impact from the higher interest rates. The average balance of investment securities increased by $12.2 million to $538.5 million for the three months ended JuneÂ 30, 2024 from $526.2 million for the three months ended JuneÂ 30, 2023 due primarily to purchase activity. Interest income on federal funds sold and interest-bearing bank balances on a tax-equivalent basis increased by $1.4 million to $1.9 million for the three months ended JuneÂ 30, 2024 from $418 thousand for the three months ended JuneÂ 30, 2023. The average balance of federal funds sold and interest-bearing bank balances increased by $105.0 million from $37.9 million for the three months ended JuneÂ 30, 2023 to $142.9 million, which resulted in an increase in interest income of $1.2 million. Since JuneÂ 30, 2023, the FOMC increased the Federal Funds rate by 25 basis points, which contributed to the increase in interest income on federal funds sold and interest-bearing bank balances by $292 thousand during the three months ended JuneÂ 30, 2024.Interest expense on interest-bearing liabilities increased by $6.7 million from $10.5 million for the three months ended JuneÂ 30, 2023 to $17.2 million for the three months ended JuneÂ 30, 2024. The cost of interest-bearing liabilities increased by 91 basis points from 1.90% for the three months ended JuneÂ 30, 2023 to 2.81% for the three months ended JuneÂ 30, 2024 as funding costs increased due to higher market interest rates and competitive pressures on deposit pricing. The average balance of interest-bearing deposits increased by $254.9 million to $2.3 billion for the three months ended JuneÂ 30, 2024 from $2.0 billion for the three months ended JuneÂ 30, 2023. Average time deposits increased by $155.7 million and average interest-bearing demand deposits increased by $138.3 million for the three months ended JuneÂ 30, 2024 compared to the prior period due to strong deposit gathering efforts by the Bank's sales teams. These increases were partially offset by a decrease in average savings deposits of $39.1 million between the three months ended JuneÂ 30, 2024 and 2023 as clients sought higher-yielding products during the rising interest rate environment.Interest expense on borrowings was $1.9 million for both the three months ended JuneÂ 30, 2024 and 2023. The cost of borrowings increased by 47 basis points to 4.79% for the three months ended JuneÂ 30, 2024 from 4.32% for the three months ended JuneÂ 30, 2023. The interest rate increased on the Company's outstanding subordinated notes of $32.1 million, which converted from a fixed rate to a floating rate on December 30, 2023. The contractual interest rate on the subordinated notes was 8.72% at JuneÂ 30, 2024 compared to 6.00% at JuneÂ 30, 2023. Average borrowings decreased by $17.3 million from $177.8 million for the three months ended JuneÂ 30, 2023 to $160.5 million for the three months ended JuneÂ 30, 2024 due to repayment of overnight funds.53Table of ContentsProvision for Credit LossesThe Company recorded a provision for credit losses of $812 thousand for the three months ended JuneÂ 30, 2024 compared to $399 thousand for the same period in 2023. For the three months ended JuneÂ 30, 2024, the provision for credit losses increased primarily due to loan growth and the slowing in prepayment speed assumptions within the quantitative model based on current economic conditions. The impact of these factors was partially offset by a decrease in the Economic Conditions qualitative factor for the residential mortgage segment based on the stabilization in real estate collateral valuations and housing demand and overall portfolio performance, which is reflected in the provision for credit losses noted above. This resulted in a decrease to the ACL of $228 thousand. The remaining change in the ACL is due to normal fluctuations from the changes in loan balances and loss rates by loan segment. The ACL to total loan ratio was 1.27% at both JuneÂ 30, 2023 and JuneÂ 30, 2024. For the three months ended JuneÂ 30, 2023, the provision for credit losses was driven by an increase in commercial loans and an increase in the Delinquency and Classified Loan Trends qualitative factor for the commercial & industrial and owner-occupied commercial real estate loan classes. The change in this qualitative factor was based on a recent trend of increases in loans downgraded to the special mention risk rating, which is reflected in the provision for credit losses noted above. In addition, the provision for credit losses was impacted by the change in expected loss rates under CECL. Favorable published trends in unemployment and GDP rates impacted the extent of provisioning required in the second quarter of 2023.Net charge-offs for the three months ended JuneÂ 30, 2024 totaled $113Â thousand compared to net charge-offs of $380Â thousand for the three months ended JuneÂ 30, 2023. Nonaccrual loans were 0.36% of gross loans at JuneÂ 30, 2024, compared with 0.94% of gross loans at JuneÂ 30, 2023. Nonaccrual loans decreased by $12.7 million from $21.1 million at JuneÂ 30, 2023 to $8.4 million at JuneÂ 30, 2024, primarily due to the payoff of one owner-occupied commercial real estate loan with a balance of $14.8 million at JuneÂ 30, 2023, partially offset by an addition of one owner-occupied commercial real estate loan with a balance of $1.2 million at JuneÂ 30, 2024.Additional information is included in the "Credit Risk Management" section herein. 54Table of ContentsNoninterest IncomeThe following table compares noninterest income for the three months ended JuneÂ 30, 2024 and 2023: Three Months Ended June 30,$ Change% Change202420232024-20232024-2023Service charges on deposit accounts$1,018Â $984Â $34Â 3.5Â %Interchange income961Â 993Â (32)(3.2)%Other service charges, commissions and fees265Â 267Â (2)(0.7)%Swap fee income375Â 196Â 179Â 91.3Â %Trust and investment management income2,132Â 1,927Â 205Â 10.6Â %Brokerage income1,180Â 895Â 285Â 31.8Â %Mortgage banking activities369Â 112Â 257Â 229.5Â %Income from life insurance646Â 645Â 1Â 0.2Â %Other income238Â 1,141Â (903)(79.1)%Investment securities losses(12)(2)(10)(500.0)%Total noninterest income$7,172Â $7,158Â $14Â 0.2Â %Noninterest income increased by $14 thousand from $7.2 million for the three months ended JuneÂ 30, 2023 to $7.2 million for the three months ended JuneÂ 30, 2024. The following were significant components in this line item:â€¢Wealth management income, which includes trust and investment management income and brokerage income, increased by $490 thousand due to strong market performance and growth in managed assets.â€¢Mortgage banking income increased by $257 thousand. Mortgage loans sold totaled $8.4 million in the second quarter of 2024 compared to $5.1 million in the second quarter of 2023. In addition, the fair value mark on the mortgage loans held-for-sale increased by $151 thousand from a negative fair value mark of $138 thousand for the three months ended JuneÂ 30, 2023 to a positive fair value mark of $13 thousand for the three months ended JuneÂ 30, 2024.â€¢Swap fee income increased by $179 thousand as swap fee income will fluctuate based on market conditions and client demand.â€¢Other income decreased by $903 thousand due primarily to a gain of $1.2 million from the sale of the Bank's Path Valley branch recorded during the second quarter of 2023.â€¢Other line items within noninterest income showed fluctuations attributable to normal business operations.55Table of ContentsNoninterest ExpensesThe following table compares noninterest expenses for the three months ended JuneÂ 30, 2024 and 2023:Three Months Ended June 30,$ Change% Change202420232024-20232024-2023Salaries and employee benefits$13,195Â $13,054Â $141Â 1.1Â %Occupancy 1,178Â 1,054Â 124Â 11.8Â %Furniture and equipment1,527Â 1,212Â 315Â 26.0Â %Data processing1,237Â 1,201Â 36Â 3.0Â %Automated teller machine and interchange fees341Â 308Â 33Â 10.7Â %Advertising and bank promotions774Â 919Â (145)(15.8)%FDIC insurance419Â 519Â (100)(19.3)%Professional services801Â 504Â 297Â 58.9Â %Directors' compensation272Â 221Â 51Â 23.1Â %Taxes other than income49Â 3Â 46Â 1533.3Â %Intangible asset amortization215Â 239Â (24)(10.0)%Merger-related expenses1,135Â â€"Â 1,135Â 100.0Â %Other operating expenses1,496Â 1,515Â (19)(1.3)%Total noninterest expenses$22,639Â $20,749Â $1,890Â 9.1Â %Noninterest expense increased by $1.9Â million from $20.7Â million for the three months ended JuneÂ 30, 2023 to $22.6Â million for the three months ended JuneÂ 30, 2024. The following were significant components in this line item: â€¢Merger-related expenses totaled $1.1 million related to the merger with Codorus Valley.â€¢Furniture and equipment expense increased by $315 thousand due primarily to an increase in software maintenance and services to support technology improvements.â€¢Professional services expense increased by $297 thousand due primarily to increases in audit-related and consulting fees.â€¢Salaries and employee benefits expense increased by $141 thousand due primarily to increases in incentive compensation and other employee benefit costs.â€¢Occupancy expense increased by $124 thousand due to additional building maintenance expenses and operating lease expenses from a new lease agreement entered into during the second quarter of 2023.â€¢Advertising and bank promotions expense decreased by $145 thousand as the timing of promotions, advertising, and sponsorships can vary.â€¢FDIC insurance expense decreased by $100 thousand due primarily to a decrease in the assessment rate caused by a decrease in the loan mix index factor and a decrease in nonaccrual loans.â€¢Other line items within noninterest expenses showed fluctuations attributable to normal business operations.Income Tax ExpenseIncome tax expense totaled $2.1Â million, an effective tax rate of 21.2%, for the three months ended JuneÂ 30, 2024 compared with $2.5Â million and an effective tax rate of 20.6% for the three months ended JuneÂ 30, 2023. The Companyâ€™s effective tax rate is greater than the 21% federal statutory rate due to disallowed interest expenses and the impact of nondeductible merger-related costs, partially offset by tax-exempt income, including interest earned on tax-exempt loans and investment securities, income from life insurance policies and tax credits. The increase in the effective tax rate from the three months ended JuneÂ 30, 2023 to the three months ended JuneÂ 30, 2024 was primarily due to an increase in the portion of interest expense disallowed as a deduction against earnings under the Tax Equity and Fiscal Responsibility Act of 1982, an increase in state taxes as a result of a greater percentage of taxable income earned in a state with a state income tax and the non-deductible merger-related expenses.56Table of ContentsSix months ended JuneÂ 30, 2024 compared with six months ended JuneÂ 30, 2023SummaryNet income totaled $16.3 million for the six months ended JuneÂ 30, 2024 compared to $19.0 million for the same period in 2023. Diluted earnings per share for the six months ended JuneÂ 30, 2024 totaled $1.55 compared to $1.82 for the six months ended JuneÂ 30, 2023. For the six months ended JuneÂ 30, 2024, the Company incurred merger-related expenses of $1.8 million, which were included in non-interest expenses of the unaudited condensed consolidated statement of income. Excluding the merger-related expenses incurred during the period, net income and diluted earnings per common share totaled $17.9 million and $1.71, respectively, for the six months ended JuneÂ 30, 2024. For the six months ended JuneÂ 30, 2023, the Company recorded a gain of $1.2 million from the sale of the Bank's Path Valley branch. See â€œSupplemental Reporting of Non-GAAP Measuresâ€ for additional information. Net interest income totaled $53.0 million for the six months ended JuneÂ 30, 2024 compared to $52.7 million for the six months ended JuneÂ 30, 2023. This increase in net interest income reflected the impact of $1.6 million of interest recovered from the payoff of a commercial real estate loan on nonaccrual status in the six months ended JuneÂ 30, 2024, partially offset by the impact of an increase in cost of funds and an increase in average interest-bearing liabilities.The provision for credit losses on loans and off-balance sheet reserves totaled $1.1 million for both the six months ended JuneÂ 30, 2024 and 2023.Noninterest income totaled $13.8 million and $13.2 million for the six months ended JuneÂ 30, 2024 and 2023, respectively. The increase of $566 thousand was due to an increase in wealth management income of $845 thousand, an increase in swap fee income of $378 thousand and an increase in mortgage banking income of $237 thousand. These increases were offset by the gain of $1.2 million recorded to other income from the sale of the Path Valley branch during the second quarter of 2023.Noninterest expenses totaled $45.1 million and $41.0 million for theÂ sixÂ months endedÂ JuneÂ 30, 2024Â and 2023, respectively. The increase of $4.1 million is primarily due to merger-related expenses of $1.8 million and an increase in salaries and employee benefits expense of $1.7 million. Income tax expense totaled $4.3 million and $4.8 million for theÂ sixÂ months endedÂ JuneÂ 30, 2024 and 2023, respectively. The Company's effective tax rate was 20.9% for the six months ended JuneÂ 30, 2024 compared to 20.1% for the six months ended JuneÂ 30, 2023 due primarily to the impact of non-deductible merger-related expenses in 2024. Net Interest IncomeNet interest income increased by $315 thousand from $52.7 million for the six months ended JuneÂ 30, 2023 to $53.0 million for the six months ended JuneÂ 30, 2024. Interest income on loans increased by $11.9 million, from $59.9 million to $71.8 million. Interest income on investment securities increased by $826 thousand, from $10.5 million to $11.3 million, for the six months ended JuneÂ 30, 2024 compared to the same period in the prior year. Total interest expense increased by $14.4 million from $18.5 million for the six months ended JuneÂ 30, 2023 to $32.9 million for the six months ended JuneÂ 30, 2024. Interest expense on deposits increased by $14.0 million from $14.8 million for the six months ended JuneÂ 30, 2023 to $28.8 million for the six months ended JuneÂ 30, 2024. Interest expense on borrowings increased by $467 thousand from $3.7 million from the six months ended JuneÂ 30, 2023 to $4.2 million for the six months ended JuneÂ 30, 2024.57Table of ContentsThe following table presents net interest income, net interest spread and net interest margin for the six months ended JuneÂ 30, 2024 and 2023 on a taxable-equivalent basis:Six Months Ended June 30, 2024Six Months Ended June 30, 2023AverageBalanceTaxable-EquivalentInterestTaxable-EquivalentRateAverageBalanceTaxable-EquivalentInterestTaxable-EquivalentRateAssetsFederal funds soldÂ & interest-bearing bank balances$108,695Â $2,820Â 5.22Â %$33,770Â $716Â 4.27Â %Investment securities (1)(2)529,151Â 11,808Â 4.47Â 525,957Â 10,975Â 4.19Â Loans (1)(3)(4)(5)2,316,522Â 72,072Â 6.25Â 2,206,914Â 60,173Â 5.49Â Total interest-earning assets2,954,368Â 86,700Â 5.90Â 2,766,641Â 71,864Â 5.23Â Other assets200,580Â 194,786Â Total$3,154,948Â $2,961,427Â Liabilities and Shareholdersâ€™ EquityInterest-bearing demand deposits$1,610,188Â 19,310Â 2.41Â $1,507,467Â 11,135Â 1.49Â Savings deposits167,736Â 284Â 0.34Â 211,955Â 268Â 0.25Â Time deposits455,082Â 9,187Â 4.06Â 301,095Â 3,407Â 2.28Â Total interest-bearing deposits2,233,006Â 28,781Â 2.59Â 2,020,517Â 14,810Â 1.48Â Securities sold under agreements to repurchase and federal funds purchased12,711Â 52Â 0.83Â 13,776Â 53Â 0.77Â FHLB advances and other borrowings126,253Â 2,626Â 4.18Â 119,335Â 2,638Â 4.46Â Subordinated notes32,109Â 1,488Â 9.32Â 32,041Â 1,008Â 6.29Â Total interest-bearing liabilities2,404,079Â 32,947Â 2.76Â 2,185,669Â 18,509Â 1.71Â Noninterest-bearing demand deposits420,253Â 485,789Â Other liabilities60,078Â 51,736Â Total liabilities2,884,410Â 2,723,194Â Shareholdersâ€™ equity270,538Â 238,233Â Total$3,154,948Â $2,961,427Â Taxable-equivalent net interest income / net interest spread53,753Â 3.14Â %53,355Â 3.52Â %Taxable-equivalent net interest margin3.65Â %3.88Â %Taxable-equivalent adjustment(769)(686)Net interest income$52,984Â $52,669Â 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.(4)Interest income on loans includes prepayment and late fees, where applicable.(5)Interest income on loans includes interest recovered of $1.6 million from the payoff of a commercial real estate loan on nonaccrual status during the six months ended JuneÂ 30, 2024.58Table of ContentsThe following table presents changes in net interest income on a taxable-equivalent basis for the six months ended JuneÂ 30, 2024 and 2023 by rate and volume components.Six Months Ended June 30, 2024 Versus 2023 Increase (Decrease) Due to Change In(in thousands)Average VolumeAverage RateTotalInterest IncomeFederal funds sold and interest-bearing bank balances$1,597Â $507Â $2,104Â Taxable securities172Â 626Â 798Â Tax-exempt securities(23)58Â 35Â Loans3,778Â 8,121Â 11,899Â Total interest income5,524Â 9,312Â 14,836Â Interest ExpenseInterest-bearing demand deposits881Â 7,294Â 8,175Â Savings deposits(56)72Â 16Â Time deposits1,752Â 4,028Â 5,780Â Total interest-bearing deposits2,577Â 11,394Â 13,971Â Securities purchases under agreements to repurchase and federal funds purchased(4)3Â (1)FHLB advances and other borrowings154Â (166)(12)Subordinated notes4Â 476Â 480Â Total interest expense2,731Â 11,707Â 14,438Â Taxable-Equivalent Net Interest Income$2,793Â $(2,395)$398Â Net interest income on a taxable-equivalent basis increased by $398 thousand to $53.8 million for the six months ended JuneÂ 30, 2024 from $53.4 million for the six months ended JuneÂ 30, 2023. The Company's net interest spread decreased by 38 basis points from 3.52% for the six months ended JuneÂ 30, 2023 to 3.14% for the six months ended JuneÂ 30, 2024 primarily due to the increase in cost of funds.Taxable-equivalent net interest margin decreased by 23 basis points to 3.65% for the six months ended JuneÂ 30, 2024 from 3.88% for the six months ended JuneÂ 30, 2023. The recognition of interest income previously applied to principal of $1.6 million from the payoff of a commercial real estate loan on nonaccrual status contributed 10 basis points to the Company's net interest margin during the six months ended JuneÂ 30, 2024. The taxable-equivalent yield on interest-earning assets increased by 67 basis points from 5.23% for the six months ended JuneÂ 30, 2023 to 5.90% for the six months ended JuneÂ 30, 2024, reflecting the benefit of both the deployment of cash into higher yielding loans and investment securities and the impact of higher interest rates on these interest-earning assets. This increase in yield on interest earning assets was more than offset by the increase of 105 basis points in the cost of interest-bearing liabilities from 1.71% to 2.76% due to increased funding costs on deposits due to higher market interest rates and competitive pressures and an increase in the interest rate on subordinated notes, which converted from a fixed rate to a floating rate on December 30, 2023.Average loans increased by $109.6 million to $2.3 billion for the six months ended JuneÂ 30, 2024 compared to $2.2 billion for the six months ended JuneÂ 30, 2023. Average investment securities increased by $3.2 million from $526.0 million for the six months ended JuneÂ 30, 2023 to $529.2 million for the six months ended JuneÂ 30, 2024. Average interest-bearing liabilities increased by $218.4 million to $2.4 billion for the six months ended JuneÂ 30, 2024 from $2.2 billion for the six months ended JuneÂ 30, 2023.The yield on loans increased by 76 basis points to 6.25% for the six months ended JuneÂ 30, 2024 compared to 5.49% for the six months ended JuneÂ 30, 2023. Taxable-equivalent interest income earned on loans increased by $11.9 million due to higher interest rates, which increased interest income by $8.1 million, and an increase in the average balances of loans resulted in an increase to interest income of $3.8 million.The average balance of commercial loans, excluding SBA PPP loan forgiveness activity, increased by $73.2 million from the six months ended JuneÂ 30, 2023 to the six months ended JuneÂ 30, 2024. SBA PPP loans, net of deferred fees and costs, averaged $10.7 million for the six months ended JuneÂ 30, 2023 compared to $5.5 million for the six months ended JuneÂ 30, 59Table of Contents2024. This decrease was due to forgiveness of SBA PPP loans. Average residential mortgage loans increased by $39.6 million from $235.5 million during the six months ended JuneÂ 30, 2023 to $275.1 million during the six months ended JuneÂ 30, 2024, primarily due to mortgages originated for the portfolio. Average home equity loans increased by $7.1 million from $187.5 million for the six months ended JuneÂ 30, 2023 to $194.6 million for the six months ended JuneÂ 30, 2024. Average installment and other consumer loans decreased by $4.1 million from $20.9 million for the six months ended JuneÂ 30, 2023 to $16.8 million for the six months ended JuneÂ 30, 2024. Accretion of purchase accounting adjustments included in interest income was $147 thousand and $454 thousand for the six months ended JuneÂ 30, 2024 and 2023, respectively. The decrease in accretion was primarily due to a decline in loan repayments and payoffs. Accelerated accretion totaled $138 thousand and $182 thousand during the six months ended JuneÂ 30, 2024 and 2023, respectively. Prepayment income on commercial loans decreased by $17 thousand from $274 thousand for the six months ended JuneÂ 30, 2023 to $257 thousand for the six months ended JuneÂ 30, 2024. For the six months ended JuneÂ 30, 2024, interest income on loans includes $26 thousand of interest and net deferred fee income associated with SBA PPP loans compared to $146 thousand of such interest and fee income for the six months ended JuneÂ 30, 2023. Interest income on investment securities on a tax-equivalent basis increased by $833 thousand to $11.8 million for the six months ended

JuneÂ 30, 2024 from $11.0 million for the six months ended JuneÂ 30, 2023, with the taxable equivalent yield increasing from 4.19% for the six months ended JuneÂ 30, 2023 to 4.47% for the six months ended JuneÂ 30, 2024. The 28 basis point increase reflected the impact from the higher interest rates. The average balance of investment securities increased by $3.2 million to $529.2 million for the six months ended JuneÂ 30, 2024 from $526.0 million for the six months ended JuneÂ 30, 2023 due primarily to net purchase activity. Interest income on federal funds sold and interest-bearing bank balances on a tax-equivalent basis increased by $2.1 million to $2.8 million for the six months ended JuneÂ 30, 2024 from $716 thousand for the six months ended JuneÂ 30, 2023. The average balance of federal funds sold and interest-bearing bank balances increased by $74.9 million from $33.8 million for the six months ended JuneÂ 30, 2023 to $108.7 million for the six months ended JuneÂ 30, 2024, which resulted in an increase in interest income of $1.6 million. Since JuneÂ 30, 2023, the FOMC increased the Federal Funds rate by 25 basis points, which contributed to the increase in interest income on federal funds sold and interest-bearing bank balances by $507 thousand during the six months ended JuneÂ 30, 2024.Interest expense on interest-bearing liabilities increased by $14.4 million from $18.5 million for the six months ended JuneÂ 30, 2023 to $32.9 million for the six months ended JuneÂ 30, 2024. The cost of interest-bearing liabilities increased by 105 basis points from 1.71% for the six months ended JuneÂ 30, 2023 to 2.76% for the six months ended JuneÂ 30, 2024 as funding costs increased due to higher market interest rates and competitive pressures on deposit pricing. The average balance of interest-bearing deposits increased by $212.5 million to $2.2 billion for the six months ended JuneÂ 30, 2024 from $2.0 billion for the six months ended JuneÂ 30, 2023. Average time deposits increased by $154.0 million and average interest-bearing demand deposits increased by $102.7 million for the six months ended JuneÂ 30, 2024 in relation to the comparable prior period. These increases were partially offset by a decrease in average savings deposits of $44.2 million between the six months ended JuneÂ 30, 2024 and 2023 as clients sought higher-yielding products during the rising interest rate environment.Interest expense on borrowings increased by $467 thousand to $4.2 million for the six months ended JuneÂ 30, 2024 from $3.7 million for the six months ended JuneÂ 30, 2023 as the cost of borrowings increased by 39 basis points to 4.90% for the six months ended JuneÂ 30, 2024 from 4.51% for the six months ended JuneÂ 30, 2023. Average borrowings increased by $5.9 million from $165.2 million for the six months ended JuneÂ 30, 2023 to $171.1 million for the six months ended JuneÂ 30, 2024 as the Bank opted to borrow funds to provide additional liquidity to meet the credit needs of its clients. In addition, the interest rate increased on the Company's outstanding subordinated notes, which converted from a fixed rate to a floating rate on December 30, 2023. The contractual interest rate on the subordinated notes was 8.72% at JuneÂ 30, 2024 compared to 6.00% at JuneÂ 30, 2023.60Table of ContentsProvision for Credit LossesThe Company recorded a provision for credit losses of $1.1 million for the six months ended JuneÂ 30, 2024 compared to $1.1 million for the same period in 2023, which included a reversal to the provision for credit losses for off-balance sheet credit exposures of $123Â thousand for the six months ended JuneÂ 30, 2024. For the six months ended JuneÂ 30, 2024, the provision for credit losses was primarily based on loan growth and the slowing in prepayment speed assumptions within the quantitative model based on current economic conditions. This was partially offset by the impact of an improvement in the GDP forecast and decreases in certain qualitative factors. The Collateral Valuation Trends qualitative factor was reduced for the residential mortgage and installment and other loan segments and the Economic Factors qualitative factor was reduced for the residential mortgage segment based on the stabilization in real estate collateral valuations and housing demand, which is reflected in the provision for credit losses noted above. The favorable published trends in unemployment and GDP rates, which are used in correlation with historical charge-offs to predict defaults and losses, resulted in a decrease to the required ACL. The remaining change in the ACL is due to normal fluctuations from the changes in loan balances and loss rates by loan segment. The ACL to total loan ratio remained at 1.27% at JuneÂ 30, 2023 and JuneÂ 30, 2024. The provision expense recorded in the six months ended JuneÂ 30, 2023 was due to commercial loan growth and overall increase in expected loss rates under CECL, which was adopted on January 1, 2023.Net charge-offs for the six months ended JuneÂ 30, 2024 totaled $71 thousand compared to net charge-offs of $346 thousand for the six months ended JuneÂ 30, 2023. Nonaccrual loans were 0.36% of gross loans at JuneÂ 30, 2024, compared with 0.94% of gross loans at JuneÂ 30, 2023. Nonaccrual loans decreased by $12.7 million from $21.1 million at JuneÂ 30, 2023 to $8.4 million at JuneÂ 30, 2024, primarily due to the payoff of one owner-occupied commercial real estate loan with a balance of $14.8 million at JuneÂ 30, 2023, partially offset by an addition of one owner-occupied commercial real estate loan with a balance of $1.2 million at JuneÂ 30, 2024.Additional information is included in the "Credit Risk Management" section herein. 61Table of ContentsNoninterest IncomeThe following table compares noninterest income for the six months ended JuneÂ 30, 2024 and 2023: Six Months Ended June 30,$ Change% Change202420232024-20232024-2023Service charges on deposit accounts$2,023Â $1,946Â $77Â 4.0Â %Interchange income1,872Â 1,958Â (86)(4.4)%Other service charges, commissions and fees460Â 462Â (2)(0.4)%Swap fee income574Â 196Â 378Â 192.9Â %Trust and investment management income4,156Â 3,815Â 341Â 8.9Â %Brokerage income2,258Â 1,754Â 504Â 28.7Â %Mortgage banking activities827Â 590Â 237Â 40.2Â %Income from life insurance1,280Â 1,235Â 45Â 3.6Â %Other income369Â 1,290Â (921)(71.4)%Investment securities losses(17)(10)(7)(70.0)%Total noninterest income$13,802Â $13,236Â $566Â 4.3Â %Noninterest income increased by $566 thousand from $13.2Â million for the six months ended JuneÂ 30, 2023 to $13.8Â million for the six months ended JuneÂ 30, 2024. The following were significant components in this line item:â€¢Wealth management income, which includes trust and investment management income and brokerage income, increased by $845 thousand due to strong market performance and growth in managed assets.â€¢Swap fee income increased by $378 thousand as swap fee income will fluctuate based on market conditions and client demand.â€¢Mortgage banking income increased by $237 thousand. Mortgage loans sold totaled $23.1 million in the six months ended JuneÂ 30, 2024, which included a $7.2 million portfolio sold to another institution in the three months ended March 31, 2024, compared to $14.7 million in the first half of 2023. â€¢Other income decreased by $921 thousand due primarily to a gain of $1.2 million from the sale of the Bank's Path Valley branch during the second quarter of 2023.â€¢Other line items within noninterest income showed fluctuations attributable to normal business operations.62Table of ContentsNoninterest ExpensesThe following table compares noninterest expenses for the six months ended JuneÂ 30, 2024 and 2023:Six Months Ended June 30,$ Change% Change202420232024-20232024-2023Salaries and employee benefits$26,947Â $25,250Â $1,697Â 6.7Â %Occupancy 2,379Â 2,160Â 219Â 10.1Â %Furniture and equipment2,965Â 2,439Â 526Â 21.6Â %Data processing2,502Â 2,418Â 84Â 3.5Â %Automated teller machine and interchange fees692Â 606Â 86Â 14.2Â %Advertising and bank promotions1,172Â 1,324Â (152)(11.5)%FDIC insurance860Â 1,023Â (163)(15.9)%Professional services1,432Â 1,238Â 194Â 15.7Â %Directors' compensation523Â 468Â 55Â 11.8Â %Taxes other than income543Â 460Â 83Â 18.0Â %Intangible asset amortization440Â 489Â (49)(10.0)%Merger-related expenses1,807Â â€”Â 1,807Â 100.0Â %Other operating expenses2,846Â 3,129Â (283)(9.0)%Total noninterest expenses$45,108Â $41,004Â $4,104Â 10.0Â %Noninterest expense increased by $4.1Â million from $41.0Â million for the six months ended JuneÂ 30, 2023 to $45.1Â million for the six months ended JuneÂ 30, 2024. The following were significant components in this line item: â€¢Merger-related expenses totaled $1.8Â million during the first half of 2024 related to the merger with Codorus Valley compared to none in the first half of 2023.â€¢Salaries and employee benefits expense increased by $1.7Â million due primarily to increases in merit-based and incentive compensation.â€¢Furniture and equipment expense increased by $526Â thousand due primarily to an increase in software maintenance and services to support technology improvements.â€¢Occupancy expense increased by $219Â thousand due to additional building maintenance expenses and operating lease expenses from a new lease agreement entered into during the second quarter of 2023.â€¢Professional services expense increased by $194Â thousand due primarily to an increase in audit-related fees.â€¢FDIC insurance expense decreased by $163Â thousand due primarily to a decrease in the assessment rate caused by a decrease in the loan mix index factor and a decrease in nonaccrual loans.â€¢Other operating expenses decreased by $283Â thousand due primarily to a decrease in credit valuation adjustments on derivatives of $236 thousand.â€¢Other line items within noninterest expenses showed fluctuations attributable to normal business operations.Income Tax ExpenseIncome tax expense totaled $4.3 million, an effective tax rate of 20.9%, for the six months ended JuneÂ 30, 2024 compared with $4.8 million and an effective tax rate of 20.1% for the six months ended JuneÂ 30, 2023. The Companyâ€™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, partially offset by disallowed interest expense, state income taxes and nondeductible merger-related expenses. The increase in the effective tax rate from the six months ended JuneÂ 30, 2023 to the six months ended JuneÂ 30, 2024 was primarily due to an increase in the portion of interest expense disallowed as a deduction against earnings under the Tax Equity and Fiscal Responsibility Act of 1982, an increase in state taxes as a result of a greater percentage of taxable income earned in a state with a state income tax and the nondeductible merger-related expenses.63Table of ContentsFINANCIAL CONDITIONManagement devotes substantial time to overseeing the investment in and costs to fund loans and investment securities through deposits and borrowings, as well as the formulation and adherence to policies directed toward enhancing profitability and managing the risks associated with these investments.Investment SecuritiesThe Company utilizes investment securities to manage interest rate risk, enhance income through interest and dividend income and collateralize certain deposits and borrowings.The Company has established investment policies and an asset/liability management policy to assist in administering its investment portfolio. Decisions to purchase or sell these securities are based on economic conditions and managementâ€™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 security portfolio into three categories: â€œsecurities available-for-sale,â€ â€œtrading securitiesâ€ and â€œsecurities held-to-maturity.â€ At JuneÂ 30, 2024 and DecemberÂ 31, 2023, management classified the entire investment securities portfolio as AFS, which is accounted for at current market value with non-credit related losses and gains reported in OCI, net of income taxes.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 unrealized losses on debt securities are credit related and require an ACL. These indicators include the amount of time the security has been in an unrealized loss position, the cause and extent of the unrealized loss and the credit quality of the issuer and underlying assets. In addition, management assesses whether it is likely the Company will have to sell the investment security prior to recovery, or it expects to be able to hold the investment security until the price recovers. 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 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 may be maturity. Therefore, the Company has concluded that the unrealized losses for the AFS securities did not require an ACL at JuneÂ 30, 2024 and DecemberÂ 31, 2023.At JuneÂ 30, 2024, AFS securities totaled $529.1 million, an increase of $15.6 million, from $513.5 million at DecemberÂ 31, 2023. During the six months ended JuneÂ 30, 2024, the Company purchased $50.3 million of AFS securities, which included $48.0Â million of agency MBS and CMO securities, $1.5Â million of non-agency CMO securities and $788 thousand of investment securities issued by state and political subdivisions. The purchases were partially offset by calls of non-agency CMO securities totaling $12.9Â million and paydowns of $19.4 million. The balance of investment securities included net unrealized losses of $37.3 million at JuneÂ 30, 2024 compared to net unrealized losses of $35.6 million at DecemberÂ 31, 2023 for an increase of $1.8 million. This increase in net unrealized losses was primarily due to higher treasury rates and wider credit spreads compared to DecemberÂ 31, 2023. The overall duration of the Company's investment securities portfolio was 4.2 years at JuneÂ 30, 2024 compared to 4.3 years at DecemberÂ 31, 2023. The Company 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 security portfolio is appropriately aligned with the rest of the balance sheet to protect against volatile interest rate environments, to provide a source of liquidity and to generate steady earnings.64Table of Contents The following table summarizes the credit ratings and collateral associated with the Company's investment security portfolio, excluding equity securities, at JuneÂ 30, 2024:SectorPortfolio MixAmortized Book ValueFair ValueCredit EnhancementAAAAAABBBNRCollateral / Guarantee TypeUnsecured ABS1Â %$3,330Â $3,022Â 26Â %â€”Â %â€”Â %â€”Â %â€”Â %100Â %Unsecured Consumer DebtStudent Loan ABS1Â 4,662Â 4,558Â 27Â â€”Â â€”Â â€”Â â€”Â 100Â Seasoned Student LoansFederal Family Education Loan ABS16Â 89,830Â 89,516Â 10Â 7Â 80Â â€”Â 13Â â€”Â Federal Family Education Loan (1)PACE Loan ABSâ€”Â 2,231Â 1,945Â 6Â 100Â â€”Â â€”Â â€”Â â€”Â PACE LoansNon-Agency CMBS3Â 14,180Â 14,185Â 25Â â€”Â â€”Â â€”Â 100Â Non-Agency RMBS3Â 17,195Â 14,201Â 16Â 100Â â€”Â â€”Â â€”Â â€”Â Reverse Mortgages (2)Municipal - General Obligation18Â 102,548Â 93,339Â 10Â 83Â 7Â â€”Â â€”Â Municipal - Revenue21Â 118,856Â 107,107Â â€”Â 82Â 12Â â€”Â 6Â SBA ReRemicâ€”Â 2,662Â 2,639Â â€”Â 100Â â€”Â â€”Â â€”Â SBA Guarantee (3)Small Business Administration1Â 7,222Â 7,662Â â€”Â 100Â â€”Â â€”Â â€”Â SBA Guarantee (3)Agency MBS32Â 183,546Â 173,086Â â€”Â 100Â â€”Â â€”Â â€”Â Residential Mortgages (3)U.S. Treasury securities4Â 20,050Â 17,713Â â€”Â 100Â â€”Â â€”Â â€”Â U.S. Government Guarantee (3)100Â %$566,312Â $528,973Â 6Â %83Â %4Â %2Â %5Â %(1) Minimum of 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 agenciesNote : 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+.Loan PortfolioThe 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.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 borrowerâ€™s ability to repay loans, and also impact the associated collateral. A further discussion on the Company's loan segments and classes, the related risks, ACL and FDM are included in Note 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Credit Losses, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information."65Table of ContentsThe following table presents the loan portfolio, excluding residential LHFS, by segment and class at JuneÂ 30, 2024 and DecemberÂ 31, 2023: June 30,2024December 31,2023Commercial real estate:Owner occupied$371,301Â $373,757Â Non-owner occupied710,477Â 694,638Â Multi-family151,542Â 150,675Â Non-owner occupied residential89,156Â 95,040Â Acquisition and development:1-4 family residential construction32,439Â 24,516Â Commercial and land development129,883Â 115,249Â Commercial and industrial374,976Â 367,085Â Municipal10,594Â 9,812Â Residential mortgage:First lien271,153Â 266,239Â Home equity - term4,633Â 5,078Â Home equity - lines of credit192,736Â 186,450Â Installment and other loans8,713Â 9,774Â $2,347,603Â $2,298,313Â Total loans increased by $49.3 million from DecemberÂ 31, 2023 to JuneÂ 30, 2024. This increase is due to continued portfolio growth in the commercial loans segment of $39.6 million and residential mortgage segment of $10.8 million during the six months ended JuneÂ 30, 2024. During the first half of 2024, there were payoffs of three commercial real estate loans with outstanding balances exceeding $1.0 million on nonaccrual status at DecemberÂ 31, 2023 totaling $14.7 million and payoffs of four other criticized loans with outstanding balances exceeding $1.0 million within the commercial and industrial and commercial loan classes totaling $12.1 million. Asset QualityRisk ElementsThe Companyâ€™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 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 these 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 managementâ€™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.In accordance with ASU 2022-02, the Company is required to evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and if 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, which the Company refers to these loans as "financial difficulty modifications" or "FDMs." 66Table of ContentsThe following table presents the Companyâ€™s risk elements and relevant asset quality ratios at JuneÂ 30, 2024 and DecemberÂ 31, 2023.June 30,2024December 31,2023Nonaccrual loans$8,363Â $25,527Â OREOâ€”Â â€”Â Total nonperforming assets8,363Â 25,527Â FDMs still accruingâ€”Â 9Â Loans past due 90 days or more and still accruing187Â 66Â Total nonperforming and other risk assets ("total risk assets")$8,550Â $25,602Â Loans 30-89 days past due and still accruing$6,511Â $8,111Â Asset quality ratios:Total nonperforming loans to total loans0.36Â %1.11Â %Total nonperforming assets to total assets0.26Â %0.83Â %Total nonperforming assets to total loans and OREO0.36Â %1.11Â %Total risk assets to total loans and OREO0.36Â %1.11Â %Total risk assets to total assets0.27Â %0.84Â %ACL to total loans1.27Â %1.25Â %ACL to nonperforming loans357.10Â %112.44Â %ACL to nonperforming loans and FDMs still accruing357.10Â %112.40Â %Net charge-offs to total average loans (1)0.01Â %0.03Â %(1) AnnualizedNonperforming assets include nonaccrual loans and foreclosed real estate. Risk assets, which include nonperforming assets, FDMs still accruing and loans past due 90 days or more and still accruing, totaled $8.6 million at JuneÂ 30, 2024, a decrease of $17.1 million from $25.6 million at DecemberÂ 31, 2023. Nonaccrual loans decreased by $17.1 million from DecemberÂ 31, 2023 to JuneÂ 30, 2024 due primarily to the payoffs of two commercial real estate loans with outstanding balances totaling $14.7 million with no charge-offs recorded on these relationships. During 2024, the Company did not have new loan modifications meeting the FDM criteria under ASU 2022-02.67Table of ContentsThe following table presents the amortized cost basis of nonaccrual loans, according to loan class, with and without reserves on individually evaluated loans at JuneÂ 30, 2024 and DecemberÂ 31, 2023. At JuneÂ 30, 2024, there was a specific reserve of $3 thousand on nonaccrual loans compared to $49 thousand at DecemberÂ 31, 2023.June 30, 2024December 31, 2023Nonaccrual loans with a related ACLNonaccrual loans with no related ACLTotal nonaccrual loansLoans Past Due 90+ AccruingNonaccrual loans with a related ACLNonaccrual loans with no related ACLTotal nonaccrual loansLoans Past Due 90+ AccruingCommercial real estate:Owner-occupied$â€”Â $3,450Â $3,450Â $â€”Â $â€”Â $15,786Â $15,786Â $â€”Â Non-owner occupiedâ€”Â â€”Â â€”Â â€”Â â€”Â 240Â 240Â â€”Â Multi-familyâ€”Â 312Â 312Â â€”Â â€”Â 1,233Â 1,233Â â€”Â Non-owner occupied residentialâ€”Â 266Â 266Â â€”Â â€”Â 2,572Â 2,572Â â€”Â Acquisition and development:Commercial and land developmentâ€”Â â€”Â â€”Â â€”Â 1,361Â 1,361Â â€”Â Commercial and industrialâ€”Â 29Â 29Â â€”Â 68Â 604Â 672Â â€”Â Residential mortgage:First lienâ€”Â 2,871Â 2,871Â 187Â â€”Â 2,309Â 2,309Â 66Â Home equity â€“ termâ€”Â 2Â 2Â â€”Â â€”Â 3Â 3Â â€”Â Home equity â€“ lines of creditâ€”Â 1,415Â 1,415Â â€”Â â€”Â 1,312Â 1,312Â â€”Â Installment and other loans3Â 15Â 18Â â€”Â 3Â 36Â 39Â â€”Â Total$3Â $8,360Â $8,363Â $187Â $71Â $25,456Â $25,527Â $66Â During the first half of 2024, two commercial real estate loans on nonaccrual status totaling $14.7 million were paid off.The following table presents our exposure to relationships that are individually evaluated and the partial charge-offs taken to date and specific reserves established on those relationships at JuneÂ 30, 2024 and DecemberÂ 31, 2023.# ofRelationshipsIndividually Evaluated LoansPartialCharge-offstoÂ DateSpecificReservesJune 30, 2024Relationships greater than $1,000,0002Â $3,126Â $â€”Â $â€”Â Relationships greater than $500,000 but less than $1,000,000â€”Â â€”Â â€”Â â€”Â Relationships greater than $250,000 but less than $500,0002Â 570Â â€”Â â€”Â Relationships less than $250,00080Â 4,836Â 214Â 35Â 84Â $8,532Â $214Â $35Â December 31, 2023Relationships greater than $1,000,0004Â $20,363Â $â€”Â $â€”Â Relationships greater than $500,000 but less than $1,000,0001Â 616Â 388Â â€”Â Relationships greater than $250,000 but less than $500,0001Â 257Â â€”Â â€”Â Relationships less than $250,00078Â 4,472Â 214Â 77Â 84Â $25,708Â $602Â $77Â 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. Specific reserves remain in place if updated appraisals are pending and represent managementâ€™s estimate of potential loss.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 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.68Table of ContentsIn its individually evaluated loan 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 Companyâ€™s charge-offs or specific 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 JuneÂ 30, 2024. 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.Credit Risk ManagementAllowance for Credit Losses The Company maintains the ACL at a level deemed adequate by management for expected credit losses. As disclosed in Note 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Credit Losses, on JanuaryÂ 1, 2023 the Company implemented CECL and increased the ACL 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 $100Â thousand. The Companyâ€™s ACL is calculated quarterly, with any adjustment recorded to the provision for credit losses in the unaudited condensed consolidated statement of income. 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 and subsequently presented to the Enterprise Risk Management Committee.The 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 borrowerâ€™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 credit losses and related procedures in establishing the appropriate level of reserve is included in Note 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Credit Losses, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information."The following table presents the amortized cost basis of the loan portfolio, by year of origination, loan class and credit quality as of JuneÂ 30, 2024. 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 the first half of 2024, commercial and land development loans totaling $14.5 million were recharacterized to a permanent commercial real estate class upon the completion of construction or receiving a certificate of occupancy. In addition, 1-4 family residential construction loans totaling $3.6 million were recharacterized to a permanent 1-4 family residential mortgage upon the completion of construction.Term Loans Amortized Cost Basis by Origination YearAs of June 30, 202420242023202220212020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial Real Estate:Owner-occupied:Risk ratingPass$16,172Â $54,321Â $99,774Â $68,370Â $20,368Â $78,843Â $5,518Â $â€”Â $343,366Â Special mentionâ€”Â â€”Â 1,370Â 1,154Â 508Â 165Â â€”Â 3,197Â Substandard - Non-IELâ€”Â 704Â 10,000Â 2,957Â 5,994Â 1,538Â 95Â â€”Â 21,288Â Substandard - IELâ€”Â â€”Â 1,239Â â€”Â 2,211Â â€”Â â€”Â 3,450Â Total owner-occupied loans$16,172Â $55,025Â $109,774Â $73,936Â $27,516Â $83,100Â $5,778Â $â€”Â $371,301Â Current period gross charge offs - owner-occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $12Â $â€”Â $â€”Â $12Â continued69Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of June 30, 202420242023202220212020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalNon-owner occupied:Risk ratingPass$38,792Â $79,834Â $99,324Â $227,068Â $82,064Â $176,728Â $643Â $â€”Â $704,453Â Special mentionâ€”Â â€”Â â€”Â 341Â â€”Â 2,124Â â€”Â â€”Â 2,465Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 2,697Â â€”Â 862Â 3,559Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total non-owner occupied loans$38,792Â $79,834Â $99,324Â $227,409Â $82,064Â $181,549Â $643Â $862Â $710,477Â Current period gross charge offs - non-owner occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Multi-family:Risk ratingPass$5,844Â $2,823Â $61,840Â $28,489Â $12,511Â $38,021Â $346Â $â€”Â $149,874Â Special mentionâ€”Â â€”Â 1,119Â â€”Â â€”Â 237Â â€”Â â€”Â 1,356Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 312Â â€”Â â€”Â 312Â Total multi-family loans$5,844Â $2,823Â $62,959Â $28,489Â $12,511Â $38,570Â $346Â $â€”Â $151,542Â Current period gross charge offs - multi-family$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied residential:Risk ratingPass$2,901Â $10,156Â $20,153Â $16,307Â $6,810Â $31,235Â $399Â $â€”Â $87,961Â Special mentionâ€”Â â€”Â â€”Â â€”Â â€”Â 504Â â€”Â â€”Â 504Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 425Â â€”Â â€”Â 425Â Substandard - IELâ€”Â 2Â â€”Â 185Â â€”Â 79Â â€”Â â€”Â 266Â Total non-owner occupied residential loans$2,901Â $10,158Â $20,153Â $16,492Â $6,810Â $32,243Â $399Â $â€”Â $89,156Â Current period gross charge offs - non-owner occupied residential$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Acquisition and development:1-4 family residential construction:Risk ratingPass$13,971Â $17,179Â $865Â $â€”Â $â€”Â $â€”Â $129Â $32,144Â Special mention74Â 221Â â€”Â â€”Â â€”Â â€”Â â€”Â 295Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total 1-4 family residential construction loans$14,045Â $17,400Â $865Â $â€”Â $â€”Â $â€”Â $129Â $32,439Â Current period gross charge offs - 1-4 family residential construction$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Commercial and land development:Risk ratingPass$15,213Â $39,209Â $43,482Â $5,455Â $9,826Â $1,567Â $5,533Â $8,818Â $129,103Â Special mentionâ€”Â â€”Â â€”Â â€”Â 780Â â€”Â â€”Â â€”Â 780Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total commercial and land development loans$15,213Â $39,209Â $43,482Â $5,455Â $10,606Â $1,567Â $5,533Â $8,818Â $129,883Â Current period gross charge offs - commercial and land development$â€”Â $23Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $23Â continued 70Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of June 30, 202420242023202220212020PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial and Industrial:Risk ratingPass$30,700Â $60,734Â $63,069Â $57,202Â $21,753Â $26,589Â $95,701Â $3,249Â $358,997Â Special mentionâ€”Â â€”Â â€”Â 31Â 7Â 946Â 320Â â€”Â 1,304Â Substandard - Non-IELâ€”Â â€”Â â€”Â 5,861Â â€”Â 217Â 8,568Â â€”Â 14,646Â Substandard - IELâ€”Â 12Â â€”Â â€”Â 2Â â€”Â 15Â â€”Â 29Â Total commercial and industrial loans$30,700Â $60,746Â $63,069Â $63,094Â $21,762Â $27,752Â $104,604Â $3,249Â $374,976Â Current period gross charge offs - commercial and industrial$â€”Â $54Â $â€”Â $â€”Â $6Â $â€”Â $â€”Â $60Â Municipal:Risk ratingPass$1,577Â $â€”Â $â€”Â $3,124Â $â€”Â $5,893Â $â€”Â $â€”Â $10,594Â Total municipal loans$1,577Â $â€”Â $â€”Â $3,124Â $â€”Â $5,893Â $â€”Â $â€”Â $10,594Â Current period gross charge offs - municipal$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Residential mortgage:First lien:Payment performancePerforming$18,111Â $44,351Â $65,479Â $33,167Â $7,856Â $98,520Â $â€”Â $630Â $268,114Â Nonperformingâ€”Â â€”Â 248Â 232Â â€”Â 2,559Â â€”Â â€”Â 3,039Â Total first lien loans$18,111Â $44,351Â $65,727Â $33,399Â $7,856Â $101,079Â $â€”Â $630Â $271,153Â Current period gross charge offs - first lien$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Home equity - term:Payment performancePerforming$183Â $473Â $674Â $71Â $390Â $2,840Â $â€”Â $â€”Â $4,631Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â 2Â â€”Â â€”Â 2Â Total home equity - term loans$183Â $473Â $674Â $71Â $390Â $2,842Â $â€”Â $â€”Â $4,633Â Current period gross charge offs - home equity - term$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Home equity - lines of credit:Payment performancePerforming$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $190,786Â $535Â $191,321Â Nonperformingâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â 1,199Â 216Â 1,415Â Total residential real estate - home equity - lines of credit loans$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $191,985Â $751Â $192,736Â Current period gross charge offs - home equity - lines of credit$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $50Â $â€”Â $50Â Installment and other loans:Payment performancePerforming$593Â $568Â $316Â $281Â $78Â $848Â $6,011Â $â€”Â $8,695Â Nonperformingâ€”Â 3Â â€”Â â€”Â â€”Â 15Â â€”Â â€”Â 18Â Total Installment and other loans$593Â $571Â $316Â $281Â $78Â $863Â $6,011Â $â€”Â $8,713Â Current period gross charge offs - installment and other$74Â $12Â $â€”Â $â€”Â $â€”Â $18Â $14Â $â€”Â $118Â 71Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of December 31, 202320232022202120202019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalCommercial Real Estate:Owner-occupied:Risk ratingPass$50,829Â $103,192Â $69,888Â $21,232Â $21,251Â $62,634Â $4,941Â $â€”Â $333,967Â Special mentionâ€”Â â€”Â 2,517Â 1,176Â â€”Â 1,314Â â€”Â â€”Â 5,007Â Substandard - Non-IELâ€”Â 9,923Â â€”Â 6,075Â â€”Â 2,687Â 312Â â€”Â 18,997Â Substandard - IELâ€”Â â€”Â â€”Â 13,366Â â€”Â 2,420Â â€”Â â€”Â 15,786Â Total owner-occupied loans$50,829Â $113,115Â $72,405Â $41,849Â $21,251Â $69,055Â $5,253Â $â€”Â $373,757Â Current period gross charge offs - owner-occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied:Risk ratingPass$82,879Â $102,212Â $235,031Â $83,652Â $63,176Â $120,696Â $509Â $â€”Â $688,155Â Special mentionâ€”Â â€”Â â€”Â 524Â â€”Â 2,112Â â€”Â â€”Â 2,636Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 2,739Â â€”Â 868Â 3,607Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 240Â â€”Â â€”Â 240Â Total non-owner occupied loans$82,879Â $102,212Â $235,031Â $84,176Â $63,176Â $125,787Â $509Â $868Â $694,638Â Current period gross charge offs - non-owner occupied$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Multi-family:Risk ratingPass$2,701Â $61,805Â $28,541Â $12,694Â $7,437Â $33,895Â $117Â $â€”Â $147,190Â Special mentionâ€”Â â€”Â â€”Â â€”Â 244Â 2,008Â â€”Â â€”Â 2,252Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 1,233Â â€”Â â€”Â 1,233Â Total multi-family loans$2,701Â $61,805Â $28,541Â $12,694Â $7,681Â $37,136Â $117Â $â€”Â $150,675Â Current period gross charge offs - multi-family$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Non-owner occupied residential:Risk ratingPass$10,075Â $20,473Â $16,947Â $7,974Â $6,444Â $28,319Â $1,130Â $â€”Â $91,362Â Special mentionâ€”Â â€”Â â€”Â â€”Â â€”Â 731Â â€”Â â€”Â 731Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â 375Â â€”Â â€”Â 375Â Substandard - IEL2Â â€”Â 192Â 1,461Â â€”Â 917Â â€”Â â€”Â 2,572Â Total non-owner occupied residential loans$10,077Â $20,473Â $17,139Â $9,435Â $6,444Â $30,342Â $1,130Â $â€”Â $95,040Â Current period gross charge offs - non-owner occupied residential$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $12Â $â€”Â $â€”Â $12Â continued 72Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of December 31, 202320232022202120202019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalAcquisition and development:1-4 family residential construction:Risk ratingPass$18,820Â $5,400Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $24,220Â Special mention222Â â€”Â 74Â â€”Â â€”Â â€”Â â€”Â â€”Â 296Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Total 1-4 family residential construction loans$19,042Â $5,400Â $74Â $â€”Â $â€”Â $â€”Â $â€”Â $24,516Â Current period gross charge offs - 1-4 family residential construction$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Commercial and land development:Risk ratingPass$28,829Â $48,453Â $9,847Â $9,927Â $110Â $1,774Â $6,574Â $6,936Â $112,450Â Special mentionâ€”Â â€”Â â€”Â 1,001Â â€”Â 437Â â€”Â â€”Â 1,438Â Substandard - Non-IELâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Substandard - IELâ€”Â â€”Â â€”Â â€”Â â€”Â 1,361Â â€”Â â€”Â 1,361Â Total commercial and land development loans$28,829Â $48,453Â $9,847Â $10,928Â $110Â $3,572Â $6,574Â $6,936Â $115,249Â Current period gross charge offs - commercial and land development$â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â $â€”Â Commercial and Industrial:Risk ratingPass$67,735Â $69,670Â $67,117Â $24,580Â $10,753Â $20,775Â $86,475Â $1,522Â $348,627Â Special mentionâ€"Â 4,251Â 4,364Â 11Â 552Â 356Â 2,258Â â€"Â 11,792Â Substandard - Non-IELâ€"Â â€"Â 4,682Â â€"Â 5Â 225Â 1,082Â â€"Â 5,994Â Substandard - IELâ€"Â 69Â â€"Â 7Â â€"Â 455Â 141Â â€"Â 672Â Total commercial and industrial loans$67,735Â $73,990Â $76,163Â $24,598Â $11,310Â $21,811Â $89,956Â $1,522Â $367,085Â Current period gross charge offs - commercial and industrial$â€"Â $161Â $106Â $â€"Â $â€"Â $8Â $473Â $â€"Â $748Â Municipal:Risk ratingPass$â€"Â $â€"Â $3,403Â $â€"Â $â€"Â $6,409Â $â€"Â $â€"Â $9,812Â Total municipal loans$â€"Â $â€"Â $3,403Â $â€"Â $â€"Â $6,409Â $â€"Â $â€"Â $9,812Â Current period gross charge offs - municipal$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â Residential mortgage:First lien:Payment performancePerforming$43,641Â $71,311Â $34,704Â $8,056Â $7,465Â $97,943Â $â€"Â $638Â $263,758Â Nonperformingâ€"Â â€"Â â€"Â â€"Â 120Â 2,361Â â€"Â â€"Â 2,481Â Total first lien loans$43,641Â $71,311Â $34,704Â $8,056Â $7,585Â $100,304Â $â€"Â $638Â $266,239Â Current period gross charge offs - first lien$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $58Â $â€"Â $â€"Â $58Â continued73Table of ContentsTerm Loans Amortized Cost Basis by Origination YearAs of December 31, 202320232022202120202019PriorRevolving Loans Amortized BasisRevolving Loans Converted to TermTotalHome equity - term:Payment performancePerforming$607Â $732Â $90Â $426Â $115Â $3,105Â $â€"Â $â€"Â $5,075Â Nonperformingâ€"Â â€"Â â€"Â â€"Â â€"Â 3Â â€"Â â€"Â 3Â Total home equity - term loans$607Â $732Â $90Â $426Â $115Â $3,108Â $â€"Â $â€"Â $5,078Â Current period gross charge offs - home equity - term$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â Home equity - lines of credit:Payment performancePerforming$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $107,967Â $77,171Â $185,138Â Nonperformingâ€"Â â€"Â â€"Â â€"Â â€"Â â€"Â 1,296Â 16Â 1,312Â Total residential real estate - home equity - lines of credit loans$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $109,263Â $77,187Â $186,450Â Current period gross charge offs - home equity - lines of credit$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $40Â $â€"Â $40Â Installment and other loans:Payment performancePerforming$758Â $413Â $332Â $106Â $670Â $947Â $6,500Â $â€"Â $9,726Â Nonperforming3Â â€"Â â€"Â â€"Â 33Â 12Â â€"Â â€"Â 48Â Total Installment and other loans$761Â $413Â $332Â $106Â $703Â $959Â $6,500Â $â€"Â $9,774Â Current period gross charge offs - installment and other$181Â $24Â $â€"Â $â€"Â $4Â $10Â $28Â $â€"Â $247Â 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 Companyâ€™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 evaluated, the loan classification may be downgraded to Substandard or, alternatively, could be upgraded to Pass. Special Mention loans decreased by $14.3 million from $24.2 million at DecemberÂ 31, 2023 to $9.9 million at JuneÂ 30, 2024 due to repayments, including $7.2 million from one commercial and industrial client and $3.2 million from two commercial real estate clients.Classified loans totaled $48.7 million at JuneÂ 30, 2024, or 2.1% of total loans outstanding, reflecting a decrease from $55.0 million, or 2.4% of total loans outstanding, at DecemberÂ 31, 2023.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 individually evaluated result in some doubt as to the borrowerâ€™s ability to continue to perform under the terms of the loan and represent potential problem loans. Non-IEL substandard loans totaled $40.2 million at JuneÂ 30, 2024, an increase of $10.9 million, compared to $29.3 million at DecemberÂ 31, 2023, due primarily to the downgrades of two commercial clients with an outstanding balance totaling $9.0 million. The Substandard-IEL category decreased from $25.7 million to $8.5 million from DecemberÂ 31, 2023 to JuneÂ 30, 2024, respectively, primarily due to the payoff of loans to three commercial real estate clients with an outstanding balance of $16.4 million at DecemberÂ 31, 2023. 74Table of ContentsThe following table presents the activity in the ACL for the three and six months ended JuneÂ 30, 2024 and 2023:CommercialConsumerCommercialReal EstateAcquisitionandDevelopmentCommercialandIndustrialMunicipalTotalResidentialMortgageInstallmentand OtherTotalUnallocatedTotalThree Months EndedJune 30, 2024Balance, beginning of period$17,975Â $2,233Â $5,389Â $164Â $25,761Â $3,193Â $211Â $3,404Â $â€"Â $29,165Â Provision for credit losses236Â 423Â 267Â (3)923Â (126)15Â (111)â€"Â 812Â Charge-offs(12)(23)(14)â€"Â (49)(50)(65)(115)â€"Â (164)Recoveries4Â 1Â 10Â â€"Â 15Â 6Â 30Â 36Â â€"Â 51Â Balance, end of period$18,203Â $2,634Â $5,652Â $161Â $26,650Â $3,023Â $191Â $3,214Â $â€"Â $29,864Â June 30, 2023Balance, beginning of period$16,697Â $3,217Â $5,787Â $177Â $25,878Â $2,278Â $208Â $2,486Â $â€"Â $28,364Â Impact of adopting CECL$â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â $â€"Â Provision for loan losses246Â (451)440Â (10)225Â 64Â 110Â 174Â â€"Â 399Â Charge-offs(12)â€"Â (395)â€"Â (407)(98)(67)(165)â€"Â (572)Recoveries65Â 1Â 22Â â€"Â 88Â 63Â 41Â 104Â â€"Â 192Â Balance, end of period$16,996Â $2,767Â $5,854Â $167Â $25,784Â $2,307Â $292Â $2,599Â $â€"Â $28,383Â Six Months EndedJune 30, 2024Balance, beginning of period$17,873Â $2,241Â $5,806Â $157Â $26,077Â $2,424Â $201Â $2,625Â $â€"Â $28,702Â Provision for credit losses314Â 414Â (194)4Â 538Â 637Â 58Â 695Â â€"Â 1,233Â Charge-offs(12)(23)(60)â€"Â (95)(50)(118)(168)â€"Â (263)Recoveries28Â 2Â 100Â â€"Â 130Â 12Â 50Â 62Â â€"Â 192Â Balance, end of period$18,203Â $2,634Â $5,652Â $161Â $26,650Â $3,023Â $191Â $3,214Â $â€"Â $29,864Â June 30, 2023Balance, beginning of period$13,558Â $3,214Â $4,505Â $24Â $21,301Â $3,444Â $188Â $3,632Â $245Â $25,178Â Impact of adopting CECL2,857Â (214)928Â 169Â 3,740Â (1,121)49Â (1,072)(245)2,423Â Provision for loan losses508Â (236)852Â (26)1,098Â (76)106Â 30Â â€"Â 1,128Â Charge-offs(12)â€"Â (481)â€"Â (493)(98)(123)(221)â€"Â (714)Recoveries85Â 3Â 50Â â€"Â 138Â 158Â 72Â 230Â â€"Â 368Â Balance, end of period$16,996Â $2,767Â $5,854Â $167Â $25,784Â $2,307Â $292Â $2,599Â $â€"Â $28,383Â The ACL totaled $29.9 million at JuneÂ 30, 2024, an increase of $1.2 million from DecemberÂ 31, 2023, resulting primarily from the provision for credit losses of $1.2 million and net charge-offs of $71 thousand during the six months ended JuneÂ 30, 2024. The ACL as a percentage of the total loan portfolio was 1.27% at both JuneÂ 30, 2024 and JuneÂ 30, 2023. For the six months ended JuneÂ 30, 2024, the provision for credit losses was primarily based on loan growth and the slowing in prepayment speed assumptions within the quantitative model based on current economic conditions. This was partially offset by the impact of an improvement in the GDP forecast and decreases in certain qualitative factors. The Collateral Valuation Trends qualitative factor was reduced for the residential mortgage and installment and other loan segments and the Economic Factors qualitative factor was reduced for the residential mortgage segment based on the stabilization in real estate collateral valuations and housing demand and overall portfolio performance, which reduced provision expense by $596 thousand. The favorable published trends in unemployment and GDP rates, which are used in correlation with historical charge-offs to predict defaults and losses, resulted in a decrease to the required ACL. The remaining change in the ACL is due to normal fluctuations from the changes in loan balances and loss rates by loan segment.For the six months ended JuneÂ 30, 2023, the provision for credit losses was driven by the increase of $83.5 million in commercial loans, excluding SBA PPP loan forgiveness activity, the increase in the loss reserve rates under the CECL methodology and an increase in the Delinquency and Classified Loan Trends qualitative factor for the commercial & industrial and owner-occupied commercial real estate loan classes. The Company takes partial charge-offs on collateral-dependent loans when the carrying value exceeds the estimated fair value, as determined by 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 specific reserve allocations on individually evaluated loans noted previously, five loans, with aggregate 75Table of Contentsoutstanding principal balances of $160 thousand, had cumulative partial charge-offs to the ACL totaling $214 thousand through JuneÂ 30, 2024. As updated appraisals are received on collateral-dependent loans, partial charge-offs are taken to the extent the loansâ€™ principal balance exceeds their fair value.Management believes the allocation of the ACL among the various loan classes adequately reflects the life expected credit losses in each loan class and is based on the methodology outlined in Note 1, Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Credit Losses, to the Consolidated Financial Statements under Part I, Item 1, "Financial Information." Management re-evaluates and makes enhancements to its reserve methodology 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 ACL methodology improve the accuracy of quantifying the expected credit losses inherent in the portfolio. Management charges actual loan losses to the reserve and bases the provision for credit losses on its overall analysis.Management believes the Companyâ€™s ACL is adequate based on currently available information. Future adjustments to the ACL and enhancements to the methodology may be necessary due to changes in economic conditions, regulatory guidance, or managementâ€™s assumptions as to future delinquencies or loss rates.DepositsTotal deposits increased by $144.1 million to $2.7 billion at JuneÂ 30, 2024 from $2.6 billion at DecemberÂ 31, 2023. In the first half of 2024, time deposits increased by $83.0 million, money market deposits increased by $67.4 million and interest-bearing demand deposits increased by $8.6 million. These increases were partially offset by decreases in non-interest bearing deposits of $5.7 million and savings deposits of $9.3 million. The increase in interest-bearing demand deposits reflects some seasonal public funds activity. The increase in time deposits was attributable to promotional offerings of up to 18-month terms. The declines in noninterest-bearing deposits and savings deposits were primarily due to clients shifting to higher-yielding products within the Bank. In addition, the increase in money market deposits was partially offset by a decrease in brokered money market deposits of $15.1 million. At JuneÂ 30, 2024, deposits that are uninsured and not collateralized totaled $422.3 million, or 16% of total deposits, compared to $442.7 million, or 17% of total deposits, at DecemberÂ 31, 2023. BorrowingsIn addition to deposits, the Company uses borrowing sources to meet liquidity needs and for temporary funding. Sources of short-term borrowings include the FHLB of Pittsburgh, federal funds purchased and 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. 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.FHLB advances and other borrowings decreased by $22.5 million to $115.0 million at JuneÂ 30, 2024 compared to $137.5 million at DecemberÂ 31, 2023. The Bank repaid overnight borrowings during the first quarter of 2024 based on available liquidity from deposits.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 had a fixed interest rate of 6.0% through December 30, 2023, which then converted to a variable rate, three-month CME term SOFR rate plus 3.16%, through maturity. At JuneÂ 30, 2024, the contractual interest rate on the subordinated debt was 8.72%.See Note 9, Short-Term Borrowings, and Note 10, Long-Term Borrowings, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information," for a description and terms of the Companyâ€™s borrowings and access to alternative sources of liquidity. Shareholders' Equity, Capital Adequacy and Regulatory MattersCapital 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 Companyâ€™s capital management strategies have been developed to provide attractive rates of returns to its shareholders, while remaining â€œwell-capitalizedâ€ under applicable banking regulations.76Table of ContentsShareholdersâ€™ equity totaled $278.4 million at JuneÂ 30, 2024, an increase of $13.3 million, from $265.1 million at DecemberÂ 31, 2023. The increase was primarily attributable to net income of $16.3 million, partially offset by dividends paid of $4.3 million, and other comprehensive income of $72 thousand for the six months ended JuneÂ 30, 2024. Other comprehensive income included $1.4 million in net unrealized gains from cash flow hedges partially offset by after-tax declines of $1.4 million from net unrealized losses on investment securities. For the six months ended JuneÂ 30, 2024, total comprehensive income totaled $16.3 million, a decrease of $8.4 million, from total comprehensive losses of $24.7 million for the same period in 2023 due primarily to an increase in after-tax net unrealized losses on investment securities of $6.0 million and the decrease in net income of $2.7 million between the comparative periods. The increase in net unrealized losses was primarily caused by a rise in treasury rates and wider credit spreads during the first half of 2024.At JuneÂ 30, 2024, book value per common share was $25.97 compared to $24.98 at DecemberÂ 31, 2023. Tangible book value per share also increased from $23.03 at DecemberÂ 31, 2023 to $24.08 at JuneÂ 30, 2024, as a result of the increase in shareholders' equity driven by earnings during 2024. See â€œSupplemental Reporting of Non-GAAP Measures.â€The Company routinely evaluates its capital levels in light of its risk profile to assess its capital needs. The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. At JuneÂ 30, 2024 and DecemberÂ 31, 2023, the Bank was considered well-capitalized under applicable banking regulations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Prompt corrective action provisions are not applicable to bank holding companies, including financial holding companies. Note 11, Shareholders' Equity and Regulatory Capital, to the Notes to Unaudited Condensed Consolidated Financial Statements under Part I, Item 1, "Financial Information," includes a table presenting capital amounts and ratios for the Company and the Bank at JuneÂ 30, 2024 and DecemberÂ 31, 2023. In addition to the minimum capital ratio requirement and minimum capital ratio to be well-capitalized presented in the referenced table in Note 11, the Bank must maintain a capital conservation buffer as more fully described in the Company's Annual Report on Form 10-K for the year ended DecemberÂ 31, 2023, Item 1 - Business, under the topic Basel III Capital Rules. At JuneÂ 30, 2024, the Bank's capital conservation buffer, based on the most restrictive Total Capital to risk weighted assets capital ratio, was 5.1%, which is greater than the 2.5% requirement.LiquidityThe primary function of asset/liability management is to ensure adequate liquidity and manage the Companyâ€™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 investment securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.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. At JuneÂ 30, 2024, cash and cash equivalents totaled $132.5 million compared to $65.2 million at DecemberÂ 31, 2023, which reflects the increase in deposits of $144.1 million and net income of $16.3 million, partially offset by the decrease in borrowings of $22.5 million for the six months ended JuneÂ 30, 2024. Unencumbered investment securities totaled $48.3 million at JuneÂ 30, 2024 compared to $73.7 million at DecemberÂ 31, 2023. At JuneÂ 30, 2024, the Company had $16.4 million of investment securities pledged at the FRB Discount Window, with no associated borrowings outstanding, compared to $17.4 million at DecemberÂ 31, 2023. The Company's maximum borrowing capacity from the FHLB of Pittsburgh is $1.1 billion, of which $118.2 million and $138.7 million in advances and letters of credit were outstanding at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. In addition, the Company had $20.0 million in available unsecured lines of credit with other banks at JuneÂ 30, 2024 and DecemberÂ 31, 2023. The Bank tested its various sources of funding during 2024 to ensure accessibility.See Note 9, Short-Term Borrowings, and Note 10, Long-Term Borrowings, to the unaudited condensed consolidated financial statements under Part I, Item 1, "Financial Information," for a description and terms of the Companyâ€™s borrowings and access to alternative sources of liquidity.77Table of ContentsSupplemental Reporting of Non-GAAP MeasuresManagement believes providing certain â€œnon-GAAPâ€ financial 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 $20.7 million and $21.1 million at JuneÂ 30, 2024 and DecemberÂ 31, 2023, respectively. During the three and six months ended JuneÂ 30, 2024, the Company incurred merger-related expenses of $1.1 million and $1.8 million, respectively, in connection with the merger with Codorus Valley.Tangible book value per share and the impact of the merger-related expenses on net income and diluted earnings per share, as used by the Company in this supplemental reporting presentation, is determined by methods other than in accordance with GAAP. While we believe this information is a useful supplement to GAAP-based measures presented in this Form 10-Q, 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 increase in tangible book value per share (non-GAAP) from DecemberÂ 31, 2023 to JuneÂ 30, 2024 is primarily due to net income of $16.3 million, partially offset by dividends paid of $4.3 million and other comprehensive income, net of taxes, of $72 thousand due to net unrealized gains on interest rate swaps designated as hedging instruments partially offset by net unrealized losses on AFS securities.The following table presents the computation of each non-GAAP based measure shown together with its most directly comparable GAAP-based measure.(dollars and shares in thousands)June 30, 2024Tangible Book Value per Common ShareShareholders' equity (most directly comparable GAAP-based measure)$278,376Â Less: Goodwill18,724Â Other intangible assets1,974Â Related tax effect(415)Tangible common equity (non-GAAP)$258,093Â Common shares outstanding10,720Â Book value per share (most directly comparable GAAP measure)$25.97Â Intangible assets per share1.89Â Tangible book value per share (non-GAAP)$24.08Â 78Table of ContentsAdjusted Net Income and Adjusted Diluted Earnings Per ShareThree Months EndedSix Months Ended(dollars and shares in thousands)June 302024June 302023June 302024June 302023Net income (most directly comparable GAAP based measure)$7,738Â $9,838Â $16,269Â $18,994Â Plus: Merger-related expenses1,135Â â€"Â 1,807Â â€"Â Less: Related tax effect(139)â€"Â (140)â€"Â Adjusted net income (non-GAAP)$8,734Â $9,838Â $17,936Â $18,994Â Weighted average shares - diluted (most directly comparable GAAP-based measure)10,553Â 10,42110,517Â 10,458Diluted earnings per share (most directly comparable GAAP-based measure)$0.73Â $0.94Â $1.55Â $1.82Â Weighted average shares - diluted (non-GAAP)10,553Â 10,42110,517Â 10,458Diluted earnings per share, adjusted (non-GAAP)$0.83Â $0.94Â $1.71Â $1.82Â ItemÂ 3. Quantitative and Qualitative Disclosures about Market RiskMarket 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 RiskInterest rate risk is the exposure to fluctuations in the Bankâ€™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 Bankâ€™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.Management endeavors to control the exposure to changes in interest rates by understanding, reviewing and making decisions based on its risk position. The Bank primarily uses its investment 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 investment 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 managementâ€™s best estimates but may not accurately reflect actual results under certain changes in interest rates 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 79Table of Contentsmonitors 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 JuneÂ 30, 2024, the projected decrease in modeled net interest income in the falling interest rate scenario is due to an assumed lag in the repricing of interest-bearing liabilities in relation to the anticipated decline in yields on interest-earning assets. If interest-bearing liabilities reprice faster than modeled, the pressure on net interest income may be reduced. In the rising rate scenarios, net interest income increases due to floating rate loans and excess cash balances, which will reprice quicker than liabilities.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.Funding cost and repricing speed will continue to be a factor in the results of the model. The behavior of the business and retail clients also varies across the rate scenarios, which is reflected in the results. To improve the comparability across periods, the 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. Net Interest IncomeEconomic Value% Change in Net Interest Income% Change in Market ValueChange in Market Interest Rates (basis points)June 30, 2024December 31, 2023Change in Market Interest Rates (basis points)June 30, 2024December 31, 2023(200)(7.1)%(5.9)%(200)(9.0)%(15.6)%(100)(4.0)%(3.6)%(100)(2.1)%(4.3)%100Â 1.2Â %0.1Â %100Â 0.2Â %0.1Â %200Â 1.4Â %(1.0)%200Â (1.4)%(2.2)%ItemÂ 4. Controls and ProceduresBased on the evaluation required by Exchange Act Rules 13a-15(b) and 15d-15(b), the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), atÂ JuneÂ 30, 2024.Â Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective atÂ JuneÂ 30, 2024.Â There were no significant changes made to the Companyâ€™s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to affect, our internal control over financial reporting during the six months ended JuneÂ 30, 2024.80Table of ContentsPART II â€" OTHER INFORMATIONItemÂ 1 â€" Legal ProceedingsInformation regarding legal proceedings is included in Note 15, Contingencies, to the Consolidated Financial Statements under Part I, Item 1, "Financial Statements" and incorporated herein by reference. ItemÂ 1A â€" Risk FactorsThere have been no material changes from the risk factors as disclosed in our Annual Report on Form 10-K for the year ended DecemberÂ 31, 2023. ItemÂ 2 â€" Unregistered Sales of Equity Securities and Use of Proceeds(a)(b)(c)(d)PeriodTotal number of shares (or units) purchasedAverage price paid per share (or unit)Total number of shares (or units) purchased as part of publicly announced plans or programsMaximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programsApril 1, 2024 to April 30, 2024â€"Â $â€"Â â€"Â 28,467Â May 1, 2024 to May 31, 2024â€"Â â€"Â â€"Â 28,467Â June 1, 2024 to June 30, 2024â€"Â â€"Â â€"Â 28,467Â Totalâ€"Â $â€"Â â€"Â In September 2015, the Board of Directors of the Company authorized a share repurchase program pursuant to which the Company may 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, as amended. 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 ended JuneÂ 30, 2024, the Company repurchased zero shares of its common stock. AtÂ JuneÂ 30, 2024, 949,533 shares had been repurchased under the program at a total cost of $21.2 million, or $22.36 per share. Common stock available for future repurchase totals approximately 28,467 shares, or 0.3% of the Company's outstanding common stock at JuneÂ 30, 2024. ItemÂ 3 â€" Defaults Upon Senior SecuritiesNot applicable. ItemÂ 4 â€" Mine Safety DisclosuresNot applicable. ItemÂ 5 â€" Other InformationDuring the three months ended JuneÂ 30, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company's common stock that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as such term is defined in Item 408(c) of Regulation S-K.81Table of ContentsItemÂ 6 â€" Exhibits2.2Â Agreement and Plan of Merger by and between Orrstown Financial Services, Inc. and Codorus Valley Bancorp, Inc. incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K dated and filed December 12, 2023.3.1Â Articles of Incorporation as amended, incorporated by reference to Exhibit 3.1 of the Registrantâ€™s Report on FormÂ 8-K filed on JanuaryÂ 29, 2010.3.2Â By-laws as amended, incorporated by reference to Exhibit 3.1 to the Registrantâ€™s Current Report on FormÂ 8-K filed July 1, 2024.4.1Â Specimen Common Stock Certificate, incorporated by reference to the Registrantâ€™s Registration Statement on FormÂ S-3 filed FebruaryÂ 8, 2010 (File No.Â 333-164780).10.1Â Salary Continuation Agreement between Orrstown Bank and Craig L. Kauffman â€" incorporated by reference to Exhibit 10.1 to the Registrantâ€™s Form 8-K filed July 11, 2024.10.2Â Second Amendment to the Salary Continuation Agreement between Orrstown Bank and Thomas R. Quinn, Jr. â€" incorporated by reference to Exhibit 10.2 to the Registrantâ€™s Form 8-K filed July 11, 2024.31.1Â Rule 13a â€" 14(a)/15d-14(a) Certification (Principal Executive Officer)31.2Â Rule 13a â€" 14(a)/15d-14(a) Certifications (Principal Financial Officer)32.1Â Section 1350 Certifications (Principal Executive Officer)32.2Â Section 1350 Certifications (Principal Financial Officer)101.LABXBRL Taxonomy Extension Label Linkbase101.PREXBRL Taxonomy Extension Presentation Linkbase101.INSXBRL Instance Document101.SCHXBRL Taxonomy Extension Schema101.CALXBRL Taxonomy Extension Calculation Linkbase101.DEFXBRL Taxonomy Extension Definition Linkbase104Cover 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 are not required under the related instructions or are inapplicable and therefore have been omitted.82Table of ContentsSIGNATURESPursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.Â /s/ Thomas R. Quinn, Jr.Thomas R. Quinn, Jr.President and Chief Executive Officer(Principal Executive Officer)/s/ Neelesh KalaniNeelesh KalaniExecutive Vice President and Chief Financial Officer(Principal Financial Officer)Date: August 8, 202483DocumentExhibit 31.1 CERTIFICATION I, Thomas R. Quinn, Jr., certify that: 1.I have reviewed this Quarterly Report on Form 10-Q 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 fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;4.The registrantâ€™s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:(a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;(c)Evaluated the effectiveness of the registrantâ€™s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and(d)Disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting;5.The registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of registrantâ€™s board of directors (or persons performing the equivalent functions):(a)Â All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrantâ€™s ability to record, process, summarize and report financial information; and(b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.Date: August 8, 2024By:/s/ Thomas R. Quinn, Jr.Thomas R. Quinn, Jr.President and Chief Executive Officer(Principal Executive Officer)0%">DocumentExhibit 31.2 CERTIFICATION I, Neelesh Kalani, certify that: 1.Â I have reviewed this Quarterly Report on Form 10-Q 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 fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;3.Â Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;4.The registrantâ€™s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:(a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;(c)Â Evaluated the effectiveness of the registrantâ€™s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and(d)Disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting;5.The registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of registrantâ€™s board of directors (or persons performing the equivalent functions):(a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrantâ€™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 registrantâ€™s internal control over financial reporting.Date: August 8, 2024By:/s/ Neelesh KalaniNeelesh KalaniExecutive Vice President and Chief Financial Officer(Principal Financial Officer)DocumentExhibit 32.1 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report of Orrstown Financial Services, Inc. (the â€œCompanyâ€) on Form 10-Q for the period ending JuneÂ 30, 2024 as filed with the Securities and Exchange Commission on the date therein specified (the â€œReportâ€), I, Thomas R. Quinn, Jr., President and Chief Executive Officer (Principal 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 of 2002, that: (1)The Report fully complies with the requirements of SectionÂ 13(a) or 15(d) of the Securities Exchange Act of 1934; and(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.Â Date: August 8, 2024By:/s/ Thomas R. Quinn, Jr.Thomas R. Quinn, Jr.President and Chief Executive Officer(Principal Executive Officer)DocumentExhibit 32.2 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Quarterly Report of Orrstown Financial Services, Inc. (the â€œCompanyâ€) on Form 10-Q for the period ending JuneÂ 30, 2024 as filed with the Securities and Exchange Commission on the date therein specified (the â€œReportâ€), I, Neelesh Kalani, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that: (1)Â The Report fully complies with the requirements of SectionÂ 13(a) or 15(d) of the Securities Exchange Act of 1934; and(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.Â Date: August 8, 2024By:/s/ Neelesh KalaniNeelesh KalaniExecutive Vice President and Chief Financial Officer(Principal Financial Officer)