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30xbrli:sharesiso4217:USDiso4217:USDxbrli:sharesczfs:Securityxbrli:pureczfs:Loan UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q â˜' QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2024 Or â˜ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from______________________ to ____________________ Commission file number 0-13222 CITIZENS FINANCIAL SERVICES, INC. (Exact name of registrant as specified in its charter) PENNSYLVANIA Â 23-2265045 (State or other jurisdiction of incorporation or organization) Â (I.R.S. Employer Identification No.) 15 South Main Street Mansfield, PennsylvaniaÂ 16933 (Address of principal executive offices)(Zip Code) Registrantâ€™s telephone number, including area code: (570) 662â€'2121 N/A (Former Name, former address and former fiscal year, if changed since last report) Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par value $1.0 per share Â CZFS Â The Nasdaq Stock Market, LLC Title of Each Class Â Trading Symbol (s) Name of Each Exchange on Which Registered Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YesÂ â˜' No 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 YesÂ â˜' No 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 filerâ€, â€œaccelerated filerâ€, â€œsmaller reporting companyâ€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act. Large accelerated filerÂ Â Â â˜ Accelerated filerÂ Â Â â˜ Â Â Non-accelerated filerÂ Â Â â˜' Smaller reporting companyÂ Â Â â˜' Â Â Emerging growth companyÂ Â Â â˜ Â 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. â˜ Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Â Yes â˜ NoÂ â˜' The number of outstanding shares of the Registrantâ€™s Common Stock, as of August 1, 2024, was 4,759,931. Citizens Financial Services, Inc. Form 10-Q INDEX Â Â PAGE Part I FINANCIAL INFORMATION Â Item 1. Financial Statements (unaudited): Â Â Consolidated Balance Sheet as of June 30, 2024 and December 31, 2023 1 Â Consolidated Statement of Income (Loss) for the Three and Six Months Ended June 30, 2024 and 2023 2 Â Consolidated Statement of Comprehensive Income (Loss) for the Three and Six Months ended June 30, 2024 and 2023 3 Â Consolidated Statement of Changes in Stockholdersâ€™ Equity for the Three and Six Months ended June 30, 2024 and 2023 4 Â Consolidated Statement of Cash Flows for the Six Months ended June 30, 2024 and 2023 5 Â Notes to Consolidated Financial Statements 6-33 Item 2.

Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations 34-58 Item 3. Quantitative and Qualitative Disclosures About Market Risk 58 Item 4. Controls and Procedures 58-59 Â Â Â Part II OTHER INFORMATION Â Item 1. Legal Proceedings 59 Item 1A. Risk Factors 59 Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities 59 Item 3. Defaults Upon Senior Securities 59 Item 4. Mine Safety Disclosures 60 Item 5. Other Information 60 Item 6. Exhibits 60 Â Signatures 61 Index CITIZENS FINANCIAL SERVICES, INC. CONSOLIDATED BALANCE SHEET (UNAUDITED) (in thousands except share data) Â June 30, 2024 Â Â December 31, 2023 Â ASSETS: Â Â Â Â Â Â Cash and due from banks: Â Â Â Â Â Â Noninterest-bearing Â $ 22,023 Â Â $ 37,733 Â Interest-bearing Â Â 16,410 Â Â Â 15,085 Â Total cash and cash equivalents Â Â 38,433 Â Â Â 52,818 Â Interest bearing time deposits with other banks Â Â 3,820 Â Â Â 4,070 Â Equity securities Â Â 1,570 Â Â Â 1,938 Â Available-for-sale securities Â Â 402,661 Â Â Â 417,601 Â Loans held for sale Â Â 14,227 Â Â Â 9,379 Â Â Â Â Â Â Â Â Â Â Loans (net of allowance for credit losses: 2024 $22,797 and 2023, $21,153) Â Â 2,232,919 Â Â Â 2,227,683 Â Â Â Â Â Â Â Â Â Â Premises and equipment Â Â 20,899 Â Â Â 21,384 Â Accrued interest receivable Â Â 10,782 Â Â Â 11,043 Â Goodwill Â Â 85,758 Â Â Â 85,758 Â Bank owned life insurance Â Â 49,746 Â Â Â 49,897 Â Other intangibles Â Â 3,244 Â Â Â 3,650 Â Fair value of derivative instruments Â Â 13,111 Â Â Â 13,687 Â Deferred tax asset Â Â 17,185 Â Â Â 17,339 Â Other assets Â Â 53,176 Â Â Â 59,074 Â Â Â Â Â Â Â Â Â Â TOTAL ASSETS Â $ 2,947,531 Â Â $ 2,975,321 Â Â Â Â Â Â Â Â Â Â LIABILITIES: Â Â Â Â Â Â Â Â Deposits: Â Â Â Â Â Â Â Â Noninterest-bearing Â $ 501,991 Â Â $ 523,784 Â Interest-bearing Â Â 1,771,104 Â Â Â 1,797,697 Â Total deposits Â Â 2,273,095 Â Â Â 2,321,481 Â Borrowed funds Â Â 334,829 Â Â Â 322,036 Â Accrued interest payable Â Â 5,482 Â Â Â 4,298 Â Fair value of derivative instruments - liability Â Â 7,319 Â Â Â 7,922 Â Other liabilities Â Â 40,336 Â Â Â 39,918 Â TOTAL LIABILITIES Â Â 2,661,061 Â Â Â 2,695,655 Â STOCKHOLDERSâ€™ EQUITY: Â Â Â Â Â Â Â Â Preferred Stock Â Â Â Â Â Â Â Â $1.00 par value; authorized 3,000,000 shares at June 30, 2024 and December 31, 2023; none issued in 2024 or 2023 Â Â - Â Â Â - Â Common stock Â Â Â Â Â Â Â Â $1.00 par value; authorized 25,000,000 shares at June 30, 2024 and December 31, 2023; issued 5,207,343 at June 30, 2024 and 5,160,754 at December 31, 2023 Â Â 5,207 Â Â Â 5,161 Â Additional paid-in capital Â Â 144,985 Â Â Â 143,233 Â Retained earnings Â Â 178,588 Â Â Â 172,975 Â Accumulated other comprehensive loss Â Â (25,932) Â Â (24,911) Treasury stock, at cost:Â 447,857 shares at June 30, 2024 and 453,760 shares at December 31, 2023 Â Â (16,378) Â Â (16,792) TOTAL STOCKHOLDERSâ€™ EQUITY Â Â 286,470 Â Â Â 279,666 Â TOTAL LIABILITIES AND STOCKHOLDERSâ€™ EQUITY Â $ 2,947,531 Â Â $ 2,975,321 Â The accompanying notes are an integral part of these unaudited consolidated financial statements. 1 Index CITIZENS FINANCIAL SERVICES, INC. CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED) Â Three Months Ended June 30, Â Â Six Months Ended June 30, Â (in thousands, except share and per share data) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â INTEREST INCOME: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Interest and fees on loans Â $ 35,067 Â Â $ 24,117 Â Â $ 70,200 Â Â $ 46,666 Â Interest-bearing deposits with banks Â Â 262 Â Â Â 127 Â Â Â 505 Â Â Â 198 Â Investment securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Taxable Â Â 1,663 Â Â Â 1,683 Â Â Â 3,287 Â Â Â 3,239 Â Nontaxable Â Â 520 Â Â Â 572 Â Â Â 1,052 Â Â Â 1,189 Â Dividends Â Â 390 Â Â Â 311 Â Â Â 791 Â Â Â 625 Â TOTAL INTEREST INCOME Â Â 37,902 Â Â Â 26,810 Â Â Â 75,835 Â Â Â 51,917 Â INTEREST EXPENSE: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Deposits Â Â 12,655 Â Â Â 5,480 Â Â Â 24,976 Â Â Â 9,419 Â Borrowed funds Â Â 3,947 Â Â Â 3,409 Â Â Â 8,601 Â Â Â 6,497 Â TOTAL INTEREST EXPENSE Â Â 16,602 Â Â Â 8,889 Â Â Â 33,577 Â Â Â 15,916 Â NET INTEREST INCOME Â Â 21,300 Â Â Â 17,921 Â Â Â 42,258 Â Â Â 36,001 Â Provision for credit losses Â Â 2,002 Â Â Â 262 Â Â Â 2,787 Â Â Â 262 Â Provision for credit losses - acquisition day 1 non-PCD Â Â - Â Â Â 4,591 Â Â Â - Â Â Â 4,591 Â NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES Â Â 19,298 Â Â Â 13,068 Â Â Â 39,471 Â Â Â 31,148 Â NON-INTEREST INCOME: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Service charges Â Â 1,385 Â Â Â 1,293 Â Â Â 2,757 Â Â Â 2,504 Â Trust Â Â 201 Â Â Â 181 Â Â Â 445 Â Â Â 411 Â Brokerage and insurance Â Â 563 Â Â Â 442 Â Â Â 1,228 Â Â Â 956 Â Gains on loans sold Â Â 479 Â Â Â 169 Â Â Â 896 Â Â Â 214 Â Equity security losses, net Â Â (87) Â Â (74) Â Â (32) Â Â (292) Available for sale security losses, net Â Â - Â Â Â (51) Â Â - Â Â Â (51) Gain on sale of Braavo division Â Â - Â Â Â - Â Â Â 1,102 Â Â Â - Â Earnings on bank owned life insurance Â Â 328 Â Â Â 234 Â Â Â 996 Â Â Â 452 Â Other Â Â 467 Â Â Â 86 Â Â Â 915 Â Â Â 260 Â TOTAL NON-INTEREST INCOME Â Â 3,336 Â Â Â 2,280 Â Â Â 8,307 Â Â Â 4,454 Â NON-INTEREST EXPENSES: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Salaries and employee benefits Â Â 9,617 Â Â Â 7,916 Â Â Â 19,907 Â Â Â 15,593 Â Occupancy Â Â 1,266 Â Â Â 814 Â Â Â 2,590 Â Â Â 1,649 Â Furniture and equipment Â Â 295 Â Â Â 162 Â Â Â 531 Â Â Â 313 Â Professional fees Â Â 698 Â Â Â 387 Â Â Â 1,401 Â Â Â 768 Â FDIC insurance Â Â 509 Â Â Â 325 Â Â Â 1,034 Â Â Â 625 Â Pennsylvania shares tax Â Â 330 Â Â Â 298 Â Â Â 640 Â Â Â 596 Â Amortization of intangibles Â Â 147 Â Â Â 31 Â Â Â 296 Â Â Â 62 Â Merger and acquisition Â Â - Â Â Â 8,402 Â Â Â - Â Â Â 8,646 Â Software expenses Â Â 494 Â Â Â 372 Â Â Â 1,008 Â Â Â 723 Â ORE expenses (recoveries) Â Â 175 Â Â Â (11) Â Â 162 Â Â Â 15 Â Other Â Â 2,715 Â Â Â 1,984 Â Â Â 5,320 Â Â Â 3,468 Â TOTAL NON-INTEREST EXPENSES Â Â 16,246 Â Â Â 20,680 Â Â Â 32,889 Â Â Â 32,458 Â Income (loss) before provision (benefit) for income taxes Â Â 6,388 Â Â Â (5,332) Â Â 14,889 Â Â Â 3,144 Â Provision (benefit) for income taxes Â Â 1,113 Â Â Â (1,188) Â Â 2,590 Â Â Â 421 Â NET INCOME (LOSS) Â $ 5,275 Â Â $ (4,144) Â $ 12,299 Â Â $ 2,723 Â PER COMMON SHARE DATA: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net Income (Loss) - Basic Â $ 1.11 Â Â $ (1.00) Â $ 2.59 Â Â $ 0.66 Â Net Income (Loss) - Diluted Â $ 1.11 Â Â $ (1.00) Â $ 2.59 Â Â $ 0.66 Â Cash Dividends Paid Â $ 0.485 Â Â $ 0.475 Â Â $ 0.970 Â Â $ 0.949 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Number of shares used in computation - basic Â Â 4,748,927 Â Â Â 4,159,966 Â Â Â 4,748,523 Â Â Â 4,106,005 Â Number of shares used in computation - diluted Â Â 4,753,697 Â Â Â 4,159,966 Â Â Â 4,753,918 Â Â Â 4,106,005 Â The accompanying notes are an integral part of these unaudited consolidated financial statements. 2 Index CITIZENS FINANCIAL SERVICES, INC. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED) Â Â Three Months Ended June 30, Â Â Six Months Ended, June 30, Â (in thousands) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net income (loss) Â $ 5,275 Â Â $ (4,144) Â $ 12,299 Â Â $ 2,723 Â Other comprehensive income (loss): Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Change in unrealized gains (losses) on available for sale securities Â Â 1,154 Â Â Â (5,995) Â Â (1,166) Â Â 2,982 Â Income tax effect Â Â (243) Â Â 1,259 Â Â Â 246 Â Â Â (626) Change in unrecognized pension cost Â Â 14 Â Â Â 7 Â Â Â 16 Â Â Â 14 Â Income tax effect Â Â (3) Â Â (2) Â Â (3) Â Â (3) Change in unrealized (loss) gain on interest rate swaps Â Â (296) Â Â 600 Â Â Â (144) Â Â (310) Income tax effect Â Â 62 Â Â Â (126) Â Â 30 Â Â Â 65 Â Less:Â Reclassification adjustment for investment security gains included in net income Â Â - Â Â Â 51 Â Â Â - Â Â Â 51 Â Income tax effect Â Â - Â Â Â (12) Â Â - Â Â Â (12) Other comprehensive income (loss), net of tax Â Â 688 Â Â Â (4,218) Â Â (1,021) Â Â 2,161 Â Comprehensive income (loss) Â $ 5,963 Â Â $ (8,362) Â $ 11,278 Â Â $ 4,884 Â The accompanying notes are an integral part of these unaudited consolidated financial statements. 3 Index CITIZENS FINANCIAL SERVICES, INC. CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERSâ€™ EQUITY (UNAUDITED) Â Â Common Stock Â Â Additional Paid-in Â Â Retained Â Â Accumulated Other Comprehensive Â Â Treasury Â Â Â Â (in thousands, except share data) Â Shares Â Â Amount Â Â Capital Â Â Earnings Â Â Income (Loss) Â Â Stock Â Â Total Â Balance, March 31, 2024 Â Â 5,160,754 Â Â $ 5,161 Â Â $ 143,227 Â Â $ 177,693 Â Â $ (26,620) Â $ (16,787) Â $ 282,674 Â Comprehensive income: Â Net income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 5,275 Â Â Â Â Â Â Â Â Â Â Â Â 5,275 Â Net other comprehensive income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 688 Â Â Â Â Â Â Â 688 Â Stock dividend Â Â 46,589 Â Â Â 46 Â Â Â 2,001 Â Â Â (2,047) Â Â Â Â Â Â Â Â Â Â - Â Purchase of treasury stock (881 shares) Â (36) Â Â (36) Restricted stock, executive and Board of Director awards (6,786 shares) Â Â Â Â Â Â Â Â Â Â (408) Â Â Â Â Â Â Â Â Â Â 445 Â Â Â 37 Â Restricted stock vesting Â Â Â Â Â Â Â Â Â Â 165 Â Â Â Â Â Â Â Â Â Â Â Â Â Â 165 Â Cash dividends, $0.485 per share Â Â Â Â Â Â Â Â Â Â Â Â Â Â (2,333) Â Â Â Â Â Â Â Â Â Â (2,333) Balance, June 30, 2024 Â Â 5,207,343 Â Â $ 5,207 Â Â $ 144,985 Â Â $ 178,588 Â Â $ (25,932) Â $ (16,378) Â $ 286,470 Â Balance, December 31, 2023 Â Â 5,160,754 Â Â $ 5,161 Â Â $ 143,233 Â Â $ 172,975 Â Â $ (24,911) Â $ (16,792) Â $ 279,666 Â Comprehensive income: Â Net income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 12,299 Â Â Â Â Â Â Â Â Â Â Â Â 12,299 Â Net other comprehensive loss Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â (1,021) Â Â Â Â Â Â Â (1,021) Stock dividend Â Â 46,589 Â Â Â 46 Â Â Â 2,001 Â Â Â (2,047) Â Â Â Â Â Â Â Â Â Â - Â Purchase of treasury stock (1,776 shares) Â (81) Â Â (81) Restricted stock, executive and Board of Director awards (7,668 shares) Â Â Â Â Â Â Â Â Â Â (417) Â Â Â Â Â Â Â Â Â Â 495 Â Â Â 78 Â Restricted stock vesting Â Â Â Â Â Â Â Â Â Â 168 Â Â Â Â Â Â Â Â Â Â Â Â Â Â 168 Â Cash dividends, $0.970 per share Â Â Â Â Â Â Â Â Â Â Â Â Â Â (4,639) Â Â Â Â Â Â Â Â Â Â (4,639) Balance, June 30, 2024 Â Â 5,207,343 Â Â $ 5,207 Â Â $ 144,985 Â Â $ 178,588 Â Â $ (25,932) Â $ (16,378) Â $ 286,470 Â Balance, March 31, 2023 Â Â 4,427,687 Â Â Â 4,428 Â Â Â 80,926 Â Â Â 171,629 Â Â Â (26,762) Â Â (16,983) Â Â 213,238 Â Comprehensive loss: Â Net loss Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â (4,144) Â Â Â Â Â Â Â Â Â Â Â Â (4,144) Net other comprehensive loss Â (4,218) Â Â Â Â Â Â Â (4,218) Stock dividend Â Â 39,209 Â Â Â 39 Â Â Â 2,982 Â Â Â (3,021) Â Â Â Â Â Â Â Â Â Â - Â Issuance of Common stock Â Â 693,858 Â Â Â 694 Â Â Â 59,443 Â 60,137 Â Restricted stock, executive and Board of Director awards (2,652 shares) Â Â Â Â Â Â Â Â Â Â (145) Â Â Â Â Â Â Â Â Â Â 180 Â Â Â 35 Â Restricted stock vesting Â Â Â Â Â Â Â Â Â Â 145 Â Â Â Â Â Â Â Â Â Â Â Â Â Â 145 Â Cash dividends, $0.475 per share Â Â Â Â Â Â Â Â Â Â Â Â Â Â (1,965) Â Â Â Â Â Â Â Â Â Â (1,965) Balance, June 30, 2023 Â Â 5,160,754 Â Â $ 5,161 Â Â $ 143,351 Â Â $ 162,499 Â Â $ (30,980) Â $ (16,803) Â $ 263,228 Â Balance, December 31, 2022 Â Â 4,427,687 Â Â $ 4,428 Â Â $ 80,911 Â Â $ 164,922 Â Â $ (33,141) Â $ (16,973) Â $ 200,147 Â Comprehensive income: Â Net income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 2,723 Â Â Â Â Â Â Â Â Â Â Â Â 2,723 Â Net other comprehensive income Â 2,161 Â Â Â Â Â Â Â 2,161 Â Stock dividend Â Â 39,209 Â Â Â 39 Â Â Â 2,982 Â Â Â (3,021) Â Â Â Â Â Â Â Â Â Â - Â Issuance of Common stock Â Â 693,858 Â Â Â 694 Â Â Â 59,443 Â 60,137 Â Restricted stock, executive and Board of Director awards (2,652 shares) Â Â Â Â Â Â Â Â Â Â (145) Â Â Â Â Â Â Â Â Â Â 180 Â Â Â 35 Â Restricted stock vesting Â Â Â Â Â Â Â Â Â Â 150 Â Â Â Â Â Â Â Â Â Â Â Â Â Â 150 Â Forfeited restricted stock Â Â Â Â Â Â Â Â Â Â 10 Â Â Â Â Â Â Â Â Â Â (10) Â Â - Â Change in Accounting policy for allowance for credit losses Â Â Â Â Â Â Â Â Â Â Â Â Â Â 1,766 Â Â Â Â Â Â Â Â Â Â Â Â 1,766 Â Cash dividends, $0.949 per share Â Â Â Â Â Â Â Â Â Â Â Â Â Â (3,891) Â Â Â Â Â Â Â Â Â Â (3,891) Balance, June 30, 2023 Â Â 5,160,754 Â Â $ 5,161 Â Â $ 143,351 Â Â $ 162,499 Â Â $ (30,980) Â $ (16,803) Â $ 263,228 Â The accompanying notes are an integral part of these unaudited consolidated financial statements. 4 Index CITIZENS FINANCIAL SERVICES, INC. CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) Â Six Months Ended June 30, Â (in thousands) Â 2024 Â Â 2023 Â CASH FLOWS FROM OPERATING ACTIVITIES: Â Â Â Â Â Â Net income Â $ 12,299 Â Â $ 2,723 Â Adjustments to reconcile net income to net cash provided by operating activities: Â Â Â Â Â Â Â Â Provision for credit losses Â Â 2,787 Â Â Â 4,853 Â Depreciation and amortization Â Â 958 Â Â Â 530 Â Amortization and accretion of loans and other assets Â Â (2,243) Â Â (825) Amortization and accretion of investment securities Â Â 759 Â Â Â 826 Â Deferred income taxes Â Â 425 Â Â Â 125 Â Investment securities losses, net Â Â 33 Â Â Â 343 Â Earnings on bank owned life insurance Â Â (996) Â Â (452) Vesting of restricted stock Â Â 168 Â Â Â 150 Â Originations of loans held for sale Â Â (74,816) Â Â (12,730) Proceeds from sales of loans held for sale Â Â 70,820 Â Â Â 9,444 Â Realized gains on loans sold Â Â (896) Â Â (214) Realized gains on sale of Braavo Â Â (1,102) Â Â - Â Decrease in accrued interest receivable Â Â 261 Â Â Â 275 Â Gain on sale of foreclosed assets held for sale Â Â (119) Â Â (67) Increase in accrued interest payable Â Â 1,184 Â Â Â 139 Â Other, net Â Â 6,956 Â Â Â (2,219) Net cash provided by operating activities Â Â 16,478 Â Â Â 2,901 Â CASH FLOWS FROM INVESTING ACTIVITIES: Â Â Â Â Â Â Â Â Available-for-sale securities: Â Â Â Â Â Â Â Â Proceeds from sales Â Â - Â Â Â 86,504 Â Proceeds from maturity and principal repayments Â Â 27,061 Â Â Â 10,336 Â Purchase of securities Â Â (14,045) Â Â (10,246) Proceeds from sale of equity securities Â Â 335 Â Â Â 67 Â Purchase of interest bearing time deposits with other banks Â Â (100) Â Â - Â Proceeds from matured interest bearing time deposits with other banks Â Â 350 Â Â Â 1,241 Â Proceeds from life insurance Â Â 1,147 Â Â Â - Â Proceeds from redemption of regulatory stock Â Â 15,665 Â Â Â 10,839 Â Purchase of regulatory stock Â Â (14,135) Â Â (12,789) Net (increase) decrease in loans Â Â (13,486) Â Â 40,119 Â Purchase of premises and equipment Â Â (226) Â Â (1,926) Investments in low income housing partnerships Â Â - Â Â Â (591) Proceeds from sale of foreclosed assets held for sale Â Â 392 Â Â Â 233 Â Proceeds from sale of Braavo assets Â Â 7,185 Â Â Â - Â Acquisition, net of cash paid Â Â - Â Â Â 4,905 Â Net cash provided by investing activities Â Â 10,143 Â Â Â 128,692 Â CASH FLOWS FROM FINANCING ACTIVITIES: Â Â Â Â Â Â Â Â Net decrease in deposits Â Â (48,385) Â Â (111,473) Proceeds from long-term borrowings Â Â - Â Â Â 20,000 Â Repayments of long-term borrowings Â Â (5,000) Â Â - Â Net increase (decrease) in short-term borrowed funds Â Â 17,099 Â Â Â (17,731) Purchase of treasury and restricted stock Â Â (81) Â Â - Â Dividends paid Â Â (4,639) Â Â (3,891) Net cash used by financing activities Â Â (41,006) Â Â (113,095) Net (decrease) increase in cash and cash equivalents Â Â (14,385) Â Â 18,498 Â CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD Â Â 52,818 Â Â Â 26,211 Â CASH AND CASH EQUIVALENTS AT END OF PERIOD Â $ 38,433 Â Â $ 44,709 Â Â Â Â Â Â Â Â Â Â Supplemental Disclosures of Cash Flow Information: Â Â Â Â Â Â Â Â Interest paid Â $ 32,393 Â Â $ 14,892 Â Income taxes paid Â $ 750 Â Â $ 3,600 Â Loans transferred to foreclosed property Â $ 2,490 Â Â $ 49 Â Right of use asset and liability Â $ 169 Â Â $ 5 Â Stock DividendÂ Â Â Â Â $ 2,047 Â Â $ 3,021 Â CECL adjustment Â $ - Â Â $ 3,300 Â Â Â Â Â Â Â Â Acquisition of Â Â Â HV Bancorp, Inc. Â Non-cash assets acquired Â Â Â Â Â Â Available-for-sale securities Â Â Â Â Â $ 79,248 Â Interest bearing time deposits with other banks Â Â Â Â Â Â - Â Loans held for sale Â Â Â Â Â Â 10,750 Â Loans Â Â Â Â Â Â 475,338 Â Premises and equipment Â Â Â Â Â Â 2,310 Â Accrued interest receivable Â Â Â Â Â Â 2,226 Â Bank owned life insurance Â Â Â Â Â Â 10,387 Â Intangibles Â Â Â Â Â Â 2,972 Â Deferred tax asset Â Â Â Â Â Â 8,392 Â Other assets Â Â Â Â Â Â 18,213 Â Goodwill Â Â Â Â Â Â 53,382 Â Â Â Â Â Â Â Â 663,218 Â Â Â Â Â Â Â Â Â Liabilities assumed Â Â Â Â Â Â Â Â Noninterest-bearing deposits Â Â Â Â Â Â 197,549 Â Interest-bearing deposits Â Â Â Â Â Â 335,816 Â Accrued interest payable Â Â Â Â Â Â 885 Â Borrowed funds Â Â Â Â Â Â 58,647 Â Other liabilities Â Â Â Â Â Â 11,674 Â Â Â Â Â Â Â Â 604,571 Â Net non-cash assets acquired Â Â Â Â Â Â 58,647 Â Cash and cash equivalents acquired Â Â Â Â Â $ 18,017 Â The accompanying notes are an integral part of these unaudited consolidated financial statements. 5 Index CITIZENS FINANCIAL SERVICES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Note 1 â€“ Basis of Presentation Citizens Financial Services, Inc. (individually and collectively with its direct and indirect subsidiaries, the â€œCompanyâ€) is a Pennsylvania corporation and its wholly owned subsidiary is CZFS Acquisition Company, LLC. CZFS Acquisition Company, LLC is the holding company of its wholly owned subsidiary, First Citizens Community Bank (the â€œBankâ€), and of the Bankâ€™s wholly owned subsidiaries, First Citizens Insurance Agency, Inc. (â€œFirst Citizens Insuranceâ€) and 1st Realty of PA LLC (â€œRealtyâ€). The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (â€œSECâ€) and in conformity with U.S. generally accepted accounting principles.Â Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted.Â Certain of the prior year amounts have been reclassified to conform with the current year presentation.Â Such reclassifications had no effect on net income or stockholdersâ€™ equity.Â All material interâ€‘company balances and transactions have been eliminated in consolidation. In the opinion of management of the Company, the accompanying interim consolidated financial statements at June 30, 2024 and for the periods ended June 30, 2024 and 2023 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations at the dates and for the periods presented. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and of revenues and expenses for the periods covered by the Consolidated Statement of Income. The financial performance reported for the Company for the six month period ended June 30, 2024 is not necessarily indicative of the results to be expected for the full year.Â This information should be read in conjunction with the Companyâ€™s Annual Report on Form 10-K for the year ended December 31, 2023. Accounting Pronouncements Adopted in 2023 In June 2016, the FASB issued ASU No. 2016-13, â€œFinancial Instruments â€“ Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrumentsâ€ and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023 for the Company. The results reported for periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards. The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Bank recorded a cumulative effect increase to retained earnings of $1.8 million, net of tax, of which $3.3 million related to loans and ($1.1) million related to unfunded commitments. The Company adopted the provisions of ASC 326 related to financial assets purchased with credit deterioration (PCD) that were previously classified as purchased credit impaired (PCI) and accounted for under ASC 310-30 using the prospective transition approach. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. 6 Index The Company expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below (in thousands): Â Â January 1, 2023 Â Â Â Pre-adoption Â Â Adoption Impact Â Â As Reported Â Assets Â Â Â Â Â Â Â Â Â Allowance for credit losses - loans Â Â Â Â Â Â Â Â Â Â Real estate loans: Â Â Â Â Â Â Â Â Â Residential Â $ 1,056 Â Â $ 79 Â Â $ 1,135 Â Commercial Â Â 10,120 Â Â Â (3,070) Â Â 7,050 Â Agricultural Â Â 4,589 Â Â Â (1,145) Â Â 3,444 Â Construction Â Â 801 Â Â Â (103) Â Â 698 Â Consumer Â Â 135 Â Â Â 1,040 Â Â Â 1,175 Â Other commercial loans Â Â 1,040 Â Â Â (328) Â Â 712 Â Other agricultural loans Â Â 489 Â Â Â (219) Â Â 270 Â State and political subdivision loans Â Â 322 Â Â Â (280) Â Â 42 Â Unallocated Â Â - Â Â Â 726 Â Â Â 726 Â Total Â $ 18,552 Â Â $ (3,300) Â $ 15,252 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Liabilities Â Â Â Â Â Â Â Â Â Â Â Â Allowance for Credit Losses - Off-Balance Sheet credit Exposure Â $ 165 Â Â $ 1,064 Â Â $ 1,229 Â The Company adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023 using the prospective transition approach, though no such charges had been recorded on the securities held by the Company as of the date of adoption. In March 2022, the FASB issued ASU No. 2022-02, â€œFinancial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.â€ The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted CECL and enhance the disclosure requirements for modifications of receivables made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current period gross write-offs by year of origination for financing receivables and net investment in leases in the existing vintage disclosures. This ASU became effective on January 1, 2023 for the Corporation. The adoption of this ASU resulted in updated disclosures within our financial statements but otherwise did not have a material impact on the Companyâ€™s consolidated financial statements. Loans Â A loan is classified as a modified loan to a borrower experiencing financial difficulty when a contractual loan modification in the form of principal forgiveness, an interest rate reduction, an other-than-significant payment delay or a term extension (or a combination thereof) has been granted to an existing borrower experiencing financial difficulties. The goal when modifying a credit is to establish a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties. Accruing modified loans to borrowers experiencing financial difficulty are primarily comprised of loans on which interest is being accrued under the modified terms, and the loans are current or less than 90 days past due. Allowance for Credit Losses â€“ Loans and Leases The allowance for credit losses (ACL) on loans and leases is a valuation account that is used to present the net amount expected to be collected on a loan or lease. The ACL for loans and leases is adjusted through provision for credit losses as a charge against, or credit to, earnings. Loans and leases deemed to be uncollectible are charged against the ACL on loans and leases, and any subsequent recoveries are credited to the ACL. Management evaluates the ACL on a quarterly basis. When changes in the reserve are necessary, an adjustment is made. 7 Index Depending on the nature of the pool of financial assets with similar risk characteristics, the models utilized by the Company to estimate expected credit losses include a discounted cash flow (â€œDCFâ€) model that discounts instrument-level contractual cash flows, adjusted for prepayments and curtailments, incorporating loss expectations, and a weighted average remaining maturity model which contemplates expected losses at a pool-level, utilizing historic loss information. The Companyâ€™s models forÂ estimating the allowance for credit losses consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts.Â Management compares the results of this calculation to the amortized cost basis to determine its allowance for credit loss balance. Management uses relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts in calculating its ACL. Historical credit loss experience provides the basis for the estimation of expected credit losses. Management determines whether there is a need to make qualitative adjustments to historical loss information by monitoring certain factors including differences in current loan-specific risk characteristics as well as for changes in external or environmental conditions, or other relevant factors. The contractual term used in projecting the cash flows of a loan is based on the maturity date of a loan, and is adjusted for prepayment or curtailment assumptions which may shorten that contractual time period. Options to extend are considered by management in determining the contractual term. The key inputs to the DCF model are (1) probability of default, (2) loss given default, (3) prepayment and curtailment rates, (4) reasonable and supportable economic forecasts, (5) forecast reversion period, (6) expected recoveries on charged off loans, and (7) discount rate. Probability of Default (PD) In order to incorporate economic factors into forecasting within the DCF model, management elected to use the Loss Driver method to generate the PD rate inputs. The Loss Driver method analyzes how one or more economic factors change the default rate using a statistical regression analysis. Management selected economic factors that had strong correlations to historical default rates. Loss Given Default (LGD) Management elected to use the Frye Jacobs parameter for determining the LGD input, which is an estimation technique that derives a LGD input from segment specific risk curves that correlates LGD with PD. Prepayment and Curtailment Rates

Prepayment Rates: Loan level transaction data is used to calculate a semi-annual prepayment rate. Those semi-annual rates are annualized and the average of the annualized rates is used in the DCF calculation for fixed payment or term loans. Rates are calculated for each pool. Curtailment Rates: Loan level transaction data is used to calculate annual curtailment rates using any available historical loan level data. The average of the historical rates is used in the DCF model for interest only payment or line of credit type loans. Rates are calculated for each pool. Reasonable and Supportable Economic Forecasts 8 Index The forecast data used in the DCF model is obtained via a subscription to a widely recognized and relied upon company who publishes various forecast scenarios. Management evaluates the various scenarios to determine a reasonable and supportable scenario. Forecast Reversion Period Management uses forecasts to predict how economic factors will perform and has determined to use a four quarter forecast period as well as a four quarter straight-line reversion period to historical averages (also commonly referred to as the mean reversion period). Expected Recoveries on Charged-off Loans Management performs an analysis to estimate recoveries that could be reasonably expected based on historical experience in order to account for expected recoveries on loans that have already been fully charged-off and are not included in the ACL calculation. Discount Rate The effective interest rate of the underlying loans and leases of the Company serves as the discount rate applied to the expected periodic cash flows. Management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Individual Evaluation Management evaluates individual instruments for expected credit losses when those instruments do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. Instruments will not be included in both collective and individual analyses. Individual analysis will establish a specific reserve for instruments in scope. Management considers a financial asset as collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral, based on managementâ€™s assessment as of the reporting date. Accrued Interest Receivable on Loans and Leases Accrued interest receivable on loans held for investment totaled $8.4 million and $8.5 million at June 30, 2024 and December 31, 2023, respectively, and is included within Accrued interest receivable. This amount is excluded from the estimate of expected credit losses. Reserve for Unfunded Commitments The Company maintains a reserve in other liabilities for off-balance sheet credit exposures such as unfunded commitments that are currently unfunded in categories with historical loss experience. Management calculates funding rates annually using loan level data history at the portfolio level. The applicable pool level loss rates is then applied to calculate the reserve for unfunded commitments liability each period. Note 2 â€“ Revenue Recognition In accordance with ASC 606, Management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with noninterest revenue resulting from investment security gains, loan servicing, gains on loans sold, earnings on bank owned life insurances, gains and losses from derivative instruments and changes in the fair of loans held for sale are not within the scope of ASC 606. The main types of noninterest income within the scope of the standard are as follows: â€¢ Service charges on deposit accounts â€“ The Company has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, interchange fees, ATM fees and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time upon the completion of the requested service/transaction. 9 Index â€¢ Trust fees â€“ Typical contracts for trust services are based on a fixed percentage of the assets earned ratably over a defined period and billed on a monthly basis. Fees charged to customersâ€™ accounts are recognized as revenue over the period during which the Company fulfills its performance obligation under the contract (i.e., holding client asset in a managed fiduciary trust account). For these accounts, the performance obligation of the Company is typically satisfied by holding and managing the customerâ€™s assets over time. Other fees related to specific customer requests are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time, upon completion of the requested service/transaction. â€¢ Gains and losses on sale of other real estate owned â€“ Gains and losses are recognized at the completion of the property sale when the buyer obtains control of the real estate and all of the performance obligations of the Company have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilitate the sale, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred, payment terms, and that the contract has a true commercial substance and that collection of amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset. â€¢ Brokerage and insurance â€“ Fees includes commissions from the sales of investments and insurance products recognized on a trade date basis as the performance obligation is satisfied at the point in time in which the trade is processed. Additional fees are based on a percentage of the market value of customer accounts and billed on a monthly or quarterly basis. The Companyâ€™s performance obligation under the contracts with certain customers is generally satisfied through the passage of time as the Company monitors and manages the assets in the customerâ€™s portfolio and is not dependent on certain return or performance level of the customerâ€™s portfolio. Fees for these services are billed monthly and are recorded as revenue at the end of the month for which the wealth management service has been performed. Other performance obligations (such as the delivery of account statements to customers) are generally considered immaterial to the overall transaction price. The following table depicts the disaggregation of revenue derived from contracts with customers to depict the nature, amount, timing, and uncertainty of revenue and cash flows for the three and six months ended June 30, 2024 and 2023 (in thousands). All revenue in the table below relates to goods and services transferred at a point in time. Â Three Months Ended Â Â Six Months Ended Â Â Â June 30, Â Â June 30, Â Revenue stream Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Service charges on deposit accounts Â Â Â Â Â Â Â Â Â Â Â Â Overdraft fees Â $ 394 Â Â Â 371 Â Â $ 798 Â Â $ 730 Â Statement fees Â Â 44 Â Â Â 54 Â Â Â 86 Â Â Â 106 Â Interchange revenue Â Â 811 Â Â Â 764 Â Â Â 1,555 Â Â Â 1,461 Â ATM income Â Â 33 Â Â Â 34 Â Â Â 66 Â Â Â 72 Â Other service charges Â Â 103 Â Â Â 70 Â Â Â 252 Â Â Â 135 Â Total Service Charges Â Â 1,385 Â Â Â 1,293 Â Â Â 2,757 Â Â Â 2,504 Â Trust Â Â 201 Â Â Â 181 Â Â Â 445 Â Â Â 411 Â Brokerage and insurance Â Â 563 Â Â Â 442 Â Â Â 1,228 Â Â Â 956 Â Other Â Â 241 Â Â Â 118 Â Â Â 373 Â Â Â 233 Â Total Â $ 2,390 Â Â $ 2,034 Â Â $ 4,803 Â Â $ 4,104 Â 10 Index Note 3 â€“ Earnings per Share The following table sets forth the computation of earnings per share. Â Â Three months ended June 30, Â Â Six months ended June 30, Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net income (loss) applicable to common stock Â $ 5,275,000 Â Â $ (4,144,000) Â $ 12,299,000 Â Â $ 2,723,000 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Basic earnings per share computation Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Weighted average common shares outstanding Â Â 4,748,927 Â Â Â 4,159,966 Â Â Â 4,748,523 Â Â Â 4,106,005 Â Earnings (loss) per share - basic Â $ 1.11 Â Â $Â (1.00) Â $ 2.59 Â Â $ 0.66 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Diluted earnings per share computation Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Weighted average common shares outstanding for basic earnings per share Â Â 4,748,927 Â Â Â 4,159,966 Â Â Â 4,748,523 Â Â Â 4,106,005 Â Add: Dilutive effects of restricted stock Â Â 4,770 Â Â Â - Â Â Â 5,395 Â Â Â - Â Weighted average common shares outstanding for dilutive earnings per share Â Â 4,753,697 Â Â Â 4,159,966 Â Â Â 4,753,918 Â Â Â 4,106,005 Â Earnings (loss) per share - diluted Â $ 1.11 Â Â $ (1.00) Â $ 2.59 Â Â $ 0.66 Â For the three months ended June 30, 2024 and 2023, there were 4,230 and 6,078 shares, respectively, related to the restricted stock plan that were excluded from the diluted earnings per share calculations since they were anti-dilutive. These anti-dilutive shares had per share prices ranging from $60.16-$83.38Â for the three month period ended June 30, 2024 and per share prices ranging from $44.93-$83.38Â for the three month period ended June 30, 2023. For the six months ended June 30, 2024 and 2023, 4,230 and 6,078 shares, respectively, related to the restricted stock plan were excluded from the diluted earnings per share calculations since they were anti-dilutive. These anti-dilutive shares had prices ranging from $60.16-$83.38 for the six month period ended June 30, 2024 and prices ranging from $44.93-$83.38 for the six month period ended June 30, 2023. Note 4 â€“ Investments The amortized cost, gross unrealized gains and losses, and fair value of investment securities at June 30, 2024 and December 31, 2023 were as follows (in thousands): June 30, 2024 Â Amortized Cost Â Â Gross Unrealized Gains Â Â Gross Unrealized Losses Â Â Allowance for Credit Losses Â Â Fair Value Â Available-for-sale securities: Â U.S. agency securities Â $ 61,576 Â Â $ 3 Â Â $ (5,746) Â $ - Â Â $ 55,833 Â U.S. treasury securities Â Â 138,582 Â Â Â - Â Â Â (8,509) Â Â - Â Â Â 130,073 Â Obligations of state and political subdivisions Â Â 104,668 Â Â Â 6 Â Â Â (7,967) Â Â - Â Â Â 96,707 Â Corporate obligations Â Â 13,422 Â Â Â 273 Â Â Â (1,245) Â Â - Â Â Â 12,450 Â Mortgage-backed securities in government sponsored entities Â Â 121,321 Â Â Â 49 Â Â Â (13,772) Â Â - Â Â Â 107,598 Â Total available-for-sale securities Â $ 439,569 Â Â $ 331 Â Â $ (37,239) Â $ - Â Â $ 402,661 Â December 31, 2023 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Available-for-sale securities: Â U.S. agency securities Â $ 66,569 Â Â $ 1 Â Â $ (5,799) Â $ - Â Â $ 60,771 Â U.S. treasury securities Â Â 152,485 Â Â Â - Â Â Â (9,197) Â Â - Â Â Â 143,288 Â Obligations of state and political subdivisions Â Â 107,945 Â Â Â 32 Â Â Â (6,190) Â Â - Â Â Â 101,787 Â Corporate obligations Â Â 13,394 Â Â Â 245 Â Â Â (1,236) Â Â - Â Â Â 12,403 Â Mortgage-backed securities in government sponsored entities Â Â 112,950 Â Â Â 7 Â Â Â (13,605) Â Â - Â Â Â 99,352 Â Total available-for-sale securities Â $ 453,343 Â Â $ 285 Â Â $ (36,027) Â $ - Â Â $ 417,601 Â 11 Index The following table shows the Companyâ€™s gross unrealized losses and fair value of the Companyâ€™s investments with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time, which individual securities have been in a continuous unrealized loss position, at June 30, 2024 and December 31, 2023 (in thousands). As of June 30, 2024, the Company owned 317 securities whose fair value was less than their cost basis. June 30, 2024 Â Less than Twelve Months Â Â Twelve Months or Greater Â Â Total Â Â Â Fair Value Â Â Gross Unrealized Losses Â Â Fair Value Â Â Gross Unrealized Losses Â Â Fair Value Â Â Gross Unrealized Losses Â U.S. agency securities Â $ - Â Â $ - Â Â $ 53,815 Â Â $ (5,746) Â $ 53,815 Â Â $ (5,746) U.S. treasury securities Â Â - Â Â Â - Â Â Â 130,073 Â Â Â (8,509) Â Â 130,073 Â Â Â (8,509) Obligations of state and political subdivisions Â Â 3,554 Â Â Â (23) Â Â 88,349 Â Â Â (7,944) Â Â 91,903 Â Â Â (7,967) Corporate obligations Â Â - Â Â Â - Â Â Â 9,024 Â Â Â (1,245) Â Â 9,024 Â Â Â (1,245) Mortgage-backed securities in government sponsored entities Â Â 6,468 Â Â Â (13) Â Â 91,736 Â Â Â (13,759) Â Â 98,204 Â Â Â (13,772) Total securities Â $ 10,022 Â Â $ (36) Â $ 372,997 Â Â $ (37,203) Â $ 383,019 Â Â $ (37,239) December 31, 2023 Â U.S. agency securities Â $ - Â Â $ - Â Â $ 58,753 Â Â $ (5,799) Â $ 58,753 Â Â $ (5,799) U.S. treasury securities Â Â - Â Â Â - Â Â Â 143,288 Â Â Â (9,197) Â Â 143,288 Â Â Â (9,197) Obligations of states and political subdivisions Â Â - Â Â Â - Â Â Â 93,535 Â Â Â (6,190) Â Â 93,535 Â Â Â (6,190) Corporate obligations Â Â 1,487 Â Â Â (265) Â Â 8,320 Â Â Â (971) Â Â 9,807 Â Â Â (1,236) Mortgage-backed securities in government sponsored entities Â Â 9,203 Â Â Â (31) Â Â 88,553 Â Â Â (13,574) Â Â 97,756 Â Â Â (13,605) Total securities Â $ 10,690 Â Â $ (296) Â $ 392,449 Â Â $ (35,731) Â $ 403,139 Â Â $ (36,027) Allowance for Credit Losses â€“ Available for Sale Securities The Company measures expected credit losses on available-for-sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the securityâ€™s amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Economic forecast data is utilized to calculate the present value of expected cash flows. The Company obtains its forecast data through a subscription to a widely recognized and relied upon company who publishes various forecast scenarios. Management evaluates the various scenarios to determine a reasonable and supportable scenario, and utilizes a single scenario in the model. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. The allowance for credit losses on available-for-sale debt securities is included within Investment securities available-for-sale on the consolidated balance sheet. Changes in the allowance for credit losses are recorded within Provision for credit losses on the consolidated statement of income. Losses are charged against the allowance when the Company believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities totaled $2,119,000 and $2,202,000 at June 30, 2024 and December 31,2023 and is included within accrued interest receivable on the consolidated balance sheet. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed. 12 Index There were no sales of available for sale securities during the three and six months ended June 30, 2024. Proceeds from sales of securities available-for-sale for the three and six months ended June 30, 2023 were $86,504,000. The gross gains and losses were as follows (in thousands): Â Â Three Months Ended June 30, Â Â Six Months Ended June 30, Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Gross gains on available for sale securities Â $ - Â Â $ 38 Â Â $ - Â Â $ 38 Â Gross losses on available for sale securities Â Â - Â Â Â (89) Â Â - Â Â Â (89) Net losses Â $ - Â Â $ (51) Â $ - Â Â $ (51) The following table presents the net gains (losses) on the Companyâ€™s equity investments recognized in earnings during the three and six month periods ended June 30, 2024 andÂ 2023, and the portion of unrealized gains for the period that relates to equity investments held at June 30, 2024 and 2023(in thousands): Â Three Months Ended June 30, Â Â Six Months Ended June 30, Â Equity securities Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net losses recognized in equity securities during the period Â $ (87) Â $ (74) Â $ (32) Â $ (292) Less: Net (losses) gains realized on the sale of equity securities during the period Â Â - Â Â Â - Â Â Â (4) Â Â 5 Â Net unrealized losses Â $ (87) Â $ (74) Â $ (28) Â $ (297) 13 Index Investment securities with an approximate carrying value of $345.4 million and $353.3 million at June 30, 2024 and December 31, 2023, respectively, were pledged to secure public funds, certain other deposits and borrowing lines. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.Â Â The amortized cost and fair value of debt securities at June 30, 2024, by contractual maturity, are shown below (in thousands): Â Amortized Cost Â Â Fair Value Â Available-for-sale debt securities: Â Â Â Â Â Â Due in one year or less Â $ 48,416 Â Â $ 47,437 Â Due after one year through five years Â Â 143,357 Â Â Â 132,756 Â Due after five years through ten years Â Â 85,933 Â Â Â 77,550 Â Due after ten years Â Â 161,863 Â Â Â 144,918 Â Total Â $ 439,569 Â Â $ 402,661 Â Note 5 â€“ Loans The Company originates commercial, industrial, agricultural, residential, and consumer loans primarily to customers throughout north central, central and south central Pennsylvania, southern New York and Wilmington and Dover, Delaware. The HVBC acquisition expanded our lending market further into southeast Pennsylvania, including Montgomery, Bucks and Philadelphia Counties as well as Burlington County, New Jersey. Although the Company had a diversified loan portfolio at June 30, 2024 and December 31, 2023, a substantial portion of its debtorsâ€™ ability to honor their contracts is dependent on the economic conditions within these regions. The following table summarizes the primary segments of the loan portfolio and how those segments are analyzed within the allowance for credit losses - loans as of June 30, 2024 and December 31, 2023 (in thousands): Â Â Â June 30, 2024 Â Â December 31, 2023 Â Real estate loans: Â Â Â Â Â Â Residential Â $ 354,588 Â Â $ 359,990 Â Commercial Â Â 1,110,269 Â Â Â 1,092,887 Â Agricultural Â Â 327,057 Â Â Â 314,802 Â Construction Â Â 180,157 Â Â Â 195,826 Â Consumer Â Â 70,542 Â Â Â 61,316 Â Other commercial loans Â Â 130,851 Â Â Â 136,168 Â Other agricultural loans Â Â 26,247 Â Â Â 30,673 Â State and political subdivision loans Â Â 56,005 Â Â Â 57,174 Â Total Â Â 2,255,716 Â Â Â 2,248,836 Â Allowance for credit losses - loans Â Â (22,797) Â Â (21,153) Net loans Â $ 2,232,919 Â Â $ 2,227,683 Â Allowance for Credit Losses, effective January 1, 2023 Â As discussed in Note 1 â€œBasis of Presentationâ€, the Company adopted CECL effective January 1, 2023. CECL requires estimated credit losses on loans to be determined based on an expected life of loan model, as compared to an incurred loss model (in effect for periods prior to 2023). Accordingly, allowance for credit losses disclosures subsequent to January 1, 2023 are not always comparable to prior dates. In addition, certain new disclosures required under CECL are not applicable to prior periods. See Note 1, â€œBasis of Presentationâ€, for a summary of the impact of adopting CECL on January 1, 2023. 14 Index Under CECL, loans individually evaluated for impairment consist of non-accrual commercial loans and recently modified loans that were experiencing financial difficulty at the time of the modification. The allowance for credit losses related to loans consists of loans evaluated collectively and individually for expected credit losses. It represents an estimate of credit losses over the expected life of the loans as of the balance sheet date and is recorded as a reduction to net loans. The allowance for credit losses for off-balance sheet credit exposures includes estimated losses on unfunded loan commitments, letters of credit and other off-balance sheet credit exposures. The total allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries. Â The following table presents the components of the allowance for credit losses as of June 30, 2024 and December 31, 2023 (in thousands): Â Â June 30, 2024 Â Â December 31, 2023Â Â Allowance for Credit Losses - Loans Â $ 22,797 Â Â $ 21,153 Â Allowance for Credit Losses - Off-Balance Sheet credit Exposure Â Â 1,066 Â Â Â 1,265 Â Total allowance for credit losses Â $ 23,863 Â Â $ 22,418 Â The following table presents the activity in the allowance for credit losses for the three and six months ended June 30, 2024 and 2023 (in thousands): Â Â Allowance for Credit Losses - Loans Â Â Allowance for Credit Losses - Off-Balance Sheet credit Exposure Â Â Total Â Balance at March 31, 2024 Â $ 21,598 Â Â $ 938 Â Â $ 22,536 Â Loans charge-off Â Â (682) Â Â - Â Â Â (682) Recoveries of loans previously charged-off Â Â 7 Â Â Â - Â Â Â 7 Â Net loans charged-off Â Â (675) Â Â - Â Â Â (675) Provision for credit losses Â Â 1,874 Â Â Â 128 Â Â Â 2,002 Â Balance at June 30, 2024 Â $ 22,797 Â Â $ 1,066 Â Â $ 23,863 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Balance at December 31, 2023 Â $ 21,153 Â Â $ 1,265 Â Â $ 22,418 Â Loans charge-off Â Â (1,356) Â Â - Â Â Â (1,356) Recoveries of loans previously charged-off Â Â 14 Â Â Â - Â Â Â 14 Â Net loans charged-off Â Â (1,342) Â Â - Â Â Â (1,342) Provision for credit losses Â Â 2,986 Â Â Â (199) Â Â 2,787 Â Balance at June 30, 2024 Â $ 22,797 Â Â $ 1,066 Â Â $ 23,863 Â 15 Index Â Allowance for Credit Losses - Loans Â Â Allowance for Credit Losses - Off-Balance Sheet credit Exposure Â Â Total Â Balance at March 31, 2023 Â $ 15,250 Â Â $ 1,229 Â Â $ 16,479 Â Allowance for credit loss on PCD acquired loans Â Â 1,689 Â Â Â - Â Â Â 1,689 Â Loans charge-off Â Â (4) Â Â - Â Â Â (4) Recoveries of loans previously charged-off Â Â 26 Â Â Â - Â Â Â 26 Â Net loans charged-off Â Â 22 Â Â Â - Â Â Â 22 Â Provision for credit losses - acquisition day 1 non-PCD Â Â 4,591 Â Â Â - Â Â Â 4,591 Â Provision for credit losses Â Â 100 Â Â Â 162 Â Â Â 262 Â Balance at June 30, 2023 Â $ 21,652 Â Â $ 1,391 Â Â $ 23,043 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Balance at December 31, 2022 Â $ 18,552 Â Â $ 165 Â Â $ 18,717 Â Impact of adopting CECL Â Â (3,300) Â Â 1,064 Â Â Â (2,236) Allowance for credit loss on PCD acquired loans Â Â 1,689 Â Â Â - Â Â Â 1,689 Â Loans charge-off Â Â (11) Â Â - Â Â Â (11) Recoveries of loans previously charged-off Â Â 31 Â Â Â - Â Â Â 31 Â Net loans charged-off Â Â 20 Â Â Â - Â Â Â 20 Â Provision for credit losses - acquisition day 1 non-PCD Â Â 4,591 Â Â Â - Â Â Â 4,591 Â Provision for credit losses Â Â 100 Â Â Â 162 Â Â Â 262 Â Balance at June 30, 2023 Â $ 21,652 Â Â $ 1,391 Â Â $ 23,043 Â The following tables presents the activity in the allowance for credit losses â€“ loans, by portfolio segment, for the three and six months ended June 30, 2024 and 2023 (in thousands): Â Â For the three months ended June 30, 2024 Â Â Â Â Â Balance at March 31, 2024 Â Â Charge-offs Â Â Recoveries Â Â Provision Â Â Balance at June 30, 2024 Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 2,347 Â Â $ - Â Â $ - Â Â $ 8 Â Â $ 2,355 Â Commercial Â Â 9,741 Â Â Â - Â Â Â - Â Â Â 542 Â Â Â 10,283 Â Agricultural Â Â 3,672 Â Â Â - Â Â Â - Â Â Â 98 Â Â Â 3,770 Â Construction Â Â 1,595 Â Â Â - Â Â Â - Â Â Â 32 Â Â Â 1,627 Â Consumer Â Â 1,266 Â Â Â (7) Â Â 5 Â Â Â (53) Â Â 1,211 Â Other commercial loans Â Â 2,680 Â Â Â (675) Â Â 2 Â Â Â 1,249 Â Â Â 3,256 Â Other agricultural loans Â Â 174 Â Â Â - Â Â Â - Â Â Â 32 Â Â Â 206 Â State and political subdivision loans Â Â 65 Â Â Â - Â Â Â - Â Â Â (2) Â Â 63 Â Unallocated Â Â 58 Â Â Â - Â Â Â - Â Â Â (32) Â Â 26 Â Total Â $ 21,598 Â Â $ (682) Â $ 7 Â Â $ 1,874 Â Â $ 22,797 Â Â For the six months ended June 30, 2024 Â Â Â Balance at December 31, 2023 Â Â Charge-offs Â Â Recoveries Â Â Provision Â Â Balance at June 30, 2024 Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 2,354 Â Â $ - Â Â $ - Â Â $ 1 Â Â $ 2,355 Â Commercial Â Â 9,178 Â Â Â - Â Â Â - Â Â Â 1,105 Â Â Â 10,283 Â Agricultural Â Â 3,264 Â Â Â - Â Â Â - Â Â Â 506 Â Â Â 3,770 Â Construction Â Â 1,950 Â Â Â - Â Â Â - Â Â Â (323) Â Â 1,627 Â Consumer Â Â 1,496 Â Â Â (37) Â Â 10 Â Â Â (258) Â Â 1,211 Â Other commercial loans Â Â 2,229 Â Â Â (1,319) Â Â 4 Â Â Â 2,342 Â Â Â 3,256 Â Other agricultural loans Â Â 270 Â Â Â - Â Â Â - Â Â Â (64) Â Â 206 Â State and political subdivision loans Â Â 45 Â Â Â - Â Â Â - Â Â Â 18 Â Â Â 63 Â Unallocated Â Â 367 Â Â Â - Â Â Â - Â Â Â (341) Â Â 26 Â Total Â $ 21,153 Â Â $ (1,356) Â $ 14 Â Â $ 2,986 Â Â $ 22,797 Â 16 Index Â Â For the three months ended June 30, 2023 Â Â Balance at March 31, 2023 Â Â Allowance for credit loss on PCD acquired loans Â Â Charge-offs Â Â Recoveries Â Â Provision Â Â Balance at June 30, 2023 Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 1,195 Â Â $ 108 Â Â $ (1) Â $ - Â Â $ 1,373 Â Â $ 2,675 Â Commercial Â Â 6,747 Â Â Â 39 Â Â Â - Â Â Â - Â Â Â 2,488 Â Â Â 9,274 Â Agricultural Â Â 3,409 Â Â Â 37 Â Â Â - Â Â Â - Â Â Â 133 Â Â Â 3,579 Â Construction Â Â 851 Â Â Â Â Â Â - Â Â Â - Â Â Â 816 Â Â Â 1,667 Â Consumer Â Â 1,220 Â Â Â 677 Â Â Â (3) Â Â 23 Â Â Â (658) Â Â 1,259 Â Other commercial loans Â Â 712 Â Â Â 828 Â Â Â - Â Â Â 3 Â Â Â 934 Â Â Â 2,477 Â Other agricultural loans Â Â 250 Â Â Â - Â Â Â - Â Â Â - Â Â Â 18 Â Â Â 268 Â State and political subdivision loans Â Â 42 Â Â Â - Â Â Â - Â Â Â - Â Â Â 10 Â Â Â 52 Â Unallocated Â Â 824 Â Â Â - Â Â Â - Â Â Â - Â Â Â (423) Â Â 401 Â Total Â $ 15,250 Â Â $ 1,689 Â Â $ (4) Â $ 26 Â Â $ 4,691 Â Â $ 21,652 Â Â Â For the six months ended June 30, 2023 Â Â Â Balance at December 31, 2022 Â Â Impact of adopting CECL Â Â Allowance for credit loss on PCD acquired loans Â Â Charge-offs Â Â Recoveries Â Â Provision Â Â Balance at June 30, 2023 Â Real estate loans: Â Residential Â $ 1,056 Â Â $ 79 Â Â $ 108 Â Â $ (1) Â $ - Â Â $ 1,433 Â Â $ 2,675 Â Commercial Â Â 10,120 Â Â Â (3,070) Â Â 39 Â Â Â - Â Â Â - Â Â Â 2,185 Â Â Â 9,274 Â Agricultural Â Â 4,589 Â Â Â (1,145) Â Â 37 Â Â Â - Â Â Â - Â Â Â 98 Â Â Â 3,579 Â Construction Â Â 801 Â Â Â (103) Â Â Â Â Â Â - Â Â Â - Â Â Â 969 Â Â Â 1,667 Â Consumer Â Â 135 Â Â Â 1,040 Â Â Â 677 Â Â Â (10) Â Â 27 Â Â Â (610) Â Â 1,259 Â Other commercial loans Â Â 1,040 Â Â Â (328) Â Â 828 Â Â Â - Â Â Â 4 Â Â Â 933 Â Â Â 2,477 Â Other agricultural loans Â Â 489 Â Â Â (219) Â Â - Â Â Â - Â Â Â - Â Â Â (2) Â Â 268 Â State and political subdivision loans Â Â 322 Â Â Â (280) Â Â - Â Â Â - Â Â Â - Â Â Â 10 Â Â Â 52 Â Unallocated Â Â - Â Â Â 726 Â Â Â - Â Â Â - Â Â Â - Â Â Â (325) Â Â 401 Â Total Â $ 18,552 Â Â $ (3,300) Â $ 1,689 Â Â $ (11) Â $ 31 Â Â $ 4,691 Â Â $ 21,652 Â The following table presents the allowance for credit losses â€“ loans and amortized cost basis of loans under CECL methodology as of June 30, 2024 and December 31, 2023: Allowance for Credit Losses - Loans Loans June 30, 2024 Â Collectively evaluated Â Â Individually evaluated Â Â Total Allowance for Credit Losses - Loans Â Â Collectively evaluated Â Â Individually evaluated Â Â Total Loans Â Real estate loans: Â Residential Â $ 2,304 Â Â $ 51 Â Â $ 2,355 Â Â $ 352,924 Â Â $ 1,664 Â Â $ 354,588 Â Â Â Â Â Â Commercial Â Â 10,164 Â Â Â 119 Â Â Â 10,283 Â Â Â 1,107,745 Â Â Â 2,524 Â Â Â

1,110,269 Â Â Â Â Â Â Agricultural Â Â 3,753 Â Â Â 17 Â Â Â 3,770 Â Â Â 324,538 Â Â Â 2,519 Â Â Â 327,057 Â Â Â Â Â Â Construction Â Â 1,627 Â Â Â - Â Â Â 1,627 Â Â Â 178,209 Â Â Â 1,948 Â Â Â 180,157 Â Consumer Â Â 334 Â Â Â 877 Â Â Â 1,211 Â Â Â 69,585 Â Â Â 957 Â Â Â 70,542 Â Other commercial loans Â Â 1,915 Â Â Â 1,341 Â Â Â 3,256 Â Â Â 127,352 Â Â Â 3,499 Â Â Â 130,851 Â Other agricultural loans Â Â 206 Â Â Â - Â Â Â 206 Â Â Â 25,836 Â Â Â 411 Â Â Â 26,247 Â State and political subdivision loans Â Â 63 Â Â Â - Â Â Â 63 Â Â Â 56,005 Â Â Â - Â Â Â 56,005 Â Unallocated Â Â 26 Â Â Â - Â Â Â 26 Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 20,392 Â Â $ 2,405 Â Â $ 22,797 Â Â $ 2,242,194 Â Â $ 13,522 Â Â $ 2,255,716 Â 17 Index Â Allowance for Credit Losses - Loans Â Â Loans Â December 31, 2023 Â Collectively evaluated Â Â Individually evaluated Â Â Total Allowance for Credit Losses - Loans Â Â Collectively evaluated Â Â Individually evaluated Â Â Total Loans Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 2,285 Â Â $ 69 Â Â $ 2,354 Â Â $ 358,358 Â Â $ 1,632 Â Â $ 359,990 Â Commercial Â Â 9,033 Â Â Â 145 Â Â Â 9,178 Â Â Â 1,090,217 Â Â Â 2,670 Â Â Â 1,092,887 Â Agricultural Â Â 3,247 Â Â Â 17 Â Â Â 3,264 Â Â Â 311,500 Â Â Â 3,302 Â Â Â 314,802 Â Construction Â Â 1,664 Â Â Â 286 Â Â Â 1,950 Â Â Â 193,469 Â Â Â 2,357 Â Â Â 195,826 Â Consumer Â Â 557 Â Â Â 939 Â Â Â 1,496 Â Â Â 60,377 Â Â Â 939 Â Â Â 61,316 Â Other commercial loans Â Â 1,713 Â Â Â 516 Â Â Â 2,229 Â Â Â 134,472 Â Â Â 1,696 Â Â Â 136,168 Â Other agricultural loans Â Â 270 Â Â Â - Â Â Â 270 Â Â Â 30,388 Â Â Â 285 Â Â Â 30,673 Â State and political subdivision loans Â Â 45 Â Â Â - Â Â Â 45 Â Â Â 57,174 Â Â Â - Â Â Â 57,174 Â Unallocated Â Â 367 Â Â Â - Â Â Â 367 Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 19,181 Â Â $ 1,972 Â Â $ 21,153 Â Â $ 2,235,955 Â Â $ 12,881 Â Â $ 2,248,836 Â Non-performing Loans Non-performing loans include those loans that are considered nonaccrual, described in more detail below, and all loans past due 90 or more days. Loans are considered for non-accrual status upon reaching 90 days delinquency, although the Company may be receiving partial payments of interest and partial repayments of principal on such loans, or if full payment of principal and interest is not expected. Additionally, if management is made aware of other information including bankruptcy, repossession, death, or legal proceedings, the loan may be placed on non-accrual status. If a loan is 90 days or more past due and is well secured and in the process of collection, it may still be considered accruing. The following table reflects the non-performing loan receivables, as well as those on non-accrual status as of June 30, 2024 and December 31, 2023, respectively. The balances are presented by class of loan receivable (in thousands): Â Â Â Â Â Â Â Â Â Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Â Â Â Â Â Â Â Â Â Nonaccrual With a related allowance Â Â Nonaccrual Without a related allowance Â Â 90 days or greater past due and accruing Â Â Total non-performing loans Â Â Nonaccrual With a related allowance Â Â Nonaccrual Without a related allowance Â Â 90 days or greater past due and accruing Â Â Total non-performing loans Â Real estate loans: Â Mortgages Â $ - Â Â $ 2,927 Â Â $ - Â Â $ 2,927 Â Â $ 315 Â Â $ 2,646 Â Â $ - Â Â $ 2,961 Â Home Equity Â Â - Â Â Â 119 Â Â Â 76 Â Â Â 195 Â Â Â - Â Â Â 121 Â Â Â 18 Â Â Â 139 Â Commercial Â Â 1,248 Â Â Â 1,276 Â Â Â 168 Â Â Â 2,692 Â Â Â 256 Â Â Â 879 Â Â Â 404 Â Â Â 1,539 Â Agricultural Â Â 181 Â Â Â 2,338 Â Â Â - Â Â Â 2,519 Â Â Â 181 Â Â Â 2,489 Â Â Â 75 Â Â Â 2,745 Â Construction Â Â - Â Â Â 1,948 Â Â Â - Â Â Â 1,948 Â Â Â 2,357 Â Â Â - Â Â Â - Â Â Â 2,357 Â Consumer Â Â 871 Â Â Â - Â Â Â 16 Â Â Â 887 Â Â Â 701 Â Â Â - Â Â Â 13 Â Â Â 714 Â Other commercial loans Â Â 1,628 Â Â Â 2,002 Â Â Â 25 Â Â Â 3,655 Â Â Â 588 Â Â Â 1,162 Â Â Â 6 Â Â Â 1,756 Â Other agricultural loans Â Â - Â Â Â 411 Â Â Â - Â Â Â 411 Â Â Â - Â Â Â 492 Â Â Â - Â Â Â 492 Â Â Â $ 3,928 Â Â $ 11,021 Â Â $ 285 Â Â $ 15,234 Â Â $ 4,398 Â Â $ 7,789 Â Â $ 516 Â Â $ 12,703 Â As of June 30, 2024, there were $11.0 million of non-accrual loans that did not have a related allowance for credit losses. The estimated fair values of the collateral securing these loans exceeded their carrying amount, or the loans were previously charged down to the realizable collateral values. Accordingly, no specific valuation allowance was considered to be necessary. 18 Index The following table presents, by class of loans and leases, the amortized cost basis of collateral-dependent nonaccrual loans and leases and type of collateral as ofÂ June 30, 2024 and December 31, 2023 (in thousands): June 30, 2024 Â Real Estate Â Â Business Assets Â Â None Â Â Total Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Mortgages Â $ 2,927 Â Â $ - Â Â $ - Â Â $ 2,927 Â Â Â Â Â Â Home Equity Â Â 119 Â Â Â - Â Â Â - Â Â Â 119 Â Â Â Â Â Â Commercial Â Â 2,524 Â Â Â - Â Â Â - Â Â Â 2,524 Â Â Â Â Â Â Agricultural Â Â 2,519 Â Â Â - Â Â Â - Â Â Â 2,519 Â Â Â Â Â Â Construction Â Â 1,948 Â Â Â - Â Â Â - Â Â Â 1,948 Â Consumer Â Â - Â Â Â - Â Â Â 871 Â Â Â 871 Â Other commercial loans Â Â - Â Â Â 3,630 Â Â Â - Â Â Â 3,630 Â Other agricultural loans Â Â - Â Â Â 411 Â Â Â - Â Â Â 411 Â Â Â $ 10,037 Â Â $ 4,041 Â Â $ 871 Â Â $ 14,949 Â December 31, 2023 Â Real Estate Â Â Business Assets Â Â None Â Â Total Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Mortgages Â $ 2,961 Â Â $ - Â Â $ - Â Â $ 2,961 Â Â Â Â Â Â Home Equity Â Â 121 Â Â Â - Â Â Â - Â Â Â 121 Â Â Â Â Â Â Commercial Â Â 1,135 Â Â Â - Â Â Â - Â Â Â 1,135 Â Â Â Â Â Â Agricultural Â Â 2,670 Â Â Â - Â Â Â - Â Â Â 2,670 Â Â Â Â Â Â Construction Â Â 2,357 Â Â Â - Â Â Â - Â Â Â 2,357 Â Consumer Â Â - Â Â Â - Â Â Â 701 Â Â Â 701 Â Other commercial loans Â Â - Â Â Â 1,750 Â Â Â - Â Â Â 1,750 Â Other agricultural loans Â Â - Â Â Â 492 Â Â Â - Â Â Â 492 Â Â Â $ 9,244 Â Â $ 2,242 Â Â $ 701 Â Â $ 12,187 Â Credit Quality Information For commercial real estate loans, agricultural real estate loans, construction loans, other commercial loans, other agricultural loans, and state and political subdivision loans, management uses an internal risk rating system to monitor and assess credit quality. During the third quarter of 2023, this rating system was expanded from a nine grade rating system to a ten grade rating system. The firstÂ six categories under the revised system are considered not criticized and are aggregated as â€œPassâ€ rated. Under the prior system, the firstÂ five categories were considered not criticized and aggregated as â€œPassâ€ rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The definitions of each rating are defined below: â€¢ Pass (Grades 1-6) â€“ These loans are to customers with credit quality ranging from an acceptable to very high quality and are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. â€¢ Special Mention (Grade 7) â€“ This loan grade is in accordance with regulatory guidance and includes loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. â€¢ Substandard (Grade 8) â€“ This loan grade is in accordance with regulatory guidance and includes loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. â€¢ Doubtful (Grade 9) â€“ This loan grade is in accordance with regulatory guidance and includes loans that have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. â€¢ Loss (Grade 10) â€“ This loan grade is in accordance with regulatory guidance and includes loans that are considered uncollectible, or of such value that continuance as an asset is not warranted. 19 Index To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay the loan as agreed, the Companyâ€™s loan rating process includes several layers of internal and external oversight. The Companyâ€™s loan officers are responsible for the timely and accurate risk rating of the loans in each of their portfolios at origination and on an ongoing basis under the supervision of management.Â All commercial, agricultural and state and political relationships over $500,000 are reviewed annually to ensure the appropriateness of the loan grade. In addition, the Company engages an external consultant on at least an annual basis to: 1) review a minimum of 50% of the dollar volume of the commercial loan portfolio on an annual basis, 2) a large sample of relationships in aggregate over $1,000,000,Â 3) selected loan relationships over $750,000 which are over 30 days past due, or classified Special Mention, Substandard, Doubtful, or Loss, and 4) such other loans which management or the consultant deems appropriate. The following tables represent credit exposures by internally assigned grades, by origination year, as of June 30, 2024 and December 31, 2023 (in thousands): Â Revolving Â Â Revolving Â Â Â Â Â Â Â Â Â Loans Â Â Loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Amortized Â Â Converted Â Â Â June 30, 2024 Â 2024 Â Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â Prior Â Â Cost Basis Â Â to Term Â Â Total Â Commercial real estate Â Risk Rating Â Pass Â $ 24,386 Â Â $ 86,011 Â Â $ 346,073 Â Â $ 211,774 Â Â $ 118,917 Â Â $ 240,719 Â Â $ 36,287 Â Â $ 1,852 Â Â $ 1,066,019 Â Special Mention Â Â - Â Â Â 6,496 Â Â Â 1,065 Â Â Â 1,430 Â Â Â 8,672 Â Â Â 768 Â Â Â - Â Â Â 18,431 Â Substandard Â Â - Â Â Â 572 Â Â Â 13,045 Â Â Â 545 Â Â Â 194 Â Â Â 10,725 Â Â Â 330 Â Â Â 408 Â Â Â 25,819 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 24,386 Â Â $ 86,583 Â Â $ 365,614 Â Â $ 213,384 Â Â $ 120,541 Â Â $ 260,116 Â Â $ 37,385 Â Â $ 2,260 Â Â $ 1,110,269 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Agricultural real estate Â Risk Rating Â Pass Â $ 13,464 Â Â $ 26,962 Â Â $ 48,430 Â Â $ 27,830 Â Â $ 30,726 Â Â $ 136,181 Â Â $ 14,772 Â Â $ 119 Â Â $ 298,484 Â Special Mention Â Â 3,059 Â Â Â 185 Â Â Â 10,349 Â Â Â 1,292 Â Â Â - Â Â Â 7,919 Â Â Â 2,202 Â Â Â 562 Â Â Â 25,568 Â Substandard Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 2,913 Â Â Â - Â Â Â 92 Â Â Â 3,005 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 16,523 Â Â $ 27,147 Â Â $ 58,779 Â Â $ 29,122 Â Â $ 30,726 Â Â $ 147,013 Â Â $ 16,974 Â Â $ 773 Â Â $ 327,057 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Construction Â Risk Rating Â Pass Â $ 19,891 Â Â $ 57,223 Â Â $ 80,691 Â Â $ 7,742 Â Â $ 2,890 Â Â $ - Â Â $ 864 Â Â $ 121 Â Â $ 169,422 Â Special Mention Â Â - Â Â Â 812 Â Â Â 4,613 Â Â Â 2,950 Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 8,375 Â Substandard Â Â - Â Â Â - Â Â Â 412 Â Â Â 1,948 Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 2,360 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 19,891 Â Â $ 58,035 Â Â $ 85,716 Â Â $ 12,640 Â Â $ 2,890 Â Â $ - Â Â $ 864 Â Â $ 121 Â Â $ 180,157 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Other commercial loans Â Risk Rating Â Pass Â $ 27,900 Â Â $ 26,364 Â Â $ 7,742 Â Â $ 7,540 Â Â $ 2,208 Â Â $ 4,030 Â Â $ 40,759 Â Â $ 83 Â Â $ 116,626 Â Special Mention Â Â 330 Â Â Â - Â Â Â 1,919 Â Â Â 1,419 Â Â Â 2 Â Â Â 81 Â Â Â 5,312 Â Â Â 36 Â Â Â 9,099 Â Substandard Â Â 42 Â Â Â 1,283 Â Â Â 381 Â Â Â - Â Â Â 259 Â Â Â 1,136 Â Â Â 347 Â Â Â 1,661 Â Â Â 5,109 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 17 Â Â Â 17 Â Total Â $ 28,272 Â Â $ 27,647 Â Â $ 10,042 Â Â $ 8,959 Â Â $ 2,469 Â Â $ 5,247 Â Â $ 46,418 Â Â $ 1,797 Â Â $ 130,851 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ 6 Â Â $ - Â Â $ 1,313 Â Â $ - Â Â $ 1,319 Â Other agricultural loans Â Risk Rating Â Pass Â $ 2,392 Â Â $ 2,630 Â Â $ 1,157 Â Â $ 4,912 Â Â $ 518 Â Â $ 412 Â Â $ 11,491 Â Â $ - Â Â $ 23,512 Â Special Mention Â Â 734 Â Â Â - Â Â Â 405 Â Â Â 401 Â Â Â - Â Â Â - Â Â Â 739 Â Â Â - Â Â Â 2,279 Â Substandard Â Â - Â Â Â - Â Â Â - Â Â Â 191 Â Â Â - Â Â Â 199 Â Â Â 44 Â Â Â 22 Â Â Â 456 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 3,126 Â Â $ 2,630 Â Â $ 1,562 Â Â $ 5,504 Â Â $ 518 Â Â $ 611 Â Â $ 12,274 Â Â $ 22 Â Â $ 26,247 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â State and political subdivision loans Â

Â Â Â Â Â Â Â Â Â Â Â Â Risk Rating Â Pass Â $ 30 Â Â $ 1,541 Â Â $ 14,101 Â Â $ 10,600 Â Â $ 5,439 Â Â $ 24,294 Â Â $ - Â Â $ - Â Â $ 56,005 Â Special Mention Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Substandard Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 30 Â Â $ 1,541 Â Â $ 14,101 Â Â $ 10,600 Â Â $ 5,439 Â Â $ 24,294 Â Â $ - Â Â $ - Â Â $ 56,005 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Total Â - Â Risk Rating Â Pass Â $ 88,063 Â Â $ 200,731 Â Â $ 498,194 Â Â $ 270,398 Â Â $ 160,698 Â Â $ 405,636 Â Â $ 104,173 Â Â $ 2,175 Â Â $ 1,730,068 Â Special Mention Â Â 4,123 Â Â Â 997 Â Â Â 23,782 Â Â Â 7,127 Â Â Â 1,432 Â Â Â 16,672 Â Â Â 9,021 Â Â Â 598 Â Â Â 63,752 Â Substandard Â Â 42 Â Â Â 1,855 Â Â Â 13,838 Â Â Â 2,684 Â Â Â 453 Â Â Â 14,973 Â Â Â 721 Â Â Â 2,183 Â Â Â 36,749 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 17 Â Â Â 17 Â Total Â $ 92,228 Â Â $ 203,583 Â Â $ 535,814 Â Â $ 280,209 Â Â $ 162,583 Â Â $ 437,281 Â Â $ 113,915 Â Â $ 4,973 Â Â $ 1,830,586 Â 20 Index Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Revolving Â Â Revolving Â Â Â Â Â Â Â Â Loans Â Â Loans Â Amortized Â Â Converted Â Â Â Â December 31, 2023 Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â 2019 Â Â Prior Â Â Cost Basis Â Â to Term Â Â Total Â Commercial real estate Â Risk Rating Â Pass Â $ 90,068 Â Â $ 333,710 Â Â $ 224,873 Â Â $ 122,560 Â Â $ 81,557 Â Â $ 180,799 Â Â $ 28,360 Â Â $ 1,140 Â Â $ 1,063,067 Â Special Mention Â Â 672 Â Â Â 7,963 Â Â Â 227 Â Â Â 1,552 Â Â Â 7,442 Â Â Â 8,159 Â Â Â 96 Â Â Â 60 Â Â Â 26,171 Â Substandard Â Â - Â Â Â 1,302 Â Â Â 6 Â Â Â - Â Â Â 158 Â Â Â 1,444 Â Â Â 317 Â Â Â 422 Â Â Â 3,649 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 90,740 Â Â $ 342,975 Â Â $ 225,106 Â Â $ 124,112 Â Â $ 89,157 Â Â $ 190,402 Â Â $ 28,773 Â Â $ 1,622 Â Â $ 1,092,887 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Agricultural real estate Â Risk Rating Â Pass Â $ 22,632 Â Â $ 47,479 Â Â $ 28,990 Â Â $ 32,058 Â Â $ 25,406 Â Â $ 118,700 Â Â $ 10,495 Â Â $ 460 Â Â $ 286,220 Â Special Mention Â Â 574 Â Â Â 9,165 Â Â Â 1,499 Â Â Â - Â Â Â 962 Â Â Â 7,038 Â Â Â 3,535 Â Â Â - Â Â Â 22,773 Â Substandard Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 102 Â Â Â 5,394 Â Â Â 75 Â Â Â 238 Â Â Â 5,809 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 23,206 Â Â $ 56,644 Â Â $ 30,489 Â Â $ 32,058 Â Â $ 26,470 Â Â $ 131,132 Â Â $ 14,105 Â Â $ 698 Â Â $ 314,802 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Construction Â Risk Rating Â Pass Â $ 54,973 Â Â $ 102,562 Â Â $ 22,508 Â Â $ - Â Â $ - Â Â $ - Â Â $ 839 Â Â $ 1,166 Â Â $ 182,048 Â Special Mention Â Â 1,574 Â Â Â 5,432 Â Â Â 4,415 Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 11,421 Â Substandard Â Â - Â Â Â - Â Â Â 2,357 Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 2,357 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 56,547 Â Â $ 107,994 Â Â $ 29,280 Â Â $ - Â Â $ - Â Â $ - Â Â $ 839 Â Â $ 1,166 Â Â $ 195,826 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Other commercial loans Â Risk Rating Â Pass Â $ 31,493 Â Â $ 11,407 Â Â $ 9,016 Â Â $ 4,793 Â Â $ 4,758 Â Â $ 3,530 Â Â $ 63,285 Â Â $ 93 Â Â $ 128,375 Â Special Mention Â Â 51 Â Â Â 52 Â Â Â 1,510 Â Â Â 184 Â Â Â 223 Â Â Â 629 Â Â Â 1,652 Â Â Â 36 Â Â Â 4,337 Â Substandard Â Â 52 Â Â Â 97 Â Â Â - Â Â Â - Â Â Â 149 Â Â Â 967 Â Â Â 502 Â Â Â 1,667 Â Â Â 3,434 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 22 Â Â Â 22 Â Total Â $ 31,596 Â Â $ 11,556 Â Â $ 10,526 Â Â $ 4,977 Â Â $ 5,130 Â Â $ 5,126 Â Â $ 65,439 Â Â $ 1,818 Â Â $ 136,168 Â Current period gross charge-offs Â $ 200 Â Â $ - Â Â $ 763 Â Â $ - Â Â $ - Â Â $ - Â Â $ 963 Â Other agricultural loans Â Risk Rating Â Pass Â $ 3,902 Â Â $ 1,520 Â Â $ 6,448 Â Â $ 1,046 Â Â $ 532 Â Â $ 305 Â Â $ 15,331 Â Â $ - Â Â $ 29,084 Â Special Mention Â Â - Â Â Â 473 Â Â Â 16 Â Â Â 42 Â Â Â - Â Â Â - Â Â Â 488 Â Â Â 29 Â Â Â 1,048 Â Substandard Â Â - Â Â Â - Â Â Â 207 Â Â Â - Â Â Â 4 Â Â Â 255 Â Â Â 44 Â Â Â 31 Â Â Â 541 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 3,902 Â Â $ 1,993 Â Â $ 6,671 Â Â $ 1,088 Â Â $ 536 Â Â $ 560 Â Â $ 15,863 Â Â $ 60 Â Â $ 30,673 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â State and political subdivision loans Â Risk Rating Â Pass Â $ 1,623 Â Â $ 14,171 Â Â $ 10,841 Â Â $ 5,235 Â Â $ - Â Â $ 25,294 Â Â $ 10 Â Â $ - Â Â $ 57,174 Â Special Mention Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Substandard Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Total Â $ 1,623 Â Â $ 14,171 Â Â $ 10,841 Â Â $ 5,235 Â Â $ - Â Â $ 25,294 Â Â $ 10 Â Â $ - Â Â $ 57,174 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Total Â Risk Rating Â Pass Â $ 204,691 Â Â $ 510,849 Â Â $ 302,676 Â Â $ 165,692 Â Â $ 112,253 Â Â $ 328,628 Â Â $ 118,320 Â Â $ 2,859 Â Â $ 1,745,968 Â Special Mention Â Â 2,871 Â Â Â 23,085 Â Â Â 7,667 Â Â Â 1,778 Â Â Â 8,627 Â Â Â 15,826 Â Â Â 5,771 Â Â Â 125 Â Â Â 65,750 Â Substandard Â Â 52 Â Â Â 1,399 Â Â Â 2,570 Â Â Â - Â Â Â 413 Â Â Â 8,060 Â Â Â 938 Â Â Â 2,358 Â Â Â 15,790 Â Doubtful Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 22 Â Â Â 22 Â Total Â $ 207,614 Â Â $ 535,333 Â Â $ 312,913 Â Â $ 167,470 Â Â $ 121,293 Â Â $ 352,514 Â Â $ 125,029 Â Â $ 5,364 Â Â $ 1,827,530 Â 21 Index For residential real estate mortgage loans, home equity loans, and consumer loans, credit quality is monitored based on whether the loan is performing or non-performing, which is typically based on the aging status of the loan and payment activity, unless a specific action, such as bankruptcy, repossession, death or significant delay in payment occurs to raise awareness of a possible credit event. Non-performing loans include those loans that are considered nonaccrual, described in more detail above, and all loans past due 90 or more days and still accruing. The following tables present the recorded investment in those loan classes based on payment activity, by origination year, as of June 30, 2024 and December 31, 2023 (in thousands): Â Revolving Â Â Revolving Â Â Â Â Â Â Â Â Loans Â Â Loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Amortized Â Â Converted Â Â Â Â June 30, 2024 Â 2024 Â Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â Prior Â Â Cost Basis Â Â to Term Â Â Total Â Residential real estate Â Payment Performance Â Performing Â $ 5,634 Â Â $ 19,686 Â Â $ 91,593 Â Â $ 47,532 Â Â $ 28,521 Â Â $ 110,070 Â Â $ - Â Â $ - Â Â $ 303,036 Â Nonperforming Â Â - Â Â Â - Â Â Â 384 Â Â Â 746 Â Â Â 579 Â Â Â 1,218 Â Â Â - Â Â Â - Â Â Â 2,927 Â Total Â $ 5,634 Â Â $ 19,686 Â Â $ 91,977 Â Â $ 48,278 Â Â $ 29,100 Â Â $ 111,288 Â Â $ - Â Â $ - Â Â $ 305,963 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Home equity Â - Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Payment Performance Â Performing Â $ 1,321 Â Â $ 3,755 Â Â $ 2,736 Â Â $ 1,843 Â Â $ 1,753 Â Â $ 9,089 Â Â $ 27,646 Â Â $ 287 Â Â $ 48,430 Â Nonperforming Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 53 Â Â Â 66 Â Â Â 76 Â Â Â 195 Â Total Â $ 1,321 Â Â $ 3,755 Â Â $ 2,736 Â Â $ 1,843 Â Â $ 1,753 Â Â $ 9,142 Â Â $ 27,712 Â Â $ 363 Â Â $ 48,625 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Consumer Â - Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Payment Performance Â Performing Â $ 1,304 Â Â $ 1,363 Â Â $ 746 Â Â $ 461 Â Â $ 377 Â Â $ 2,823 Â Â $ 62,579 Â Â $ 2 Â Â $ 69,655 Â Nonperforming Â Â - Â Â Â 6 Â Â Â 4 Â Â Â - Â Â Â 12 Â Â Â 865 Â Â Â - Â Â Â - Â Â Â 887 Â Total Â $ 1,304 Â Â $ 1,369 Â Â $ 750 Â Â $ 461 Â Â $ 389 Â Â $ 3,688 Â Â $ 62,579 Â Â $ 2 Â Â $ 70,542 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ 21 Â Â $ - Â Â $ - Â Â $ - Â Â $ 16 Â Â $ - Â Â $ 37 Â Total Â - Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Payment Performance Â Performing Â $ 8,259 Â Â $ 24,804 Â Â $ 95,075 Â Â $ 49,836 Â Â $ 30,651 Â Â $ 121,982 Â Â $ 90,225 Â Â $ 289 Â Â $ 421,121 Â Nonperforming Â Â - Â Â Â 6 Â Â Â 388 Â Â Â 746 Â Â Â 591 Â Â Â 2,136 Â Â Â 66 Â Â Â 76 Â Â Â 4,009 Â Total Â $ 8,259 Â Â $ 24,810 Â Â $ 95,463 Â Â $ 50,582 Â Â $ 31,242 Â Â $ 124,118 Â Â $ 90,291 Â Â $ 365 Â Â $ 425,130 Â 22 Index Â Revolving Â Â Revolving Â Â Â Â Â Â Â Â Loans Â Â Loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Amortized Â Â Converted Â Â Â Â December 31, 2023 Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â 2019 Â Â Prior Â Â Cost Basis Â Â to Term Â Â Total Â Residential real estate Â Payment Performance Â Performing Â $ 19,082 Â Â $ 93,706 Â Â $ 47,774 Â Â $ 29,940 Â Â $ 18,923 Â Â $ 97,813 Â Â $ - Â Â $ - Â Â $ 307,238 Â Nonperforming Â Â - Â Â Â 399 Â Â Â 766 Â Â Â 396 Â Â Â - Â Â Â 1,400 Â Â Â - Â Â Â - Â Â Â 2,961 Â Total Â $ 19,082 Â Â $ 94,105 Â Â $ 48,540 Â Â $ 30,336 Â Â $ 18,923 Â Â $ 99,213 Â Â $ - Â Â $ - Â Â $ 310,199 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ 1 Â Â $ - Â Â $ - Â Â $ 1 Â Home equity Â Payment Performance Â Performing Â $ 3,877 Â Â $ 3,008 Â Â $ 1,886 Â Â $ 1,954 Â Â $ 2,462 Â Â $ 7,883 Â Â $ 28,219 Â Â $ 363 Â Â $ 49,652 Â Nonperforming Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 72 Â Â Â 67 Â Â Â - Â Â Â 139 Â Total Â $ 3,877 Â Â $ 3,008 Â Â $ 1,886 Â Â $ 1,954 Â Â $ 2,462 Â Â $ 7,955 Â Â $ 28,286 Â Â $ 363 Â Â $ 49,791 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ - Â Consumer Â Payment Performance Â Performing Â $ 1,803 Â Â $ 979 Â Â $ 539 Â Â $ 477 Â Â $ 557 Â Â $ 2,988 Â Â $ 53,254 Â Â $ 5 Â Â $ 60,602 Â Nonperforming Â Â - Â Â Â 21 Â Â Â - Â Â Â - Â Â Â - Â Â Â 693 Â Â Â - Â Â Â - Â Â Â 714 Â Total Â $ 1,803 Â Â $ 1,000 Â Â $ 539 Â Â $ 477 Â Â $ 557 Â Â $ 3,681 Â Â $ 53,254 Â Â $ 5 Â Â $ 61,316 Â Current period gross charge-offs Â $ - Â Â $ - Â Â $ - Â Â $ - Â Â $ 1 Â Â $

341 Â Â $ 23 Â Â $ - Â Â $ 365 Â Total Â Payment Performance Â Performing Â $ 24,762 Â Â $ 97,693 Â Â $ 50,199 Â Â $ 32,371 Â Â $ 21,942 Â Â $ 108,684 Â Â $ 81,473 Â Â $ 368 Â Â $ 417,492 Â Nonperforming Â Â - Â Â Â 420 Â Â Â 766 Â Â Â 396 Â Â Â - Â Â Â 2,165 Â Â Â 67 Â Â Â - Â Â Â 3,814 Â Total Â $ 24,762 Â Â $ 98,113 Â Â $ 50,965 Â Â $ 32,767 Â Â $ 21,942 Â Â $ 110,849 Â Â $ 81,540 Â Â $ 368 Â Â $ 421,306 Â Aging Analysis of Past Due Loan Receivables Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table includes an aging analysis of the recorded investment of past due loan receivables as of June 30, 2024 and December 31, 2023 (in thousands): June 30, 2024 Â 30-59 Days Past Due Â Â 60-89 Days Past Due Â Â 90 Days Or Greater Â Â Total Past Due Â Â Current Â Â Total Loans Receivables Â Â 90 Days or Greater and Accruing Â Real estate loans: Â Mortgages Â $ 1,823 Â Â $ 298 Â Â $ 1,729 Â Â $ 3,850 Â Â $ 302,113 Â Â $ 305,963 Â Â $ - Â Home Equity Â Â 106 Â Â Â 41 Â Â Â 195 Â Â Â 342 Â Â Â 48,283 Â Â Â 48,625 Â Â Â 76 Â Commercial Â Â 5,280 Â Â Â 8,794 Â Â Â 2,543 Â Â Â 16,617 Â Â Â 1,093,652 Â Â Â 1,110,269 Â Â Â 168 Â Agricultural Â Â 2,151 Â Â Â 369 Â Â Â 181 Â Â Â 2,701 Â Â Â 324,356 Â Â Â 327,057 Â Â Â - Â Construction Â Â 978 Â Â Â - Â Â Â 1,948 Â Â Â 2,926 Â Â Â 177,231 Â Â Â 180,157 Â Â Â - Â Consumer Â Â 147 Â Â Â 21 Â Â Â 887 Â Â Â 1,055 Â Â Â 69,487 Â Â Â 70,542 Â Â Â 16 Â Other commercial loans Â Â 345 Â Â Â 1,715 Â Â Â 1,871 Â Â Â 3,931 Â Â Â 126,920 Â Â Â 130,851 Â Â Â 25 Â Other agricultural loans Â Â 432 Â Â Â 146 Â Â Â 191 Â Â Â 769 Â Â Â 25,478 Â Â Â 26,247 Â Â Â - Â State and political subdivision loans Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 56,005 Â Â Â 56,005 Â Â Â - Â Total Â $ 11,262 Â Â $ 11,384 Â Â $ 9,545 Â Â $ 32,191 Â Â $ 2,223,525 Â Â $ 2,255,716 Â Â $ 285 Â Loans considered non-accrual Â $ 67 Â Â $ 1,920 Â Â $ 9,260 Â Â $ 11,247 Â Â $ 3,702 Â Â $ 14,949 Â Â Â Â Â Â Loans still accruing Â Â 11,195 Â Â Â 9,464 Â Â Â 285 Â Â Â 20,944 Â Â Â 2,219,823 Â Â Â 2,240,767 Â Â Â Â Â Total Â $ 11,262 Â Â $ 11,384 Â Â $ 9,545 Â Â $ 32,191 Â Â $ 2,223,525 Â Â $ 2,255,716 Â Â Â Â Â 23 Index December 31, 2023 Â 30-59 Days Past Due Â Â 60-89 Days Past Due Â Â 90 Days Or Greater Â Â Total Past Due Â Â Current Â Â Total Loans Receivables Â Â 90 Days or Greater and Accruing Â Real estate loans: Â Mortgages Â $ 2,682 Â Â $ 360 Â Â $ 2,240 Â Â $ 5,282 Â Â $ 304,917 Â Â $ 310,199 Â Â $ - Â Home Equity Â Â 145 Â Â Â 67 Â Â Â 71 Â Â Â 283 Â Â Â 49,508 Â Â Â 49,791 Â Â Â 18 Â Commercial Â Â 1,151 Â Â Â 245 Â Â Â 1,380 Â Â Â 2,776 Â Â Â 1,090,111 Â Â Â 1,092,887 Â Â Â 404 Â Agricultural Â Â 72 Â Â Â - Â Â Â 1,440 Â Â Â 1,512 Â Â Â 313,290 Â Â Â 314,802 Â Â Â 75 Â Construction Â Â 4,407 Â Â Â 388 Â Â Â 2,357 Â Â Â 7,152 Â Â Â 188,674 Â Â Â 195,826 Â Â Â - Â Consumer Â Â 16 Â Â Â 282 Â Â Â 23 Â Â Â 321 Â Â Â 60,995 Â Â Â 61,316 Â Â Â 13 Â Other commercial loans Â Â 670 Â Â Â 366 Â Â Â 319 Â Â Â 1,355 Â Â Â 134,813 Â Â Â 136,168 Â Â Â 6 Â Other agricultural loans Â Â 108 Â Â Â 362 Â Â Â - Â Â Â 470 Â Â Â 30,203 Â Â Â 30,673 Â Â Â - Â State and political subdivision loans Â Â - Â Â Â - Â Â Â - Â Â Â - Â Â Â 57,174 Â Â Â 57,174 Â Â Â - Â Total Â $ 9,251 Â Â $ 2,070 Â Â $ 7,830 Â Â $ 19,151 Â Â $ 2,229,685 Â Â $ 2,248,836 Â Â $ 516 Â Loans considered non-accrual Â $ 199 Â Â $ 666 Â Â $ 7,314 Â Â $ 8,179 Â Â $ 4,008 Â Â $ 12,187 Â Â Â Â Â Loans still accruing Â Â 9,052 Â Â Â 1,404 Â Â Â 516 Â Â Â 10,972 Â Â Â 2,225,677 Â Â Â 2,236,649 Â Â Â Â Â Total Â $ 9,251 Â Â $ 2,070 Â Â $ 7,830 Â Â $ 19,151 Â Â $ 2,229,685 Â Â $ 2,248,836 Â Â Â Â Â Modifications to Borrowers Experiencing Financial Difficulty Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. There were no loan modifications made during the six months ended June 30, 2024, for borrowers experiencing financial difficulty. Foreclosed Assets Held For Sale Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in other assets on the Consolidated Balance Sheet. As of June 30, 2024 and December 31, 2023, included within other assets are $2,690,000 and $474,000, respectively, of foreclosed assets. As of June 30, 2024, included within the foreclosed assets are $131,000 of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of June 30, 2024, the Company had initiated formal foreclosure proceedings on $521,000 of residential mortgage loans, the collateral properties which have not yet been transferred into foreclosed assets. 24 Index Note 6 â€“ Goodwill and Other Intangible Assets The following table provides the gross carrying value and accumulated amortization of intangible assets as of June 30, 2024 and December 31, 2023 (in thousands): Â June 30, 2024 Â Â December 31, 2023 Â Â Â Gross carrying value Â Â Accumulated amortization Â Â Net carrying value Â Â Gross carrying value Â Â Accumulated amortization Â Â Net carrying value Â Amortized intangible assets (1): Â MSRs Â $ 2,501 Â Â $ (1,656) Â $ 845 Â Â $ 2,457 Â Â $ (1,502) Â $ 955 Â Core deposit intangibles Â Â 4,713 Â Â Â (2,314) Â Â 2,399 Â Â Â 4,713 Â Â Â (2,018) Â Â 2,695 Â Total amortized intangible assets Â $ 7,214 Â Â $ (3,970) Â $ 3,244 Â Â $ 7,170 Â Â $ (3,520) Â $ 3,650 Â Unamortized intangible assets: Â Goodwill Â $ 85,758 Â Â Â Â Â Â Â Â Â Â $ 85,758 Â Â Â Â Â Â Â Â Â (1) Excludes fully amortized intangible assets The following table provides the current year and estimated future amortization expense for amortized intangible assets for the next five years (in thousands). The Company based its projections of amortization expense shown below on existing asset balances at June 30, 2024. Future amortization expense may vary from these projections: Â MSRs Â Â Core deposit intangibles Â Â Total Â Three months ended June 30, 2024 (actual) Â $ 74 Â Â $ 147 Â Â $ 221 Â Six months ended June 30, 2024 (actual) Â Â 154 Â Â Â 296 Â Â Â 450 Â Three months ended June 30, 2023 (actual) Â Â 75 Â Â Â 31 Â Â Â 106 Â Six months ended June 30, 2023 (actual) Â Â 148 Â Â Â 62 Â Â Â 210 Â Estimate for year ending December 31, Â Â Â Â Â Â Â Â Â Â Â Â Remaining 2024 Â Â 137 Â Â Â 268 Â Â Â 405 Â 2025 Â Â 235 Â Â Â 478 Â Â Â 713 Â 2026 Â Â 184 Â Â Â 395 Â Â Â 579 Â 2027 Â Â 127 Â Â Â 339 Â Â Â 466 Â 2028 Â Â 80 Â Â Â 284 Â Â Â 364 Â Thereafter Â Â 82 Â Â Â 635 Â Â Â 717 Â Total Â $ 845 Â Â $ 2,399 Â Â $ 3,244 Â Note 7 â€“ Employee Benefit Plans For additional detailed disclosure on the Companyâ€™s pension and employee benefits plans, please refer to Note 11 of the Companyâ€™s Audited Consolidated Financial Statements included in the 2023 Annual Report on Form 10-K. Noncontributory Defined Benefit Pension Plan The Bank sponsors a trusteed noncontributory defined benefit pension plan (â€œPension Planâ€) covering substantially all employees and officers hired prior to January 1, 2007.Â The Bankâ€™s funding policy is to make annual contributions, if needed, based upon the funding formula developed by the planâ€™s actuary. Any employee with a hire date of January 1, 2007 or later is not eligible to participate in the Pension Plan. In lieu of the Pension Plan, employees with a hire date of January 1, 2007 or later are eligible to receive, after meeting certain length of service requirements, an annual discretionary 401(k) plan contribution from the Bank equal to a percentage of an employeeâ€™s base compensation.Â The contribution amount, if any, is placed in a separate account within the 401(k) plan and is subject to a vesting requirement. For employees who are eligible to participate in the Pension Plan, the Pension Plan requires benefits to be paid to eligible employees based primarily upon age and compensation rates during employment.Â Upon retirement or other termination of employment, employees can elect either an annuity benefit or a lump sum distribution of vested benefits in the Pension Plan. 25 Index The following sets forth the components of net periodic benefit costs of the Pension Plan and the line item on the Consolidated Statement of Income where such amounts are included, for the three and six months ended June 30, 2024 and 2023, respectively (in thousands): Â Three Months Ended June 30, Â Â Six Months Ended June 30, Â Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Affected line item on the Consolidated Statement of Income Service cost Â $ 84 Â Â $ 77 Â Â $ 165 Â Â $ 155 Â Salary and Employee Benefits Interest cost Â Â 106 Â Â Â 110 Â Â Â 211 Â Â Â 220 Â Other Expenses Expected return on plan assets Â Â (195) Â Â (197) Â Â (395) Â Â (394) Other Expenses Net amortization and deferral Â Â 14 Â Â Â 7 Â Â Â 16 Â Â Â 14 Â Other Expenses Net periodic benefit cost Â $ 9 Â $ (3) Â $ (3) Â $ (5) Â The Bank does not expect to contribute to the Pension Plan during 2024. Restricted Stock Plan The Company maintains a Restricted Stock Plan (the â€œPlanâ€) whereby employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance related requirements.Â Awards granted under the Plan are in the form of the Companyâ€™s common stock and are subject to certain vesting requirements including continuous employment or service with the Company.Â In April 2016, the Companyâ€™s stockholders authorized a total of 150,000 shares of the Companyâ€™s common stock to be made available under the Plan. As of June 30, 2024, 106,633 shares remain available to be issued under the Plan.Â The Plan assists the Company in attracting, retaining and motivating employees to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. The following table details the vesting, awarding and forfeiting of restricted stock during the three and six months ended June 30, 2024: Â Three months Â Â Six months Â Â Â Unvested Shares Â Â Weighted Average Market Price Â Â Unvested Shares Â Â Weighted Average Market Price Â Outstanding, beginning of period Â Â 6,651 Â Â $ 72.04 Â Â Â 6,707 Â Â $ 71.94 Â Granted Â Â 5,930 Â Â Â 43.15 Â Â Â 5,930 Â Â Â 43.15 Â Vested Â Â (2,361) Â Â (69.75) Â Â (2,417) Â Â (69.52) Outstanding, end of period Â Â 10,220 Â Â $ 55.81 Â Â Â 10,220 Â Â $ 55.81 Â Compensation expense related to restricted stock is recognized, based on the market price of the stock at the grant date, over the vesting period. Compensation expense related to restricted stock was $122,000 and $116,000 for the six months ended June 30, 2024 and 2023, respectively. For the three months ended June 30, 2024 and 2023, compensation expense totaled $57,000 and $51,000, respectively. At June 30, 2024, the total compensation cost related to nonvested awards that had not yet been recognized was $571,000, which is expected to be recognized over the next three years. 26 Index Note 8 â€“ Accumulated Other Comprehensive Loss The following tables present the changes in accumulated other comprehensive loss by component, net of tax, for the three and six months ended June 30, 2024 and 2023 (in thousands): Â Three months ended June 30, 2024 Â Â Â Unrealized gain (loss) on available for sale securities (a) Â Â Defined Benefit Pension Items (a) Â Â Unrealized loss on interest rate swap (a) Â Â Total Â Balance as of March 31, 2024 Â $ (30,069) Â $ (970) Â $ 4,419 Â Â $ (26,620) Other comprehensive income (loss) before reclassifications (net of tax) Â Â 911 Â Â Â - Â Â Â 263 Â Â Â 1,174 Â Amounts reclassified from accumulated other comprehensive income (loss) (net of tax) Â Â - Â Â Â 11 Â Â Â (497) Â Â (486) Net current period other comprehensive income (loss) Â Â 911 Â Â Â 11 Â Â Â (234) Â Â 688 Â Balance as of June 30, 2024 Â $ (29,158) Â $ (959) Â $ 4,185 Â Â $ (25,932) Â Six months ended June 30, 2024 Â Â Â Unrealized gain (loss) on available for sale securities (a) Â Â Defined Benefit Pension Items (a) Â Â Unrealized loss on interest rate swap (a) Â Â Total Â Balance as of December 31, 2023 Â $ (28,238) Â $ (972) Â $ 4,299 Â Â $ (24,911) Other comprehensive income (loss) before reclassifications (net of tax) Â Â (920) Â Â - Â Â Â 887 Â Â Â (33) Amounts reclassified from accumulated other comprehensive income (loss) (net of tax) Â Â - Â Â Â 13 Â Â Â (1,001) Â Â (988) Net current period other comprehensive income (loss) Â Â (920) Â Â 13 Â Â Â (114) Â Â (1,021) Balance as of June 30, 2024 Â $ (29,158) Â $ (959) Â $ 4,185 Â Â $ (25,932) Â Three months ended June 30, 2023 Â Â Â Unrealized gain (loss) on available for sale securities (a) Â Â Defined Benefit Pension Items (a) Â Â Unrealized loss on interest rate swap (a) Â Â Total Â Balance as of March 31, 2023 Â $ (30,422) Â $ (1,050) Â $ 4,710 Â Â $ (26,762) Other comprehensive income (loss) before reclassifications (net of tax) Â Â (4,736) Â Â - Â Â Â 888 Â Â Â (3,848) Amounts reclassified from accumulated other comprehensive income (loss) (net of tax) Â Â 39 Â Â Â 5 Â Â Â (414) Â Â (370) Net current period other comprehensive income (loss) Â Â (4,697) Â Â 5 Â Â Â 474 Â Â Â (4,218) Balance as of June 30, 2023 Â $ (35,119) Â $ (1,045) Â $ 5,184 Â Â $ (30,980) Â Six months ended June 30, 2023 Â Â Â Unrealized gain (loss) on available for sale securities (a) Â Â Defined Benefit Pension Items

(a) Â Â Unrealized loss on interest rate swap (a) Â Â Total Â Balance as of December 31, 2022 Â $ (37,514) Â $ (1,056) Â $ 5,429 Â Â $ (33,141) Other comprehensive income (loss) before reclassifications (net of tax) Â Â 2,356 Â Â Â - Â Â Â 529 Â Â Â 2,885 Â Amounts reclassified from accumulated other comprehensive income (loss) (net of tax) Â Â 39 Â Â Â 11 Â Â Â (774) Â Â (724) Net current period other comprehensive income (loss) Â Â 2,395 Â Â Â 11 Â Â Â (245) Â Â 2,161 Â Balance as of June 30, 2023 Â $ (35,119) Â $ (1,045) Â $ 5,184 Â Â $ (30,980) (a) Amounts in parentheses indicate debits on the Consolidated Balance Sheet. 27 Index The following table presents the significant amounts reclassified out of each component of accumulated other comprehensive loss for the three and six months ended June 30, 2024 and 2023 (in thousands): Details about accumulated other comprehensive income (loss) Â Amount reclassified from accumulated comprehensive income (loss) (a) Â Affected line item in the Consolidated Statement of Income Â Â Three Months Ended June 30, Â Â Â Â 2024 Â Â 2023 Â Â Unrealized gains and losses on available for sale securities Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â $ - Â Â $ (51) Available for sale securities losses, net Â Â Â - Â Â Â 12 Â Provision for income taxes Â Â $ - Â Â $ (39) Net of tax Defined benefit pension items Â Â Â Â Â Â Â Â Â Â Â $ (14) Â $ (7) Other expenses Â Â Â 3 Â Â Â 2 Â Provision for income taxes Â Â $ (11) Â $ (5) Net of tax Â Â Â Â Â Â Â Â Â Unrealized gain (loss) on interest rate swap Â $ 630 Â Â $ 524 Â Interest expense Â Â Â (133) Â Â (110) Provision for income taxes Â Â $ 497 Â Â $ 414 Â Net of tax Â Â Â Â Â Â Â Â Â Total reclassifications Â $ 486 Â Â $ 370 Â Â Six Months Ended June 30, Â Â 2024 Â Â 2023 Â Â Unrealized gains and losses on available for sale securities Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â $ - Â Â $ (51) Available for sale securities losses, net Â Â Â - Â Â Â 12 Â Provision for income taxes Â Â $ - Â Â $ (39) Net of tax Defined benefit pension items Â Â Â Â Â Â Â Â Â Â Â $ (16) Â $ (14) Other expenses Â Â Â 3 Â Â Â 3 Â Provision for income taxes Â Â $ (13) Â $ (11) Net of tax Â Â Â Â Â Â Â Â Â Unrealized gain (loss) on interest rate swap Â $ 1,268 Â Â $ 980 Â Interest expense Â Â Â (267) Â Â (206) Provision for income taxes Â Â $ 1,001 Â Â $ 774 Â Net of tax Â Â Â Â Â Â Â Â Â Total reclassifications Â $ 988 Â Â $ 724 Â Â (a) Amounts in parentheses indicate expenses and other amounts indicate income on the Consolidated Statement of Income 28 Index Note 9 â€“ Fair Value Measurements The Company has established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by this hierarchy are as follows: Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed. Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using managementâ€™s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Companyâ€™s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Companyâ€™s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Companyâ€™s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Companyâ€™s monthly and/or quarterly valuation process. Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis The fair values of equity securities and securities available for sale are determined by quoted prices in active markets, when available, and classified as Level I. If quoted market prices are not available, the fair value is determined by a matrix pricing, which is a mathematical technique, widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securitiesâ€™ relationship to other benchmark quoted securities and classified as Level II. The fair values consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bondâ€™s terms and conditions, among other things. 29 Index The following tables present the assets and liabilities reported on the Consolidated Balance Sheet at their fair value on a recurring basis as of June 30, 2024 and December 31, 2023 by level within the fair value hierarchy (in thousands). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. June 30, 2024 Â Level I Â Â Level II Â Â Level III Â Â Total Â Fair value measurements on a recurring basis: Â Â Â Â Â Â Â Â Â Â Â Â Â Assets Â Â Â Â Â Â Â Â Â Â Â Â Equity securities Â $ 1,570 Â Â $ - Â Â $ - Â Â $ 1,570 Â Available for sale securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â U.S. Agency securities Â Â - Â Â Â 55,833 Â Â Â - Â Â Â 55,833 Â U.S. Treasury securities Â Â 130,073 Â Â Â - Â Â Â - Â Â Â 130,073 Â Obligations of state and political subdivisions Â Â - Â Â Â 96,707 Â Â Â - Â Â Â 96,707 Â Corporate obligations Â Â - Â Â Â 12,450 Â Â Â - Â Â Â 12,450 Â Mortgage-backed securities in government sponsored entities Â Â - Â Â Â 107,598 Â Â Â - Â Â Â 107,598 Â Loans held for sale Â Â - Â Â Â 14,227 Â Â Â - Â Â Â 14,227 Â Other Assets Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Derivative instruments Â Â - Â Â Â 12,617 Â Â Â 494 Â Â Â 13,111 Â Liabilities Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Derivative instruments Â Â - Â Â Â (7,319) Â Â - Â Â Â (7,319) December 31, 2023 Â Level I Â Â Level II Â Â Level III Â Â Total Â Fair value measurements on a recurring basis: Â Â Â Â Â Â Â Â Â Â Â Â Assets Â Â Â Â Â Â Â Â Â Â Â Â Equity securities Â $ 1,938 Â Â $ - Â Â $ - Â Â $ 1,938 Â Available for sale securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â U.S. Agency securities Â Â - Â Â Â 60,771 Â Â Â - Â Â Â 60,771 Â U.S. Treasuries securities Â Â 143,288 Â Â Â - Â Â Â - Â Â Â 143,288 Â Obligations of state and political subdivisions Â Â - Â Â Â 101,787 Â Â Â - Â Â Â 101,787 Â Corporate obligations Â Â - Â Â Â 12,403 Â Â Â - Â Â Â 12,403 Â Mortgage-backed securities in government sponsored entities Â Â - Â Â Â 99,352 Â Â Â - Â Â Â 99,352 Â Loans held for sale Â Â - Â Â Â 9,379 Â Â Â - Â Â Â 9,379 Â Other Assets Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Derivative instruments Â Â - Â Â Â 13,363 Â Â Â 324 Â Â Â 13,687 Â Liabilities Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Derivative instruments Â Â - Â Â Â (7,922) Â Â - Â Â Â (7,922) The following tables represent the change in the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2024 and for the three months ended June 30, 2023 (in thousands): Â Â IRLC- Asset Â Balance: December 31, 2023 Â $ 324 Â Total unrealized losses: Â Â Â Â Included in other comprehensive loss Â Â - Â Total losses included in earnings and held at reporting date Â Â 170 Purchases, sales and settlements Â Â - Â Transfers in and/or out of Level 3 Â Â - Â Ending Balance: June 30, 2024 Â $ 494 Â Change in unrealized (losses) for the period included in earnings for assets held as of June 30, 2024 Â $ 170 Â Â IRLC- Asset Â Beginning Balance: March 31, 2024 Â $ 566 Â Total unrealized losses: Â Â Â Â Included in other comprehensive loss Â Â - Â Total losses included in earnings and held at reporting date Â Â (72) Purchases, sales and settlements Â Â - Â Transfers in and/or out of Level 3 Â Â - Â Ending Balance: June 30, 2024 Â $ 494 Â Change in unrealized (losses) for the period included in earnings for assets held as of June 30, 2024 Â $ (72) Â Â IRLC- Asset Â Balance acquired as part of the HVBC acquisition Â $ 657 Â Total unrealized losses: Â Â Â Â Included in other comprehensive loss Â Â - Â Total losses included in earnings and held at reporting date Â Â (128) Purchases, sales and settlements Â Â - Â Transfers in and/or out of Level 3 Â Â - Â Ending Balance: June 30, 2023 Â $ 529 Â Change in unrealized (losses) for the period included in earnings (or changes in net assets) for assets held as of June 30, 2023 Â $ (128) At June 30, 2024 and December 31, 2023, the Company had classified as Level 3 $494,000 and $324,000, respectively, of net derivative assets and liabilities related to IRLC. The fair value of IRLCs is based on prices obtained for loans with similar characteristics from third parties, adjusted by the pull-through rate, which represents the Companyâ€™s best estimate of the probability that a committed loan will fund. The weighted average pull-through rates applied ranged from 77.00% to 99.66% at June 30, 2024. 30 Index Significant unobservable inputs for assets measured at fair value on a recurring basis at June 30, 2024 and December 31, 2023 (dollars in thousands): Â Â Quantitative Information about Level 3 Fair Value Measurements Â June 30, 2024 Â Fair Value Â Valuation Technique Significant Unobservable Input Â Range Â Â Weighted Average Â Measured at Fair Value on a Recurring Basis: Â Â Â Â Â Â Â Â Â Â Â Net derivative asset and liability: Â Â Â Â Â Â Â Â Â Â IRLC Â $ 494 Â Discounted cash flows Â Pull-through rates Â Â 77.00%-99.66 % Â Â 89.06 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Quantitative Information about Level 3 Fair Value Measurements Â December 31, 2023 Â Fair Value Â Valuation Technique Significant Unobservable Input Â Range Â Â Weighted Average Â Measured at Fair Value on a Recurring Basis: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net derivative asset and liability: Â Â Â Â Â Â Â Â Â Â Â Â Â Â IRLC Â $ 324 Â Discounted cash flows Â Pull-through rates Â Â 63.63%-94.24 % Â Â 85.43 % Assets and Liabilities Required to be Measured and Reported at Fair Value on a Nonrecurring Basis Assets measured at fair value on a nonrecurring basis as of June 30, 2024 and December 31, 2023 are included in the table below (in thousands): June 30, 2024 Â Level I Â Â Level II Â Â Level III Â Â Total Â Collateral-dependent loans Â $ - Â Â $ - Â Â $ 1,742 Â Â $ 1,742 Â Other real estate owned Â Â - Â Â Â - Â Â Â 2,690 Â Â Â 2,690 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â December 31, 2023 Â Level I Â Â Level II Â Â Level III Â Â Total Â Collateral-dependent loans Â $ - Â Â $ - Â Â $ 3,885 Â Â $ 3,885 Â Other real estate owned Â Â - Â Â Â - Â Â Â 97 Â Â Â 97 Â â€¢ Collateralâ€"Dependent Loans (in accordance with ASC 326) â€" The Company records nonrecurring adjustments of collateral-dependent loans held for investment. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals are generally obtained to support the fair value of the collateral and incorporate measures that include recent sales prices for comparable properties and cost of construction. Periodically, in cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized in the form of a charge-off.Â The fair values above excluded estimated selling costs of $148,000 and $396,000 at June 30, 2024 and December 31, 2023, respectively. â€¢ Other Real Estate Owned (OREO) â€" OREO is carried at the lower of cost or fair value, less estimated costs to sell, which is measured at the date of foreclosure.Â If the fair value of the collateral exceeds the carrying amount of the loan, no charge-off or adjustment is necessary, the loan is not considered to be carried at fair value, and is therefore not included in the table above. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value. The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property, and is included in the above table as a Level II measurement.Â In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed.Â In these cases, the loans are categorized in the above table as a Level III measurement since these adjustments are considered to be unobservable inputs. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO. 31 Index The following table provides a listing of the significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques (dollars in thousands). Quantitative Information about Level III Fair Value Measurements Â June 30, 2024 Â Fair Value Â

Valuation Technique(s) Unobservable input Â Range Â Â Weighted average Â Collateral-dependent loans Â $ 1,742 Â Appraised Collateral Values Discount for time since appraisal Â Â 0-100 % Â Â 52.60 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Selling costs Â Â 8%-10 % Â Â 8.49 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Holding period Â 0 - 12 months Â Â 7.42 months Â Â Â Â Â Â Â Â Â Â Â Â Â Â Other real estate owned Â Â 2,690 Â Appraised Collateral Values Discount for time since appraisal Â Â 4.8-31.8 % Â Â 29.93 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â December 31, 2023 Â Fair Value Â Valuation Technique(s) Â Unobservable input Â Range Â Â Weighted average Â Collateral-dependent loans Â Â 3,885 Â Appraised Collateral Values Â Discount for time since appraisal Â Â 0-100 % Â Â 29.32 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Selling costs Â Â 8%-12 % Â Â 10.20 % Â Â Â Â Â Â Â Â Â Â Â Â Â Holding period Â 3 - 12 months Â Â 6.65 months Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Other real estate owned Â Â 97 Â Appraised Collateral Values Â Discount for time since appraisal Â Â 32 % Â Â 32.00 % Financial Instruments Not Required to be Measured or Reported at Fair Value The carrying amount and fair value of the Companyâ€™s financial instruments that are not required to be measured or reported at fair value on a recurring basis are as follows (in thousands): June 30, 2024 Â Carrying Amount Â Â Fair Value Â Â Level I Â Â Level II Â Â Level III Â Financial assets: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Interest bearing time deposits with other banks Â $ 3,820 Â Â $ 3,820 Â Â $ - Â Â $ - Â Â $ 3,820 Â Net loans Â Â 2,232,919 Â Â Â 2,146,574 Â Â Â - Â Â Â - Â Â Â 2,146,574 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Financial liabilities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Deposits Â Â 2,273,095 Â Â Â 2,266,614 Â Â Â 1,788,429 Â Â Â - Â Â Â 478,185 Â Borrowed funds Â Â 334,829 Â Â Â 318,729 Â Â Â - Â Â Â - Â Â Â 318,729 Â December 31, 2023 Â Carrying Amount Â Â Fair Value Â Â Level I Â Â Level II Â Â Level III Â Financial assets: Â Interest bearing time deposits with other banks Â $ 4,070 Â Â $ 4,070 Â Â $ - Â Â $ - Â Â $ 4,070 Â Net loans Â Â 2,227,683 Â Â Â 2,126,237 Â Â Â - Â Â Â - Â Â Â 2,126,237 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Financial liabilities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Deposits Â Â 2,321,481 Â Â Â 2,315,374 Â Â Â 1,902,007 Â Â Â - Â Â Â 413,367 Â Borrowed funds Â Â 322,036 Â Â Â 313,217 Â Â Â - Â Â Â - Â Â Â 313,217 Â The carrying amounts for cash and due from banks, bank owned life insurance, regulatory stock, accrued interest receivable and payable approximate fair value and are considered Level I measurements. 32 Index Â Â Note 10 â€“ Recent Accounting Pronouncements In March 2023, the FASB issued ASU No. 2023-02, â€œInvestmentsâ€”Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)â€. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in Accounting Standards Codification (ASC) 323-740-25-1. While the ASU does not significantly alter the existing eligibility criteria, it does provide clarifications to address existing interpretive issues. It also prescribes specific information reporting entities must disclose about tax credit investments each period. This ASU is effective for reporting periods beginning after December 15,Â 2023, for public business entities, or January 1,Â 2024 for the Corporation. The Corporation does not expect the adoption of this ASU to have a material impact on the Corporationâ€™s financial statements. In December 2023, the FASB issued ASU 2023-09,Â Income Taxes (Topic 740): Improvements to Income Tax Disclosures, requires the amount of net income taxes paid for federal, state, and foreign taxes, as well as the amount paid to any jurisdiction that net taxes exceed a 5% quantitative threshold.Â The amendments will require the disclosure of pre-tax income disaggregated between domestic and foreign, as well as income tax expense disaggregated by federal, state, and foreign.Â The amendment also eliminates certain disclosures related to unrecognized tax benefits and certain temporary differences.Â This ASU is effective for fiscal years beginning after December 15,Â 2024.Â Early adoption is permitted in any annual period where financial statements have not yet been issued.Â The amendments should be applied on a prospective basis but retrospective application is permitted.Â The Company does not expect adoption of the standard to have a material impact on its Consolidated Financial Statements. In March 2024, the FASB issued ASU 2024-01, Compensation â€“ Stock Compensation (Topic 718), amended the guidance in ASC 718 to add an example showing how to apply the scope guidance to determine whether profits interest and similar awards should be accounted for as share-based payment arrangements.Â For public business entities, the guidance is effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years.Â For all other entities, it is effective for fiscal years beginning after December 15, 2025, and interim periods within those fiscal years.Â This Update is not expected to have a significant impact on the Companyâ€™s financial statements. In March 2024, the FASB issued ASU 2024-02,Â Codification Improvementsâ€”Amendments to Remove References to the Concepts Statements. This ASU removes various references to the FASBâ€™s Concepts Statements from the FASBâ€™s Accounting Standards Codification. The FASB does not expect these updates to have a significant effect on current accounting practice. That is because in most cases the amendments to the Codification remove references to Concept Statements that are extraneous and not required to understand or apply the guidance. However, the FASB has provided transition guidance if applying the updated guidance results in accounting changes for some entities. The amendments in ASU 2024-02 are effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025.Â This Update is not expected to have a significant impact on the Companyâ€™s financial statements. Other accounting standards that have been issued by the FASB or other standards-setting bodies are not currently expected to have a material effect on the Companyâ€™s consolidated financial position, results of operations or cash flows. 33 Index ITEM 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements We have made forward-looking statements in this document, and in documents that we incorporate by reference, that are subject to risks and uncertainties. Forward-looking statements include information concerning possible or expected future results of operations of Citizens Financial Services, Inc., CZFS Acquisition Company, LLC, First Citizens Community Bank, First Citizens Insurance Agency, Inc., 1st Realty of PA LLC or the combined Company. When we use words such as â€œbelieves,â€ â€œexpects,â€ â€œanticipates,â€ or similar expressions, we are making forward-looking statements. For a variety of reasons, actual results could differ materially from those contained in or implied by forward-looking statements.Â The Company cautions readers that the following important factors, among others, could in the future affect the Companyâ€™s actual results and could cause the Companyâ€™s actual results for subsequent periods to differ materially from those expressed in any forward-looking statement: â€¢ Interest rates could change more rapidly or more significantly than we expect or the yield curve could remain inverted for a longer period than anticipated. â€¢ The economy could change significantly in an unexpected way, which would cause the demand for new loans and the ability of borrowers to repay outstanding loans to change in ways that our models do not anticipate. â€¢ The financial markets could suffer a significant disruption, which may have a negative effect on our financial condition and that of our borrowers, and on our ability to raise money by issuing new securities. â€¢ It could take us longer than we anticipate implementing strategic initiatives, including expansions, designed to increase revenues or manage expenses, or we may be unable to implement those initiatives at all. â€¢ Acquisitions and dispositions of assets and companies could affect us in ways that management has not anticipated. â€¢ We may become subject to new legal obligations or the resolution of litigation may have a negative effect on our financial condition or operating results. â€¢ We may become subject to new and unanticipated accounting, tax, regulatory or compliance practices or requirements. Failure to comply with any one or more of these requirements could have an adverse effect on our operations. â€¢ We could experience greater loan delinquencies than anticipated, adversely affecting our earnings and financial condition. â€¢ We could experience greater losses than expected due to the ever-increasing volume of information theft and fraudulent scams impacting our customers and the banking industry. â€¢ We could lose the services of some or all of our key personnel, which would negatively impact our business because of their business development skills, financial expertise, lending experience, technical expertise and market area knowledge. â€¢ The agricultural economy is subject to extreme swings in both the costs of resources and the prices received from the sale of products as a result of weather, government regulations, international trade agreements and consumer tastes, which could negatively impact certain of our customers. â€¢ Loan concentrations in certain industries could negatively impact our results, if financial results or economic conditions deteriorate. â€¢ Companies providing support services related to the exploration and drilling of the natural gas reserves in our market area may be affected by federal, state and local laws and regulations such as restrictions on production, permitting, changes in taxes and environmental protection, which could negatively impact our customers and, as a result, negatively impact our loan and deposit volume and loan quality. Additionally, the activities the companies providing support services related to the exploration and drilling of the natural gas reserves may be dependent on the market price of natural gas.Â As a result, decreases in the market price of natural gas could also negatively impact these companies, our customers. 34 Index Additional factors that may affect our results are discussed under â€œPart II â€“ Item 1A â€“ Risk Factorsâ€ in this report and in the Companyâ€™s 2023 Annual Report on Form 10-K under â€œItem 1.A/ Risk Factors.â€Â Except as required by applicable law and regulation, we assume no obligation to update or revise any forward-looking statements after the date on which they are made. Critical Accounting Policies See Note 1, â€œBasis of Presentationâ€ for additional information on the adoption of ASC 326, which changes the methodology under which management calculates its reserve for loans and investment securities, now referred to as the allowance for credit losses. Management considers the measurement of the allowance for credit losses to be a critical accounting policy. Introduction The following is managementâ€™s discussion and analysis of the Companyâ€™s consolidated financial condition and results of operations at the dates and for the periods presented in the accompanying consolidated financial statements for the Company.Â Our consolidated financial condition and results of operations consist almost entirely of the Bankâ€™s financial condition and results of operations. Managementâ€™s discussion and analysis should be read in conjunction with the preceding financial statements presented under Part I and the Companyâ€™s audited consolidated financial statements contained in the Companyâ€™s Annual Report on Form 10-K for the year ended December 31, 2023.Â The results of operations for the three and six months ended June 30, 2024 are not necessarily indicative of the results you may expect for the full year. The Company engages in the general business of banking throughout our service area of Potter, Tioga, Clinton, Bradford, Lycoming and Centre counties in north central Pennsylvania, Lebanon, Berks, Schuylkill, Lancaster and Chester counties in south central Pennsylvania and Allegany County in southern New York and with the MidCoast acquisition, the Cities of Wilmington and Dover, Delaware. We also have a limited branch office in Union county, Pennsylvania, which primarily serves agricultural and commercial customers in the central Pennsylvania market. With the HVBC acquisition, we have expanded further into southeast Pennsylvania, including Montgomery, Bucks and Philadelphia Counties as well as Burlington County, New Jersey through the acquisition of five full service branaches, four mortgage centers and one business banking facility. We maintain our central office in Mansfield, Pennsylvania. Presently we operate 48 banking facilities, 39 of which operate as bank branches.Â In Pennsylvania, the Company has full service offices located in Mansfield, Blossburg, Ulysses, Genesee, Wellsboro, Troy, Sayre, Canton, Gillett, Millerton, LeRaysville, Towanda, Rome, the Mansfield Wal-Mart Super Center, Mill Hall, Williamsport,Â Schuylkill Haven, Friedensburg, Mt. Aetna, Fredericksburg, Mount Joy, Ephrata, Fivepointville, State College, Kennett Square, Warrington, Plumsteadville, Philadelphia, two branches near the city of Lebanon and two branches in Huntington Valley. The limited branch office is located in Winfield, Pennsylvania. In New York, our office is in Wellsville. In Delaware, we have three branches in Wilmington and one in Dover. The mortgage centers acquired as part of the acquisition are located in Montgomeryville, PA, Huntington Valley, PA, Philadelphia, PA and Mount Laurel, NJ. The business banking facility is located in Philadelphia, PA. The Company has submitted to open a limited purpose banking office in Georgetown, Delaware and is awaiting regulatory authorization. Risk Management Risk identification and management are essential elements for the successful management of the Company.Â In the normal course of business, the Company is subject to various types of risk, including interest rate, credit, liquidity, reputational and regulatory risk. Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the direction, frequency and magnitude of changes in market interest rates.Â Interest rate risk results from various re-pricing frequencies and the maturity structure of the financial instruments owned by the Company.Â The Company uses its asset/liability and funds management policy to control and manage interest rate risk. 35 Index Credit risk represents the possibility that a customer may not perform in accordance with contractual terms.Â Credit risk results from loans with customers and the purchase of securities from an issuer.Â The Companyâ€™s primary credit risk is in the loan portfolio.Â The Company manages credit risk by adhering to an established credit policy and through a disciplined evaluation of the adequacy of the allowance for credit losses.Â Also, the investment policy limits the amount of credit risk that may be taken in the investment portfolio. Liquidity risk represents the inability to generate or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers and obligations to depositors.Â The Company has established guidelines within its asset/liability and funds management policy to manage liquidity risk.Â These guidelines include, among other things, contingent funding alternatives. Reputational risk, or the risk to our business, earnings, liquidity, and capital from negative public opinion, could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues, or inadequate protection of customer information, including fraudulent activity outside the Companyâ€™s control. We expend significant resources to comply with regulatory requirements. Failure to comply could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers, and adversely impact our earnings and liquidity. Regulatory and compliance risk represents the possibility that a change in law, regulations or regulatory policy may have a material effect on the business of the Company. We cannot predict what legislation might be enacted or what regulations might be adopted, or if adopted, the effect thereof on our operations. Competition The banking industry in the Bankâ€™s service areas continue to be extremely competitive for loans and deposits, both among commercial banks and with other financial service providers such as consumer finance companies, thrifts, investment firms, mutual funds, insurance companies, credit unions, agricultural cooperatives and internet entities. Competition in our north central Pennsylvania market has increased as a result of other financial institutions expanding looking to expand into new markets. With larger population centers in our central, south central and south east Pennsylvania markets, as well as in our Delaware market, we experience more competition to gather deposits and to make loans. Mortgage banking firms, financial companies, financial affiliates of industrial companies, brokerage firms, retirement fund management firms and even government agencies provide additional competition for loans, deposits and other financial services. Fintech and blockchain entities offering crypto services are also increasing competition for the Companyâ€™s financial services. The Bank is generally competitive with all competing financial institutions in its service areas with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans. Trust and Investment Services; Oil and Gas Lease Services Our Investment and Trust Services Division offers professional trust administration, investment management services, estate planning and administration, and custody of securities.Â In addition to traditional trust and investment services offered, we assist our customers through various oil and gas specific leasing matters from lease negotiations to establishing a successful approach to personal wealth management. Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the Consolidated Balance Sheets since such items are not assets of the Company.Â Revenues and fees of the Trust Department are reflected in trust income in the Consolidated Statement of Income. As of June 30, 2024 and December 31, 2023, the Trust Department had $174.7 million and $167.9 million of assets under management, respectively. 36 Index Our Investment Representatives offer full service brokerage services and financial planning throughout the Bankâ€™s market area. Products such as mutual funds, annuities, health and life insurance are made available through our insurance subsidiary, First Citizens Insurance Agency, Inc.Â The assets associated with these products are not included in the Consolidated Balance Sheets since such assets are not assets of the Company. Assets owned and invested by customers of the Bank through the Bankâ€™s Investment Representatives increased from $329.4 million at December 31, 2023 to $368.4 million at June 30, 2024. Fee income from the sale of these products is reflected in brokerage and insurance income in the Consolidated Statement of Income. Management believes that there are opportunities to increase non-interest income through these products and services, especially in our central, south central and south eastern Pennsylvania markets. Results of Operations Overview of the Income Statement The Company had net income of $12,299,000 for the first six months of 2024 compared to $2,723,000 for last yearâ€™s comparable period, an increase of $9,576,000, or 351.7%, primarily due to the absence in the current period of one-time costs associated with the HVBC acquisition and the provision for credit losses. Basic earnings per share for the first six months of 2024 were $2.59, compared to $0.66 for last yearâ€™s comparable period, representing a 292.4% increase.Â Annualized return on assets and return on equity for the six months of 2024 were 0.82% and 7.91%, respectively, compared with 0.23% and 2.22% for last yearâ€™s comparable period. Net income for the three months ended June 30, 2024 was $5,275,000 compared to net loss of $4,144,000 in the comparable 2023 period, an increase of $9,419,000. Basic earnings (loss) per share for the three months ended June 30, 2024 were $1.11, compared to ($1.00) for last yearâ€™s comparable period, representing a 444.2% increase due to the absence in the current period of one-time costs associated with the acquisition and a decrease in the provision for credit losses. Annualized return on assets and return on equity for the quarter ended June 30, 2024 was 0.71% and 6.73%, respectively, compared with (0.68%) and (6.62%) for the same 2023 period. Net Interest Income Net interest income, the most significant component of the Companyâ€™s earnings, is the amount by which interest income generated from interest-earning assets exceeds interest expense paid on interest-bearing liabilities. Net interest income for the first six months of 2024 was $42,258,000, an increase of $6,257,000, or 17.4%, compared to the same period in 2023.Â For the first six months of 2024 the provision for credit losses was $2,787,000. The provision for the first six months of 2023 was $4,853,000, which included $4,591,000 for non-PCD loans acquired as part of the acquisition. Excluding the $4,591,000 related to the acquisition, the provision for credit losses increased $2,525,000. Consequently, net interest income after the provision for credit losses was $39,471,000 in the first six months of 2024 compared to $31,148,000 during the first six months of 2023. For the three months ended June 30, 2024, net interest income was $21,300,000 compared to $17,921,000, an increase of $3,379,000, or 18.9%, over the comparable period in 2023. The provision for credit losses in the second quarter of 2024 was $2,002,000 compared to $4,853,000 in 2023, which included $4,591,000 for non-PCD loans acquired as part of the acquisition. Excluding the $4,591,000 related to the acquisition, the provision for credit losses increased $1,740,000. Consequently, net interest income after the provision for credit losses was $19,298,000 for the quarter ended June 30, 2024 compared to $13,068,000 in 2023. 37 Index The following table sets forth the average balances of, and the interest earned or incurred on, for each principal category of assets, liabilities and stockholdersâ€™ equity, the related rates, net interest income and interest rate spread created for the three and six months ended June 30, 2024 and 2023 on a tax equivalent basis (dollars in thousands): Â Â Analysis of Average Balances and Interest Rates Â Â Â Six Months Ended Â Â Â June 30, 2024 Â Â June 30, 2023 Â Â Â Average Â Â Â Â Â Average Â Â Average Â Â Â Â Â Average Â Â Â Balance (1) Â Â Interest Â Â Rate Â Â Balance (1) Â Â Interest Â Â Rate Â (dollars in thousands) Â $ Â Â Â $ Â Â % Â Â $ Â Â $ Â Â % Â ASSETS Â Short-term investments: Â Interest-bearing deposits at banks Â Â 30,119 Â Â Â 445 Â Â Â 2.97 Â Â Â 16,395 Â Â Â 108 Â Â Â 1.33 Â Total short-term investments Â Â 30,119 Â Â Â 445 Â Â Â 2.97 Â Â Â 16,395 Â Â Â 108 Â Â Â 1.33 Â Interest bearing time deposits at banks Â Â 3,937 Â Â Â 60 Â Â Â 3.06 Â Â Â 6,028 Â Â Â 90 Â Â Â 3.00 Â Investment securities: Â Taxable Â Â 359,142 Â Â Â 4,078 Â Â Â 2.27 Â Â Â 384,453 Â Â Â 3,864 Â Â Â 2.01 Â Tax-exempt (3) Â Â 106,438 Â Â Â 1,332 Â Â Â 2.50 Â Â Â 117,025 Â Â Â 1,505 Â Â Â 2.57 Â Total investment securities Â Â 465,580 Â Â Â 5,410 Â Â Â 2.32 Â Â Â 501,478 Â Â Â 5,369 Â Â Â 2.14 Â Loans (2)(3)(4): Â Residential mortgage loans Â Â 358,472 Â Â Â 10,291 Â Â Â 5.77 Â Â Â 224,059 Â Â Â 5,872 Â Â Â 5.28 Â Construction Â Â 187,001 Â Â Â 6,858 Â Â Â 7.38 Â Â Â 88,048 Â Â Â 2,492 Â Â Â 5.71 Â Commercial Loans Â Â 1,243,546 Â Â Â 39,674 Â Â Â 6.42 Â Â Â 959,221 Â Â Â 26,097 Â Â Â 5.49 Â Agricultural Loans Â Â 345,287 Â Â Â 8,887 Â Â Â 5.18 Â Â Â 344,882 Â Â Â 8,474 Â Â Â 4.95 Â Loans to state & political subdivisions Â Â 56,469 Â Â Â 1,106 Â Â Â 3.94 Â Â Â 59,860 Â Â Â 1,125 Â Â Â 3.79 Â Other loans Â Â 89,472 Â Â Â 3,599 Â Â Â 8.09 Â Â Â 79,199 Â Â Â 2,828 Â Â Â 7.20 Â Loans, net of discount Â Â 2,280,247 Â Â Â 70,415 Â Â Â 6.21 Â Â Â 1,755,269 Â Â Â 46,888 Â Â Â 5.39 Â Total interest-earning assets Â Â 2,779,883 Â Â Â 76,330 Â Â Â 5.52 Â Â Â 2,279,170 Â Â Â 52,455 Â Â Â 4.64 Â Cash and due from banks Â Â 9,511 Â 7,716 Â Â Â Â Â Â Â Â Â Â Â Â Bank premises and equipment Â Â 21,171 Â 18,292 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Other assets Â Â 181,792 Â 96,542 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Total non-interest earning assets Â Â 212,474 Â 122,550 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Total assets Â Â 2,992,357 Â 2,401,720 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â LIABILITIES AND STOCKHOLDERSâ€™ EQUITY Â Interest-bearing liabilities: Â NOW accounts Â Â 783,055 Â Â Â 9,999 Â Â Â 2.57 Â Â Â 527,960 Â Â Â 3,584 Â Â Â 1.37 Â Savings accounts Â Â 300,704 Â Â Â 778 Â Â Â 0.52 Â Â Â 317,063 Â Â Â 471 Â Â Â 0.30 Â Money market accounts Â Â 381,209 Â Â Â 5,765 Â Â Â 3.04 Â Â Â 325,841 Â Â Â 3,121 Â Â Â 1.93 Â Certificates of deposit Â Â 439,995 Â Â Â 8,434 Â Â Â 3.86 Â Â Â 281,482 Â Â Â 2,243 Â Â Â 1.61 Â Total interest-bearing deposits Â Â 1,904,963 Â Â Â 24,976 Â Â Â 2.64 Â Â Â 1,452,346 Â Â Â 9,419 Â Â Â 1.31 Â Other borrowed funds Â Â 350,354 Â Â Â 8,601 Â Â Â 4.94 Â Â Â 303,344 Â Â Â 6,497 Â Â Â 4.32 Â Total interest-bearing liabilities Â Â 2,255,317 Â Â Â 33,577 Â Â Â 2.99 Â Â Â 1,755,690 Â Â Â 15,916 Â Â Â 1.83 Â Demand deposits Â Â 376,632 Â 386,104 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Other liabilities Â Â 49,266 Â 15,157 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Total non-interest-bearing liabilities Â Â 425,898 Â 401,261 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Stockholdersâ€™ equity Â Â 311,142 Â 244,769 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Total liabilities & stockholdersâ€™ equity Â Â 2,992,357 Â 2,401,720 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net interest income Â Â Â Â Â Â Â Â Â Â Â Â 42,753 Â 36,539 Â Â Â Â Â Â Â Â Â Â Net interest spread (5) Â 2.53 % Â 2.81 % Net interest income as a percentage of average interest-earning assets Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 3.09 % Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â 3.23 % Ratio of interest-earning assets to interest-bearing liabilities Â 123 % Â 130 % (1) Averages are based on daily averages. (2) Includes loan origination and commitment fees. (3) Tax exempt interest revenue is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 21%. (4) Income on non-accrual loans is accounted for on a cash basis, and the loan balances are included in interest-earning assets. (5) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. 38 Index Â Â Analysis of Average Balances and Interest Rates Â Â Â Three Months Ended Â Â Â June 30, 2024 Â Â June 30, 2023 Â Â Â Average Â Â Â Â Â Average Â Â Average Â Â Â Â Â Average Â Â Â Balance (1) Â Â Interest Â Â Rate Â Â Balance (1) Â Â Interest Â Â Rate Â (dollars in thousands) Â $ Â Â $ Â Â % Â Â $ Â Â $ Â Â % Â ASSETS Â Short-term investments: Â Interest-bearing deposits at banks Â Â 18,353 Â Â Â 232 Â Â Â 5.11 Â Â Â 18,193 Â Â Â 82 Â Â Â 1.79 Â Total short-term investments Â Â 18,353 Â Â Â 232 Â Â Â 5.11 Â Â Â 18,193 Â Â Â 82 Â Â Â 1.79 Â Interest bearing time deposits at banks Â Â 3,820 Â Â Â 30 Â Â Â 3.16 Â Â Â 6,000 Â Â Â 45 Â Â Â 2.99 Â Investment securities: Â Taxable Â Â 355,321 Â Â Â 2,053 Â Â Â 2.31 Â Â Â 388,327 Â Â Â 1,994 Â Â Â 2.05 Â Tax-exempt (3) Â Â 105,379 Â Â Â 658 Â Â Â 2.50 Â Â Â 113,674 Â Â Â 725 Â Â Â 2.55 Â Total investment securities Â Â 460,700 Â Â Â 2,711 Â Â Â 2.35 Â Â Â 502,001 Â Â Â 2,719 Â Â Â 2.17 Â Loans (2)(3)(4): Â Residential mortgage loans Â Â 358,448 Â Â Â 5,232 Â Â Â 5.87 Â Â Â 236,167 Â Â Â 3,168 Â Â Â 5.39 Â Construction Â Â 184,103 Â Â Â 3,367 Â Â Â 7.36 Â Â Â 90,635 Â Â

Â 1,353 Â Â Â 5.99 Â Commercial Loans Â Â 1,251,484 Â Â Â 20,154 Â Â Â 6.48 Â Â Â 983,666 Â Â Â 13,772 Â Â Â 5.62 Â Agricultural Loans Â Â 346,107 Â Â Â 4,482 Â Â Â 5.21 Â Â Â 345,467 Â Â Â 4,221 Â Â Â 4.90 Â Loans to state & political subdivisions Â Â 56,290 Â Â Â 556 Â Â Â 3.97 Â Â 60,395 Â Â Â 582 Â Â Â 3.87 Â Other loans Â Â 68,805 Â Â Â 1,383 Â Â Â 8.08 Â Â Â 60,770 Â Â Â 1,136 Â Â Â 7.50 Â Loans, net of discount Â Â 2,265,237 Â Â Â 35,174 Â Â Â 6.25 Â Â Â 1,777,100 Â Â Â 24,232 Â Â Â 5.47 Â Total interest-earning assets Â Â 2,748,110 Â Â Â 38,147 Â Â Â 5.58 Â Â Â 2,303,294 Â Â Â 27,078 Â Â Â 4.72 Â Cash and due from banks Â Â 9,199 Â Â Â Â Â Â Â Â Â Â Â Â 8,386 Â Â Â Â Â Â Â Â Â Bank premises and equipment Â Â 21,053 Â Â Â Â Â Â Â Â Â Â Â Â 18,960 Â Â Â Â Â Â Â Â Â Other assets Â Â 195,528 Â Â Â Â Â Â Â Â Â Â Â 102,155 Â Â Â Â Â Â Â Â Â Total non-interest earning assets Â Â 225,780 Â Â Â Â Â Â Â Â Â Â Â Â 129,501 Â Â Â Â Â Â Â Â Â Total assets Â Â 2,973,890 Â Â Â Â Â Â Â Â Â Â Â Â 2,432,795 Â Â Â Â Â Â Â Â Â LIABILITIES AND STOCKHOLDERSâ€™ EQUITY Â Interest-bearing liabilities: Â NOW accounts Â Â 766,142 Â Â Â 4,776 Â Â Â 2.51 Â Â Â 545,527 Â Â Â 2,067 Â Â Â 1.52 Â Savings accounts Â Â 299,318 Â Â Â 391 Â Â Â 0.53 Â Â Â 314,745 Â Â Â 265 Â Â Â 0.34 Â Money market accounts Â Â 381,377 Â Â Â 2,972 Â Â Â 3.13 Â Â Â 330,453 Â Â Â 1,847 Â Â Â 2.24 Â Certificates of deposit Â Â 457,570 Â Â Â 4,516 Â Â Â 3.97 Â Â Â 283,694 Â Â Â 1,301 Â Â Â 1.84 Â Total interest-bearing deposits Â Â 1,904,407 Â Â Â 12,655 Â Â Â 2.67 Â Â Â 1,474,419 Â Â Â 5,480 Â Â Â 1.49 Â Other borrowed funds Â Â 324,736 Â Â Â 3,947 Â Â Â 4.89 Â Â Â 307,523 Â Â Â 3,409 Â Â Â 4.45 Â Total interest-bearing liabilities Â Â 2,229,143 Â Â Â 16,602 Â Â Â 3.00 Â Â Â 1,781,942 Â Â Â 8,889 Â Â Â 2.00 Â Demand deposits Â Â 382,312 Â Â Â Â Â Â Â Â Â Â Â Â 397,084 Â Â Â Â Â Â Â Â Â Other liabilities Â Â 49,051 Â Â Â Â Â Â Â Â Â Â Â Â 3,379 Â Â Â Â Â Â Â Â Â Total non-interest-bearing liabilities Â Â 431,363 Â Â Â Â Â Â Â Â Â Â Â Â 400,463 Â Â Â Â Â Â Â Â Â Stockholdersâ€™ equity Â Â 313,384 Â Â Â Â Â Â Â Â Â Â Â Â 250,390 Â Â Â Â Â Â Â Â Â Total liabilities & stockholdersâ€™ equity Â Â 2,973,890 Â Â Â Â Â Â Â Â Â Â Â Â 2,432,795 Â Â Â Â Â Â Â Â Â Net interest income Â Â Â Â Â Â 21,545 Â Â Â Â Â Â Â Â Â Â Â Â 18,189 Â Â Â Â Â Net interest spread (5) Â Â Â Â Â Â Â Â Â Â Â 2.58 % Â Â Â Â Â Â Â Â Â Â 2.71 % Net interest income as a percentage of average interest-earning assets Â Â Â Â Â Â Â Â Â Â 3.15 % Â Â Â Â Â Â Â Â Â Â 3.17 % Ratio of interest-earning assets to interest-bearing liabilities Â Â Â Â Â Â Â Â Â Â 123 % Â Â Â Â Â Â Â Â Â Â 129 % (1) Averages are based on daily averages. (2) Includes loan origination and commitment fees. (3) Tax exempt interest revenue is shown on a tax equivalent basis for proper comparison using a statutory federal income tax rate of 21%. (4) Income on non-accrual loans is accounted for on a cash basis, and the loan balances are included in interest-earning assets. (5) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. 39 Index Tax exempt revenue is shown on a tax-equivalent basis (non-GAAP) for proper comparison using a federal statutory income tax rate of 21% for the three and six months ended June 30, 2024 and 2023.Â For purposes of the comparison, as well as the discussion that follows, this presentation facilitates performance comparisons between taxable and tax-free assets by increasing the tax-free income by an amount equivalent to the Federal income taxes that would have been paid if this income were taxable at the Companyâ€™s Federal statutory rate during the corresponding period. The following table represents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the periods ended June 30, 2024 and 2023 (in thousands): Â Â For the Three Months Â Â For the Six Months Â Â Â Ended June 30 Â Â Ended June 30 Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Interest and dividend income from investment securities and interest bearing deposits at banks (non-tax adjusted) Â $ 2,835 Â Â $ 2,693 Â Â $ 5,635 Â Â $ 5,251 Â Tax equivalent adjustment Â Â 138 Â Â Â 153 Â Â Â 280 Â Â Â 316 Â Interest and dividend income from investment securities and interest bearing deposits at banks (tax equivalent basis) Â $ 2,973 Â Â $ 2,846 Â Â $ 5,915 Â Â $ 5,567 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Interest and fees on loans (non-tax adjusted) Â $ 35,067 Â Â $ 24,117 Â Â $ 70,200 Â Â $ 46,666 Â Tax equivalent adjustment Â Â 107 Â Â Â 115 Â Â Â 215 Â Â Â 222 Â Interest and fees on loans (tax equivalent basis) Â $ 35,174 Â Â $ 24,232 Â Â $ 70,415 Â Â $ 46,888 Â Total interest income Â $ 37,902 Â Â $ 26,810 Â Â $ 75,835 Â Â $ 51,917 Â Total interest expense Â Â 16,602 Â Â Â 8,889 Â Â Â 33,577 Â Â Â 15,916 Â Net interest income Â Â 21,300 Â Â Â 17,921 Â Â Â 42,258 Â Â Â 36,001 Â Total tax equivalent adjustment Â Â 245 Â Â Â 268 Â Â Â 495 Â Â Â 538 Â Net interest income (tax equivalent basis) Â $ 21,545 Â Â $ 18,189 Â Â $ 42,753 Â Â $ 36,539 Â The following table shows the tax-equivalent effect of changes in volume and rate on interest income and expense (in thousands): Â Â Three months ended June 30, 2024 vs 2023 (1) Â Â Six months ended June 30, 2024 vs 2023 (1) Â Â Â Change in Â Â Change Â Â Total Â Â Change in Â Â Change Â Â Total Â Â Â Volume Â Â in Rate Â Â Change Â Â Volume Â Â in Rate Â Â Change Â Interest Income: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Short-term investments: Â Interest-bearing deposits at banks Â $ - Â Â $ 150 Â Â $ 150 Â Â $ 137 Â Â $ 200 Â Â $ 337 Â Interest bearing time deposits at banks Â Â (18) Â Â 3 Â Â Â (15) Â Â (32) Â Â 2 Â Â Â (30) Investment securities: Â Taxable Â Â (125) Â Â 184 Â Â Â 59 Â Â Â (219) Â Â 433 Â Â Â 214 Â Tax-exempt Â Â (52) Â Â (15) Â Â (67) Â Â (133) Â Â (40) Â Â (173) Total investments Â Â (177) Â Â 169 Â Â Â (8) Â Â (352) Â Â 393 Â Â Â 41 Â Loans: Â Residential mortgage loans Â Â 1,754 Â Â Â 310 Â Â Â 2,064 Â Â Â 3,831 Â Â Â 588 Â Â Â 4,419 Â Construction Â Â 1,648 Â Â Â 366 Â Â Â 2,014 Â Â Â 3,467 Â Â Â 899 Â Â Â 4,366 Â Commercial Loans Â Â 4,069 Â Â Â 2,313 Â Â Â 6,382 Â Â Â 8,665 Â Â Â 4,912 Â Â Â 13,577 Â Agricultural Loans Â Â (4) Â Â 265 Â Â Â 261 Â Â Â 34 Â Â Â 379 Â Â Â 413 Â Loans to state & political subdivisions Â Â (43) Â Â 17 Â Â Â (26) Â Â (69) Â Â 50 Â Â Â (19) Other loans Â Â 154 Â Â Â 93 Â Â Â 247 Â Â Â 399 Â Â Â 372 Â Â Â 771 Â Total loans, net of discount Â Â 7,578 Â Â Â 3,364 Â Â Â 10,942 Â Â Â 16,327 Â Â Â 7,200 Â Â Â 23,527 Â Total Interest Income Â Â 7,383 Â Â Â 3,686 Â Â Â 11,069 Â Â Â 16,080 Â Â Â 7,795 Â Â Â 23,875 Â Interest Expense: Â Interest-bearing deposits: Â NOW accounts Â Â 1,036 Â Â Â 1,673 Â Â Â 2,709 Â Â Â 2,287 Â Â Â 4,128 Â Â Â 6,415 Â Savings accounts Â Â (13) Â Â 139 Â Â Â 126 Â Â Â (22) Â Â 329 Â Â Â 307 Â Money Market accounts Â Â 310 Â Â Â 815 Â Â Â 1,125 Â Â Â 610 Â Â Â 2,034 Â Â Â 2,644 Â Certificates of deposit Â Â 1,111 Â Â Â 2,104 Â Â Â 3,215 Â Â Â 1,783 Â Â Â 4,408 Â Â Â 6,191 Â Total interest-bearing deposits Â Â 2,444 Â Â Â 4,731 Â Â Â 7,175 Â Â Â 4,658 Â Â Â 10,899 Â Â Â 15,557 Â Other borrowed funds Â Â 187 Â Â Â 351 Â Â Â 538 Â Â Â 1,103 Â Â Â 1,001 Â Â Â 2,104 Â Total interest expense Â Â 2,631 Â Â Â 5,082 Â Â Â 7,713 Â Â Â 5,761 Â Â Â 11,900 Â Â Â 17,661 Â Net interest income Â $ 4,752 Â Â $ (1,396) Â $ 3,356 Â Â $ 10,319 Â Â $ (4,105) Â $ 6,214 Â (1) The portion of the total change attributable to both volume and rate changes, which can not be separated, has been allocated proportionally to the change due to volume and the change due to rate prior to allocation. Â Tax equivalent net interest income increased from $36,539,000 for the six month period ended June 30, 2023 to $42,753,000 for the six month period ended June 30, 2024, an increase of $6,214,000. The acquisition of HVBC had a substantial impact on the increase. The tax equivalent net interest margin decreased from 3.23% for the first six months of 2023 to 3.09% for the comparable period in 2024. The decrease is primarily caused by the increase in the cost of interest-bearing liabilities due to higher market interest rates in 2024 compared to 2023. Â Total tax equivalent interest income for the 2024 six month period increased $23,875,000 as compared to the 2023 six month period. This increase was a result of an increase of $16,080,000 due to a change in volume as average interest-bearing assets increased $500.7 million. As a result of the higher market interest rate environment, the yield on average interest earning assets increased 0.88% from 4.64% to 5.52% resulting in an increase in interest income of $7,795,000. Â 40 Index Tax equivalent investment income for the six months ended June 30, 2024 increased $41,000 over the same period last year. The primary cause of the increase was due to the increase in yield on investment securities of 18 basis points to 2.32%. Â â€¢ The average balance of taxable securities decreased $25.3 million, which resulted in a decrease in investment income of $219,000. The yield on taxable securities increased 26 basis points from 2.01% to 2.27% as a result of lower yielding securities maturing. This resulted in an increase in investment income of $433,000. Â â€¢ The average balance of tax-exempt securities decreased $10.6 million, which resulted in a decrease in investment income of $133,000. The yield on taxable securities decreased 7 basis points from 2.57% to 2.50%. This resulted in a decrease in investment income of $40,000. For a discussion of the Companyâ€™s current investment strategy, see the â€œFinancial Condition â€“ Investmentsâ€. Â Total loan interest income increased $23,527,000 for the six months ended June 30, 2024 compared to the same period last year, as a result of higher volume and yields. Â â€¢ Interest income on residential mortgage loans increased $4,419,000. The change due to rate was an increase of $588,000 as the average yield on residential mortgages increased from 5.28% to 5.77% as a result of the higher interest rate environment during the second half of 2023 and all of 2024. The average balance of residential mortgage loans increased $134.4 million primarily due to the HVBC acquisition and additional organic growth. This resulted in an increase of $3,831,000 on total interest income due to volume. Â â€¢ The average balance of construction loans increased $99.0 million as a result of projects in our Delaware market and the southeast Pennsylvania market as part of the HVBC acquisition. This resulted in an increase of $3,467,000 on total interest income due to volume. The change due to rate was an increase of $899,000 as the average yield on construction loans increased from 5.71% to 7.38% as a result of the higher interest rate environment during the second half of 2023 and all of 2024. Â â€¢ The average balance of commercial loans increased $284.3 million from a year ago. The growth was primarily attributable to the HVCB acquisition. This had a positive impact of $8,665,000 on total interest income due to volume. The yield increased 0.93% to 6.42% as a result of the higher rate environment during the second half of 2023 and all of 2024, which increased loan interest income $4,912,000. Â â€¢ Interest income on agricultural loans increased $413,000 from 2023 to 2024. The yield increased 23 basis points to 5.18% as a result of the higher rate environment during the second half of 2023 and all of 2024, which increased loan interest income $379,000. Â â€¢ The average balance of other loans increased $10.3 million as a result of outstanding student loans. This resulted in an increase of $399,000 on total interest income due to volume. The average yield of other loans increased 89 basis points to 8.09% due to the higher rate environment resulting in an increase in income of $372,000. Â Total interest expense increased $17,661,000 for the six months ended June 30, 2024 compared with the comparative period last year as a result of an increase in the volume of interest-bearing liabilities and an increase in rate on interest-bearing liabilities. Interest expense increased $5,761,000 due to volume as a result of an increase in interest bearing liabilities of $499.6 million. The average rate paid on interest-bearing liabilities increased from 1.83% to 2.99%. The increase was driven by the Federal Reserve interest rate increases in 2022 and 2023, which caused interest expense to increase $11,900,000. â€¢ The average balance of interest bearing deposits increased $452.6 million from June 30, 2023 to June 30, 2024. The increase was due to the HVBC acquisition. The effect of these volume changes was an increase in interest expense of $4,658,000. The average rate paid on interest bearing deposits was 2.64% for the first six months of 2024 and 1.31% for the comparable period in 2023. This resulted in an increase in interest expense of $10,899,000. The increase was due to the Federal Reserve increasing interest rates during 2022 and 2023. 41 Index â€¢ The average balance of other borrowed funds increased $47.0 million. This resulted in an increase in interest expense of $1,103,000. There was an increase in the average rate paid on other borrowed funds from 4.32% to 4.94% due to the interest rate increases by the Federal Reserve that increased borrowings costs resulting in an increase in interest expense of $1,001,000. Â Tax equivalent net interest income for the three months ended June 30, 2024 was $21,545,000 which compares to $18,189,000 for the same period last year.Â This represents an increase of $3,356,000, or 18.5% and was primarily caused by an increase in the volume of interest earning assets due to the HVBC acquisition. Â Total tax equivalent interest income was $38,147,000 for the three month period ended June 30, 2024, compared to $27,078,000 for the comparable period last year, an increase of $11,069,000. This increase was a result of an increase of $7,383,000 due to a change in volume as average interest-bearing assets increased $444.8 million due to the HVBC acquisition. As a result of the higher market interest rate environment, the yield on average interest earning assets increased 86 basis points from 4.72% to 5.58% resulting in an increase in interest income of $3,686,000. Â Total loan interest income increased $11,069,000 for the three months ended June 30, 2024 compared to the same period last year, primarily as a result of the HVBC acquisition. â€¢ Interest income on residential mortgage loans increased $2,064,000. The change due to rate was an increase of $310,000 as the average yield on residential mortgages increased from 5.39% to 5.87% as a result of the higher rate environment during the second half of 2023 and all of 2024.Â The average balance of residential mortgage loans increased $122.3 million primarily as a result of the HVBC acquisition. This resulted in an increase of $1,754,000 on total interest income due to volume. â€¢ The average balance of construction loans increased $93.5 million primarily as a result of the HVBC acquisition and the projects in our southeastern Pennsylvania market. This resulted in an increase of $1,648,000 on total interest income due to volume. The change due to rate was an increase of $366,000 as the average yield on construction loans increased from 5.99% to 7.39% as a result of the higher rate environment. â€¢ The average balance of commercial loans increased $267.8 million from a year ago. The growth was primarily attributable to growth in the Delaware market and the HVBC acquisition. This had a positive impact of $4,069,000 on total interest income due to volume. The yield increased 86 basis points to 6.48% due to the higher rate environment experienced during the second half of 2023 and all of 2024, which increased loan interest income $2,313,000. â€¢ The average yield of agricultural loans increased 31 basis points to 5.21% due to the higher rate environment resulting in an increase in income of $265,000. â€¢ The average balance of other loans increased $8.0 million as a result of outstanding student loans. This resulted in an increase of $154,000 on total interest income due to volume. The average yield on other loans increased 58 basis points to 8.08% due to the rate earned on the student loans, resulting in an increase in interest income of $93,000. Total interest expense increased $7,713,000 for the three months ended June 30, 2024 compared with the comparative period last year as a result of an increase in the volume of interest-bearing liabilities and an increase in rate on interest-bearing liabilities. Interest expense increased $2,631,000 due to volume as a result of an increase in interest bearing liabilities of $447.2 million. The average rate paid on interest-bearing liabilities increased from 2.00% to 3.00%. The increase was driven by the Federal Reserve interest rate increases in 2022 and 2023, which caused interest expenses to increase $5,082,000. 42 Index â€¢ The average balance of interest bearing deposits increased $429.9 million from June 30, 2023 to June 30, 2024 primarily due to the HVBC acquisition, which was offset by customer funds transferred to higher-yielding investment alternatives as well as a reduction in municipal deposits to fund projects in various municipalities. The effect of these volume changes was an increase in interest expense of $2,444,000. The average rate paid on interest bearing deposits was 2.67% for the three months ended June 30 2024 and 1.49% for the comparable period in 2023. This resulted in an increase in interest expense of $4,731,000. The increase was due to the Federal Reserve increasing interest rates during 2022 and 2023. â€¢ The average balance of other borrowed funds increased $17.2 million from borrowings acquired as part of the HVBC acquisition. This resulted in an increase in interest expense of $187,000. There was an increase in the average rate paid on other borrowed funds from 4.45% to 4.89% due to the interest rate increases by the Federal Reserve that increased borrowings costs resulting in an increase in interest expense of $351,000. Provision for Credit Losses For the six month period ended June 30, 2024, we recorded a provision for credit losses of $2,787,000, which represents a decrease of $2,066,000 from the $4,853,000 provision recorded in the corresponding six months of last year. The provision for 2023 includes $4,591,000 associated with the HVBC acquisition and $162,000 as a provision for off-balance sheet items, which is also primarily attributable to the HVBC acquisition. Excluding these items, the provision for 2024 is $2,687,000 more than the comparable period in 2023 and is due to an increase in non-performing other commercial loans that were originated by HVBC that subsequent to the acquisition have deteriorated. The provision in 2024 is also higher due to an increase in past due loans, the vast majority of which were acquired as part of the HVBC acquisition, and an increase in classified loans. (see â€œFinancial Condition â€" Allowance for Credit Losses and Credit Quality Riskâ€). For the three months ended June 30, 2024, we recorded a provision for credit losses of $2,002,000, which represents a decrease of $2,851,000 from the $4,853,000 provision recorded in the corresponding three months of last year. The provision for 2023 includes $4,591,000 associated with the HVBC acquisition and $162,000 as a provision for off-balance sheet items, which is also primarily attributable to the HVBC acquisition. Excluding these items, the provision for 2024 is $1,902,000 more than the comparable period in 2023 and is due to an increase in non-performing other commercial loans that were originated by HVBC that subsequent to the acquisition have deteriorated. The provision in 2024 is also higher due to an increase in past due loans, the vast majority of which were acquired as part of the HVBC acquisition, and an increase in classified loans. Non-interest Income The following table shows the breakdown of non-interest income for the three and sixÂ months ended June 30, 2024 and 2023 (dollars in thousands): Â Â Six months ended June 30, Â Â Change Â Â Â 2024 Â Â 2023 Â Â Amount Â Â % Â Service charges Â $ 2,757 Â Â $ 2,504 Â Â $ 253 Â Â Â 10.1 Â Trust Â Â 445 Â Â Â 411 Â Â Â 34 Â Â Â 8.3 Â Brokerage and insurance Â Â 1,228 Â Â Â 956 Â Â Â 272 Â Â Â 28.5 Â Gains on loans sold Â Â 896 Â Â Â 214 Â Â Â 682 Â Â Â 318.7 Â Equity security losses, net Â Â (32) Â Â (292) Â Â 260 Â Â Â (89.0) Available for sale security losses, net Â Â - Â Â Â (51) Â Â 51 Â Â Â (100.0) Gain on sale of Braavo division Â Â 1,102 Â Â Â - Â Â Â 1,102 Â Â NA Â Earnings on bank owned life insurance Â Â 996 Â Â Â 452 Â Â Â 544 Â Â Â 120.4 Â Other Â Â 915 Â Â Â 260 Â Â Â 655 Â Â Â 251.9 Â Total Â $ 8,307 Â Â $ 4,454 Â Â $ 3,853 Â Â Â 86.5 Â 43 Index Â Â Three months ended June 30, Â Â Change Â Â Â 2024 Â Â 2023 Â Â Amount Â Â % Â Service charges Â $ 1,385 Â Â $ 1,293 Â Â $ 92 Â Â Â 7.1 Â Trust Â Â 201 Â Â Â 181 Â Â Â 20 Â Â Â 11.0 Â Brokerage and insurance Â Â 563 Â Â Â 442 Â Â Â 121 Â Â Â 27.4 Â Gains on loans sold Â Â 479 Â Â Â 169 Â Â Â 310 Â Â Â 183.4 Â Equity security losses, net Â Â (87) Â Â (74) Â Â (13) Â Â 17.6 Â Available for sale security losses, net Â Â - Â Â Â (51) Â Â 51 Â Â Â (100.0) Gain on sale of Braavo division Â Â - Â Â Â - Â Â Â - Â Â NA Â Earnings on bank owned life insurance Â Â 328 Â Â Â 234 Â Â Â 94 Â Â Â 40.2 Â Other Â Â 467 Â Â Â 86 Â Â Â 381 Â Â Â 443.0 Â Total Â $ 3,336 Â Â $ 2,280 Â Â $ 1,056 Â Â Â 46.3 Â Non-interest income for the six months ended June 30, 2024 totaled $8,307,000, an increase of $3,853,000 when compared to the same period in 2023. For the three months ended June 30, 2024, non-interest income increased $1,056,000 to $3,336,000.Â During the first six months of 2024, net equity security losses amounted to $32,000 as a result of market losses associated with general banking stock losses compared with a $292,000 loss in the comparable 2023 period associated with market conditions for that period. There were no sales of available for sale securitiesÂ during the first six months of 2024. During the six months ended June 30, 2023, there were $51,000 of losses from the sale of $10.0 million available for sale municipal securities. Additionally, $76.5 million of securities obtained as part of the acquisition were sold for no gain or loss during the second quarter of 2023. The increase in gains on loans sold for the three and six month periods ended June 30, 2024 compared to 2023 is attributable the HVBC acquisition and their residential lending model, which focused on originating and selling residential mortgage loans, which includes the use of interest rate locks and other derivative activities, which is included in other income. The increase in earnings on bank owned life insurance is due to the HVBC acquisition, as well as the death benefitsÂ received upon the passing of a former employee. During the first quarter of 2024, the Company completed the sale of certain assets acquired as part of the HVB acquisition, which included loans and accrued interest, and software, as well as transferring certain contracts, processes and employees of a division internally known as Braavo. The proceeds from the sale totaled approximately $7.2 million and generated a pre-tax gain of approximately $1.1 million. Non-interest Expense The following tables reflect the breakdown of non-interest expense for the three and six months ended June 30, 2024 and 2023 (dollars in thousands): Â Â Six months ended June 30, Â Â Change Â Â Â Â Â Â 2024 Â Â 2023 Â Â Amount Â Â % Â Salaries and employee benefits Â $ 19,907 Â Â $ 15,593 Â Â $ 4,314 Â Â Â 27.7 Â Occupancy Â Â 2,590 Â Â Â 1,649 Â Â Â 941 Â Â Â 57.1 Â Furniture and equipment Â Â 531 Â Â Â 313 Â Â Â 218 Â Â Â 69.6 Â Professional fees Â Â 1,401 Â Â Â 768 Â Â Â 633 Â Â Â 82.4 Â FDIC insurance Â Â 1,034 Â Â Â 625 Â Â Â 409 Â Â Â 65.4 Â Pennsylvania shares tax Â Â 640 Â Â Â 596 Â Â Â 44 Â Â Â 7.4 Â Amortization of intangibles Â Â 296 Â Â Â 62 Â Â Â 234 Â Â Â 377.4 Â Merger and acquisition Â Â - Â Â Â 8,646 Â Â Â (8,646) Â Â (100.0) Software expenses Â Â 1,008 Â Â Â 723 Â Â Â 285 Â Â Â 39.4 Â ORE expenses Â Â 162 Â Â Â 15 Â Â Â 147 Â Â Â 980.0 Â Other Â Â 5,320 Â Â Â 3,468 Â Â Â 1,852 Â Â Â 53.4 Â Total Â $ 32,889 Â Â $ 32,458 Â Â $ 431 Â Â Â 1.3 Â 44 Index Â Â Three months ended June 30, Â Â Change Â Â Â Â Â Â 2024 Â Â 2023 Â Â Amount Â Â % Â Salaries and employee benefits Â $ 9,617 Â Â $ 7,916 Â Â $ 1,701 Â Â Â 21.5 Â Occupancy Â Â 1,266 Â Â Â 814 Â Â Â 452 Â Â Â 55.5 Â Furniture and equipment Â Â 295 Â Â Â 162 Â Â Â 133 Â Â Â 82.1 Â Professional fees Â Â 698 Â Â Â 387 Â Â Â 311 Â Â Â 80.4 Â FDIC insurance Â Â 509 Â Â Â 325 Â Â Â 184 Â Â Â 56.6 Â Pennsylvania shares tax Â Â 330 Â Â Â 298 Â Â Â 32 Â Â Â 10.7 Â Amortization of intangibles Â Â 147 Â Â Â 31 Â Â Â 116 Â Â Â 374.2 Â Merger and acquisition Â Â - Â Â Â 8,402 Â Â Â (8,402) Â Â (100.0) Software expenses Â Â 494 Â Â Â 372 Â Â Â 122 Â Â Â 32.8 Â ORE expenses (recovery) Â Â 175 Â Â Â (11) Â Â 186 Â Â Â (1,690.9) Other Â Â 2,715 Â Â Â 1,984 Â Â Â 731 Â Â Â 36.8 Â Total Â $ 16,246 Â Â $ 20,680 Â Â $ (4,434) Â Â (21.4) Non-interest expenses increased $431,000 for the six months ended June 30, 2024 compared to the same period in 2023. Salaries and employee benefits increased $4,314,000 or 27.7%. The increase was due to merit increases effective at the beginning of 2024, additional full time equivalent employees (FTE) of 78.6, which is an increase of 25.1%, and an increase in health care expenses due to higher claims on the Companyâ€™s partially self-funded plan and the additional headcount. The decrease in merger and acquisition expenses was due to the absence in the current period of fees associated with the acquisition of HVB that closed in June 2023 and includes severance costs, change in control payments, contract termination payments and various professional and consulting fees. The increase in occupancy, furniture and fixtures, amortization of intangibles, and software expenses was due to the HVBC acquisition. The increase in FDIC insurance is due to the acquisition and organic growth.Â Other expenses increased primarily due to the acquisition, with increases experienced in subscriptions, marketing and advertising, postage, printing, data communication expenses and FHLB letter of credit fees. Independent of the acquisition, other expenses increased due to insurance reimbursement received in 2023 to cover amounts previously charged-off. For the three months ended June 30, 2024, non-interest expenses decreased $4,434,000 when compared to the same period in 2023. The changes in salaries and employee benefits, merger and acquisition expenses, occupancy, furniture and equipment, FDIC insurance, amortization of intangibles, software expenses and other expenses correspond to the changes for the six month period. Provision for Income Taxes The provision for income taxes was $2,590,000 for the six month period ended June 30, 2024 compared to $421,000 for the same period in 2023. The increase is primarily attributable to the increase in income before the provision for income taxes of $11,745,000 for the comparable periods due to the one-time costs associated with the HVBC acquisition.Â Through management of our municipal loan and bond portfolios, management is focused on minimizing our effective tax rate.Â Our effective tax rate was 17.4% and 13.4% for the first six months of 2024 and 2023, respectively, compared to the statutory rate of 21%. For the three months ended June 30, 2024, the provision for income taxes was $1,113,000 compared to a benefit of $1,188,000 for the same period in 2023. The increase is attributable to the increase in income before the provision for income taxes of $11,720,000 for the comparable periods due to the one-time acquisition costs. Our effective tax rate was 17.4% and (22.3)% for the three months ended June 30, 2024 and 2023, respectively. We are invested in seven limited partnerships that have established low-income housing projects in our market areas, with our most recent investments made in the second half of 2022. Three projects are currently in construction phase with credits being recognized on two of the projects for the first time in 2023 with the expectation that the remaining one will generate credits in the second half of 2024. The remaining four partnership credits are fully utilized as of December 31, 2023. We anticipate recognizing an aggregate of $8.2 million of tax credits over the next 12 years. 45 Index Financial Condition Total assets were $2.95 billion at June 30, 2024, a decrease of $27.8 million from $2.98 billion at December 31, 2023, due primarily to decreases in cash and investments securities. Cash and cash equivalents decreased $14.4 million to $38.4 million. Available for sale securities decreased $14.9 million. Total deposits decreased $48.4 million to $2.27 billion since year-end 2023, while borrowed funds increased $12.8 million to $283.6 million. Cash and Cash Equivalents Â Cash and cash equivalents totaled $38.4 million at June 30, 2024 compared to $52.8 million at December 31, 2023. The decrease is due to a decrease in the cash held at the Federal Reserve.Â Management actively measures and evaluates the Companyâ€™s liquidity position through our Assetâ€"Liability Committee and believes the Companyâ€™s liquidity needs are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources including the Bankâ€™s core deposits, Federal Home Loan Bank financing, federal funds lines with correspondent banks, brokered certificates of deposit and the portion of the investment and loan portfolios that mature within one year.Â Management expects that these sources of funds will permit us to meet cash obligations and off-balance sheet commitments as they come due. Â Investments The following table shows the composition of the investment portfolio (including debt and equity securities) as of June 30, 2024 and December 31, 2023 (dollars in thousands): Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Amount Â Â % Â Â Amount Â Â % Â Debt securities: Â Â Â Â Â Â Â Â Â Â Â Â U. S. Agency securities Â $ 55,833 Â Â Â 13.8 Â Â $ 60,771 Â Â Â 14.5 Â U. S. Treasury notes Â Â 130,073 Â Â Â 32.2 Â Â Â 143,288 Â Â Â 34.1 Â Obligations of state & political subdivisions Â Â 96,707 Â Â Â 23.9 Â Â Â 101,787 Â Â Â 24.3 Â Corporate obligations Â Â 12,450 Â Â Â 3.1 Â Â Â 12,403 Â Â Â 3.0 Â Mortgage-backed securities in government sponsored entities Â Â 107,598 Â Â Â 26.6 Â Â Â 99,352 Â Â Â 23.6 Â Equity securities Â Â 1,570 Â Â Â 0.4 Â Â Â 1,938 Â Â Â 0.5 Â Total Â $ 404,231 Â Â Â 100.0 Â Â $ 419,539 Â Â Â 100.0 Â Â Â June 30, 2024/ Â Â Â December 31, 2023 Â Â Â Change Â Â Â Amount Â Â % Â Debt securities: Â Â Â Â Â Â U. S. Agency securities Â $ (4,938) Â Â (8.1) U. S. Treasury notes Â Â (13,215) Â Â (9.2) Obligations of state & political subdivisions Â Â (5,080) Â Â (5.0) Corporate obligations Â Â 47 Â Â Â 0.4 Â Mortgage-backed securities in government sponsored entities Â Â 8,246 Â Â Â 8.3 Â Equity securities Â Â (368) Â Â (19.0) Total Â $ (15,308) Â Â (3.6) Our investment portfolio decreased by $15.3 million, or 3.6%, from December 31, 2023 to June 30, 2024. During 2024, we purchased $14.0 million of mortgage-backed securities in U.S government sponsored entities. We experienced $5.6 million of principal repayments and $21.5 million of calls and maturities. As a result of increases in market interest rates, the unrealized loss on available for sale investment portfolio increased $1.2 million. Excluding our short-term investments consisting of monies held primarily at the Federal Reserve for liquidity purposes, our investment portfolio for the six month period ended June 30, 2024 yielded 2.32%, compared to 2.14% in the comparable period in 2023, on a tax equivalent basis. 46 Index The investment strategy for 2024 has been to utilize cashflows from the investment portfolio to repay overnight borrowings, while reinvesting certain balances. We continually monitor interest rate trading ranges and seek to time investment security purchases when rates are in the top third of the trading range. The Company believes its investment strategy has appropriately mitigated its interest rate risk exposure for various rate environments, including a rising rate environment, while providing sufficient cashflows to meet liquidity needs. Management continues to monitor the earnings performance and the liquidity of the investment portfolio on a regular basis.Â Through active balance sheet management and analysis of the investment portfolio, the Company believes it maintains sufficient liquidity to satisfy depositor withdrawal requirements and various credit needs of its customers. Loans Held for Sale Loans held for sale increased $4.8 million to $14.2 million as of June 30, 2024 from December 31, 2023 due to the second quarter typically being more active for residential home sales than the fourth quarter. Loans The following table shows the composition of the loan portfolio as of June 30, 2024 and December 31, 2023 (dollars in thousands): Â Â June 30, Â Â December 31, Â Â Â 2024 Â Â 2023 Â Â Â Amount Â Â % Â Â Amount Â Â % Â Real estate: Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 354,588 Â Â Â 15.7 Â Â $ 359,990 Â Â Â 16.0 Â Commercial Â Â 1,110,269 Â Â Â 49.2 Â Â Â 1,092,887 Â Â Â 48.6 Â Agricultural Â Â 327,057 Â Â Â 14.5 Â Â Â 314,802 Â Â Â 14.0 Â Construction Â Â 180,157 Â Â Â 8.0 Â Â Â 195,826 Â Â Â 8.7 Â Consumer Â Â 70,542 Â Â Â 3.1 Â Â Â 61,316 Â Â Â 2.7 Â Other commercial loans Â Â 130,851 Â Â Â 5.8 Â Â Â 136,168 Â Â Â 6.1 Â Other agricultural loans Â Â 26,247 Â Â Â 1.2 Â Â Â 30,673 Â Â Â 1.4 Â State & political subdivision loans Â Â 56,005 Â Â Â 2.5 Â Â Â 57,174 Â Â Â 2.5 Â Total loans Â Â 2,255,716 Â Â Â 100.0 Â Â Â 2,248,836 Â Â Â 100.0 Â Less allowance for credit losses Â Â 22,797 Â Â Â Â Â Â Â Â 21,153 Â Â Â Â Â Net loans Â $ 2,232,919 Â Â Â Â Â Â $ 2,227,683 Â Â Â Â Â Â June 30, 2024/ Â Â Â December 31, 2023 Â Â Â Change Â Â Â Amount Â Â % Â Real estate: Â Â Â Â Â Â Residential Â $ (5,402) Â Â (1.5) Commercial Â Â 17,382 Â Â Â 1.6 Â Agricultural Â Â 12,255 Â Â Â 3.9 Â Construction Â Â (15,669) Â Â (8.0) Consumer Â Â 9,226 Â Â Â 15.0 Â Other commercial loans Â Â (5,317) Â Â (3.9) Other agricultural loans Â Â (4,426) Â Â (14.4) State & political subdivision loans Â Â (1,169) Â Â (2.0) Total loans Â $ 6,880 Â Â Â 0.3 Â 47 Index Lending efforts have historically been focused in north central Pennsylvania, the south central Pennsylvania counties of Lebanon, Schuylkill, Berks and Lancaster, the central Pennsylvania counties of Clinton and Centre, and southern New York. We have a limited branch office in Union County that is staffed by a lending team to primarily support agricultural opportunities in central Pennsylvania. In April 2020, we completed the MidCoast acquisition, which expanded our markets into the State of Delaware with activity centered around the cities of Wilmington and Dover, Delaware. Since the MidCoast acquisition, we have opened two additional branches in the Delaware market to better serve customers in the Wilmington market, as well as the surrounding area of Chester County, Pennsylvania. In June 2023, we completed the HVBC acquisition, which expanded our markets into south east Pennsylvania, including the counties of Montgomery, Bucks and Philadelphia. It also includes a Mortgage production office in Mount Laurel, New Jersey. In the fourth quarter of 2023, we opened an office in Williamsport, Pennsylvania, to further our efforts in central Pennsylvania. We originate loans primarily through direct loans to our existing customer base, with new customers generated through the strong relationships our lending teams have with their customers and our lenders expertise in certain areas, as well as by referrals from real estate brokers, building contractors, attorneys, accountants, corporate and advisory board members, existing customers and the Bankâ€™s website.Â The Bank offers a variety of loans although historically most of our lending has focused on real estate loans including residential, commercial, agricultural, and construction loans.Â All lending is governed by a lending policy that is developed and administered by management and approved by the Board of Directors. Loan activity in the first half of 2024 has been limited. The decrease in construction loans was due to the underlying projects being completed and transferred to the commercial and agricultural real estate portfolios. As part of the Braavo sale, we sold $6.1 million of other commercial loans. Due to timing, student loans increased in the first half of 2024 resulting in an increase in consumer loans. Â The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development and other land acquisitions which represent 100% or more of an institutionâ€™s total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institutionâ€™s total risk-based capital and the institutionâ€™s commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans, and the Company has experienced growth in its commercial real estate portfolio in recent years. As of June 30, 2024, non-owner-occupied commercial real estate loans (including construction, land and land development loans) represented 305.2% of consolidated risk based capital. Construction, land and land development loans represented 64.4% of consolidated risk based capital. Management has extensive experience in commercial real estate lending and has implemented and continues to maintain heightened risk management procedures and strong underwriting criteria with respect to its commercial real estate portfolio. We may be required to maintain higher levels of capital as a result of our commercial real estate concentrations, which could require us to obtain additional capital and may adversely affect shareholder returns. The Company has an extensive Capital Policy and Capital Plan, which includes pro-forma projections including stress testing within which the Board of Directors has established internal minimum targets for regulatory capital ratios that are in excess of well capitalized ratios. The Company continues to refine information reviewed related to commercial real estate and to implement additional monitoring and testing of commercial real estate loans. Â While the Bank lends to companies that service companies that explore for natural gas in our market area, the Bank has not originated any loans to companies performing the actual drilling and exploration activities. Loans made by the Bank are to service industry customers which include trucking companies, stone quarries and other support businesses, favoring customers that have had a relationship with the Bank prior to supporting the exploration for natural gas. We also have originated loans to businesses and individuals for restaurants, hotels and apartment rentals that have been developed and expanded to meet the housing and living needs of the gas industry workers. Due to our understanding of the industry and its cyclical nature, the loans made for natural gas-related activities have been originated in accordance with specific policies and procedures for lending to these entities, which include more stringent loan to value thresholds, shortened amortization periods, and expansion of our monitoring of loan concentrations associated with this activity. Â 48 Index For loans sold on the secondary market, the Company recognizes fee income for servicing certain sold loans, which is included in non-interest income. Allowance for Credit Losses - Loans The allowance for credit losses - loans is maintained at a level which, in managementâ€™s judgment, is adequate to absorb losses in the loan portfolio. The provision for credit losses - loans is charged against current income.Â Loans deemed not collectable are charged-off against the allowance while subsequent recoveries increase the allowance.Â The allowance for credit losses - loans was $22,797,000 or 1.01% of total loans as of June 30, 2024 as compared to $21,153,000 or 0.94% of loans as of December 31, 2023. The $1,644,000 increase is a result of a $2,986,000 provision for credit losses â€" loans less net charge-offs of $1,342,000. Net charge-offs for 2024 are driven by loans acquired as part of the HVBC acquisition due to collateral issues. The following table shows the distribution of the allowance for credit losses - loans and the percentage of loans compared to total loans by loan category as of June 30, 2024 and December 31, 2023 (dollars in thousands): Â Â Â June 30, Â Â December 31 Â Â Â 2024 Â Â 2023 Â Â Â Amount Â Â % Â Â Amount Â Â % Â Real estate loans: Â Â Â Â Â Â Â Â Â Â Â Â Residential Â $ 2,355 Â Â Â 15.7 Â Â $ 2,354 Â Â Â 16.0 Â Commercial Â Â 10,283 Â Â Â 49.2 Â Â Â 9,178 Â Â Â 48.6 Â Agricultural Â Â 3,770 Â Â Â 14.5 Â Â Â 3,264 Â Â Â 14.0 Â Construction Â Â 1,627 Â Â Â 8.0 Â Â Â 1,950 Â Â Â 8.7 Â Consumer Â Â 1,211 Â Â Â 3.1 Â Â Â 1,496 Â Â Â 2.7 Â Other commercial loans Â Â 3,256 Â Â Â 5.8 Â Â Â 2,229 Â Â Â 6.1 Â Other agricultural loans Â Â 206 Â Â Â 1.2 Â Â Â 270 Â Â Â 1.4 Â State & political subdivision loans Â Â 63 Â Â Â 2.5 Â Â Â 45 Â Â Â 2.5 Â Unallocated Â Â 26 Â Â Â N/A Â Â Â 367 Â Â Â N/A Â Total allowance for credit losses Â $ 22,797 Â Â Â 100.0 Â Â $ 21,153 Â Â Â 100.0 Â The following table provides information related to credit loss experience and loan quality for the six months ended June 30, 2024 and the year ended December 31, 2023 (dollars in thousands). June 30, 2024 Â Credit Loss Expense (Benefit) Â Â Net (charge- offs) Recoveries Â Â Average Loans Â Â Ratio of net (charge-offs) recoveries to Average loans Â Â Allowance to total loans Â Â Non- accrual loans as a percent of loans Â Â Allowance to total non- accrual Â loans Â Real estate: Â Residential Â $ 1 Â Â $ - Â Â $ 358,472 Â Â Â 0.00 % Â Â 0.66 % Â Â 0.86 % Â Â 77.31 % Commercial Â Â 1,105 Â Â Â - Â Â Â 1,108,819 Â Â Â 0.00 % Â Â 0.93 % Â Â 0.23 % Â Â 407.41 % Agricultural Â Â 506 Â Â Â - Â Â Â 319,444 Â Â Â 0.00 % Â Â 1.15 % Â Â 0.77 % Â Â 149.66 % Construction Â Â (323) Â Â - Â Â Â 187,001 Â Â Â 0.00 % Â Â 0.90 % Â Â 1.08 % Â Â 83.52 % Consumer Â Â (258) Â Â (27) Â Â 89,472 Â Â (0.03 %) Â Â 1.72 % Â Â 1.23 % Â Â 139.04 % Other commercial loans Â Â 2,342 Â Â Â (1,315) Â Â 134,727 Â Â (0.98 %) Â Â 2.49 % Â Â 2.77 % Â Â 89.70 % Other agricultural loans Â Â (64) Â Â - Â Â Â 25,843 Â Â Â 0.00 % Â Â 0.78 % Â Â 1.57 % Â Â 50.12 % State & political subdivision loans Â Â 18 Â Â Â - Â Â Â 56,469 Â Â Â 0.00 % Â Â 0.11 % Â Â 0.00 % Â Â NA Â Unallocated Â Â (341) Â Â - Â Â Â - Â Â Â NA Â Â Â NA Â Â Â NA Â Â Â NA Â Total Â $ 2,986 Â Â $ (1,342) Â $ 2,280,247 Â Â Â (0.06 %) Â Â 1.01 % Â Â 0.66 % Â Â 152.50 % 49 Index December 31, 2023 Â Credit Loss Expense (Benefit) Â Â Net (charge- offs) Recoveries Â Â Average Loans Â Â Ratio of net (charge-offs) recoveries to Average loans Â Â

Allowance to total loans Â Â Non- accrual loans as a percent of loans Â Â Allowance to total non- accrual loans Â Real estate: Â Residential Â $ 1,112 Â Â $ (1) Â $ 290,971 Â Â Â 0.00 % Â Â 0.65 % Â Â 0.86 % Â Â 76.38 % Commercial Â Â 2,089 Â Â Â - Â Â Â 986,188 Â Â Â 0.00 % Â Â 0.84 % Â Â 0.10 % Â Â 808.63 % Agricultural Â Â (217) Â Â - Â Â Â 312,423 Â Â Â 0.00 % Â Â 1.04 % Â Â 0.85 % Â Â 122.25 % Construction Â Â 1,252 Â Â Â - Â Â Â 135,315 Â Â Â 0.00 % Â Â 1.00 % Â Â 1.20 % Â Â 82.73 % Consumer Â Â (31) Â Â (325) Â Â 94,519 Â Â Â (0.34 %) Â Â 2.44 % Â Â 1.14 % Â Â 213.41 % Other commercial loans Â Â 1,643 Â Â Â (954) Â Â 95,300 Â Â Â (1.00 %) Â Â 1.64 % Â Â 1.29 % Â Â 127.37 % Other agricultural loans Â Â - Â Â Â - Â Â Â 30,557 Â Â Â 0.00 % Â Â 0.88 % Â Â 1.60 % Â Â 54.88 % State & political subdivision loans Â Â 3 Â Â Â - Â Â Â 59,308 Â Â Â 0.00 % Â Â 0.08 % Â Â 0.00 % Â Â NA Â Unallocated Â Â (359) Â Â - Â Â Â - Â Â Â NA Â Â NA Â Â NA Â Â NA Â Total Â $ 5,492 Â Â $ (1,280) Â $ 2,004,581 Â Â Â (0.06 %) Â Â 0.94 % Â Â 0.54 % Â Â 173.57 % The Company believes it utilizes a disciplined and thorough loan review process based upon its internal loan policy approved by the Companyâ€™s Board of Directors.Â The purpose of the review is to assess loan quality, analyze delinquencies, identify problem loans, evaluate potential charge-offs and recoveries, and assess general overall economic conditions in the markets served.Â An external independent loan review is performed on our commercial portfolio at least semi-annually for the Company.Â The external consultant is engaged to 1) review a minimum of 50%Â of the dollar volume of the commercial loan portfolio on an annual basis, 2) a large sample of relationships in aggregate over $1,000,000,Â 3) selected loan relationships over $750,000 which are over 30 days past due, or classified Special Mention, Substandard, Doubtful, or Loss, and 4) such other loans which management or the consultant deems appropriate. As part of this review, our underwriting process and loan grading system is evaluated. Management believes it uses the best information available to make such determinations and that the allowance for credit losses - loans is adequate as of June 30, 2024. However, future adjustments could be required if circumstances differ substantially from assumptions and estimates used in making the initial determination.Â A prolonged downturn in the economy, changes in the economies of various segments of our agricultural and commercial portfolios, high unemployment rates, significant changes in the value of collateral and delays in receiving financial information from borrowers could result in increased levels of non-performing assets, charge-offs, credit loss provisions and reduction in income.Â Additionally, bank regulatory agencies periodically examine the Bankâ€™s allowance for credit losses.Â The banking agencies could require the recognition of additions to the allowance for credit losses - loans based upon their judgment of information available to them at the time of their examination. On a monthly basis, problem loans are identified and updated primarily using internally prepared past due reports.Â Based on data surrounding the collection process of each identified loan, the loan may be added or deleted from the monthly watch list.Â The watch list includes loans graded special mention, substandard, doubtful, and loss, as well as additional loans that management may choose to include.Â Watch list loans are continually monitored going forward until satisfactory conditions exist that allow management to upgrade and remove the loan from the watchlist.Â In certain cases, loans may be placed on non-accrual status or charged-off based upon managementâ€™s evaluation of the borrowerâ€™s ability to pay.Â All commercial loans, which include commercial real estate, agricultural real estate, state and political subdivision loans, other commercial loans and other agricultural loans, on non-accrual are evaluated quarterly for impairment. See also â€œNote 5 â€" Loans and Related Allowance for Credit Losses - Loansâ€ to the consolidated financial statements. 50 Index The following table is a summary of our non-performing assets as of June 30, 2024 and December 31, 2023. Â Â Â June 30, Â Â December 31, Â (dollars in thousands) Â 2024 Â Â 2023 Â Non-performing loans: Â Â Â Â Â Â Non-accruing loans Â $ 14,949 Â Â $ 12,187 Â Accrual loans - 90 days or more past due Â Â 285 Â Â Â 516 Â Total non-performing loans Â Â 15,234 Â Â Â 12,703 Â Foreclosed assets held for sale Â Â 2,690 Â Â Â 474 Â Total non-performing assets Â $ 17,924 Â Â $ 13,177 Â Â The increase in foreclosed assets held for sale is primarily due to a commercial construction loan that was foreclosed on during the second quarter of 2024. Â The following table identifies amounts of loans contractually past due 30 to 90 days and non-performing loans by loan category, as well as the change from December 31, 2023 to June 30, 2024 in non-performing loans (in thousands).Â Non-performing loans include those accruing loans that are contractually past due 90 days or more and non-accrual loans. Interest does not accrue on non-accrual loans.Â Subsequent cash payments received are applied to the outstanding principal balance or recorded as interest income, depending upon managementâ€™s assessment of its ultimate ability to collect principal and interest. Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Â Â Â Non-Performing Loans Â Â Â Â Non-Performing Loans Â Â 30 - 89 Days Â Â Â Â Â Â Â Â 30 - 89 Days Â Â Â Â Â Â Â Â Â Â Â Â Past Due Â Â 90 Days Past Â Â Non- Â Â Total Non- Â Â Past Due Â Â 90 Days Past Â Â Non- Â Â Total Non- Â (in thousands) Â Accruing Â Â Due Accruing Â Â accrual Â Â Performing Â Â Accruing Â Â Due Accruing Â Â accrual Â Â Performing Â Real estate: Â Residential Â $ 2,069 Â Â $ 76 Â Â $ 3,046 Â Â $ 3,122 Â Â $ 3,061 Â Â $ 18 Â Â $ 3,082 Â Â $ 3,100 Â Commercial Â Â 14,073 Â Â Â 168 Â Â Â 2,524 Â Â Â 2,692 Â Â Â 1,396 Â Â Â 404 Â Â Â 1,135 Â Â Â 1,539 Â Agricultural Â Â 2,521 Â Â Â - Â Â Â 2,519 Â Â Â 2,519 Â Â Â 73 Â Â Â 75 Â Â Â 2,670 Â Â Â 2,745 Â Construction Â Â 978 Â Â Â - Â Â Â 1,948 Â Â Â 1,948 Â Â Â 4,795 Â Â Â - Â Â Â 2,357 Â Â Â 2,357 Â Consumer Â Â 168 Â Â Â 16 Â Â Â 871 Â Â Â 887 Â Â Â 298 Â Â Â 13 Â Â Â 701 Â Â Â 714 Â Other commercial loans Â Â 399 Â Â Â 25 Â Â Â 3,630 Â Â Â 3,655 Â Â Â 826 Â Â Â 6 Â Â Â 1,750 Â Â Â 1,756 Â Other agricultural loans Â Â 451 Â Â Â - Â Â Â 411 Â Â Â 411 Â Â Â 7 Â Â Â - Â Â Â 492 Â Â Â 492 Â Total nonperforming loans Â $ 20,659 Â Â $ 285 Â Â $ 14,949 Â Â $ 15,234 Â Â $ 10,456 Â Â $ 516 Â Â $ 12,187 Â Â $ 12,703 Â Â Â Change in Non-Performing Loans Â Â Â June 30, 2024 /December 31, 2023 Â (in thousands) Â Amount Â Â % Â Real estate: Â Â Â Â Â Â Residential Â $ 22 Â Â Â 0.7 Â Commercial Â Â 1,153 Â Â Â 74.9 Â Agricultural Â Â (226) Â Â (8.2) Construction Â Â (409) Â Â (17.4) Consumer Â Â 173 Â Â Â 24.2 Â Other commercial loans Â Â 1,899 Â Â Â 108.1 Â Other agricultural loans Â Â (81) Â Â (16.5) Total nonperforming loans Â $ 2,531 Â Â Â 19.9 Â 51 Index Nonperforming loans increased $2.5 million during 2024. During the first half of 2024, the Bank placed one large commercial relationship, one large construction relationship and numerous other commercial loans on non-accrual status, while also foreclosing on one construction loan that was transferred to foreclosed assets held for sale, which accounts for the majority of the change in non-performing loans since year-end. AtÂ June 30, 2024, approximately 52.3% of the Bankâ€™s non-performing loans are associated with the following six customer relationships: Â â€¢ A commercial loan relationship with $580,000 outstanding, and additional letters of credit of $1.2 million available, secured by undeveloped land, stone quarries and equipment, was on non-accrual status as of June 30, 2024. The Company services the natural gas industry, as well as local municipalities. As a result, the reduced exploration for natural gas in north central Pennsylvania has significantly impacted the cash flows of the customer, who provides excavation services and stone for pad construction related to these activities. During 2020, the Company had the underlying equipment collateral appraised and in the first quarter of 2022, the Company had the quarry appraised. The appraisals indicated a decrease in collateral values compared to the appraisal ordered for the loan origination, however, the loan was still considered well secured on a loan to value basis at June 30, 2024. In 2022 and 2023, the customer liquidated some excess equipment and the funds have been utilized to pay down a portion of the loans. Management determined that no specific reserve was required as of June 30, 2024. â€¢ An agricultural loan customer with a total loan relationship of $1.4 million, secured by real estate, equipment and cattle, was on non-accrual status as of June 30, 2024. The customer declared bankruptcy during the fourth quarter of 2018 and developed a workout plan that was approved by the bankruptcy court in the fourth quarter of 2019 and resulted in monthly payments resuming in late 2019 that continued through 2023. The customer did miss a portion of required payments in 2023, however, in January 2024 the customer modified the bankruptcy plan to account for these missed payments.Â Included within these loans to this customer are loans which are subject to Farm Service Agency guarantees in excess of $700,000. Depressed milk prices created cash flow difficulties for this customer.Â Absent a sizable and sustained increase in milk prices, which is not assured, we will need to rely upon the collateral for repayment of interest and principal. During 2023, the Company had the underlying collateral appraised. Management determined that no specific reserve was required as of June 30, 2024. â€¢ An agricultural loan customer with a total loan relationship of $1.1 million, secured by real estate was on non-accrual status as of June 30, 2024. The customer filed bankruptcy in the first quarter of 2023 with the plan approved in the second quarter of 2024. The first payment under the plan was received in the second quarter of 2024. We expect that we will need to rely upon the collateral for repayment of interest and principal. During 2023, the Company had the underlying collateral appraised.Â Management reviewed the collateral and determined that no specific reserve was required as of June 30, 2024. â€¢ A commercial construction loan customer with a total loan relationship of $1.9 million, secured by partiallyÂ developed real estate, was on non-accrual status as of June 30, 2024. The customer has experienced delays in developing the real estate for resale resulting in financing difficulties. Management reviewed the collateral and determined that no specific reserve was required as of June 30, 2024. â€¢ A commercial and residential real estate customer with a total relationship of $1.2 million secured by a restaurant and residence was on non-accrual status as of June 30, 2024. The customer has experienced a slow-down in business at the restaurant as well as higher operating costs creating cashflow difficulties. Management reviewed the collateral and determined that a specific reserve of $80,000 was required as of June 30, 2024. â€¢ A commercial loan relationship with $1.7 millin outstanding secured by residential and commercial real estate, a car collection and gun collection was on non-accrual status as of June 30, 2024. The Company lost a contract and has gone out of business. We expect that we will need to rely upon the collateral for repayment of interest and principal. Management determined that no specific reserve was required as of June 30, 2024. Management believes that the allowance for credit losses - loans at June 30, 2024 was adequate at that date, which was based on the following factors: â€¢ Six loan relationships comprise 52.38% of the non-performing loan balance, which required a specific reserve of $80,000 as of June 30, 2024. 52 Index â€¢ The Company has a history of low charge-offs, which were 0.12% of average loans on an annualized basis for 2024 and 0.09% for 2023. Bank Owned Life Insurance The Company owns bank owned life insurance policies to offset future employee benefit costs. These policies provide the Bank with an asset that generates earnings to partially offset the current costs of benefits, and eventually (at the death of the insureds) provide partial recovery of cash outflows associated with the benefits.Â As of June 30, 2024, and December 31, 2023, the cash surrender value of the life insurance was $49.8 million and $49.9 million, respectively. The change in cash surrender value, net of purchases and amounts acquired through acquisitions, is recognized in the results of operations. The amounts recorded as non-interest income totaled $996,000 and $452,000 for the six month periods ended June 30, 2024 and 2023, respectively. During the first quarter of 2024, the Company received proceeds of $1,147,000, which included death benefits of $326,000 on a former employee of the Company. The Company evaluates annually the risks associated with the life insurance policies, including limits on the amount of coverage and an evaluation of the various carriersâ€™ credit ratings. The Company policies that were purchased directly from insurance companies and acquired as part of the HVBC acquisition are structured so that any death benefits received from a policy while the insured person is an active employee of the Bank will be split with the beneficiary of the policy.Â Under these agreements, the employeeâ€™s beneficiary will be entitled to receive 50% of the net amount at risk from the proceeds.Â The net amount at risk is the total death benefit payable less the cash surrender value of the policy as of the date of death. The policies acquired as part of the acquisition of FNB provide a fixed split-dollar benefit for the beneficiaryâ€™s estate, which is dependent on several factors including whether the covered individual was a former Director of First National Bank of Fredericksburg (â€œFNBâ€) or a former employee of FNB and their salary level. As of June 30, 2024 and December 31, 2023, included in other liabilities on the Consolidated Balance Sheet was a liability of $582,000 and $610,000, respectively, for the obligation under the split-dollar benefit agreements. Premises and Equipment Premises and equipment decreased $485,000 to $20.9 million as of June 30, 2024 from December 31, 2023 as a result of depreciation. Other assets Other assets decreased $5.9 million to $53.2 million. The primary driver of the decrease was an investment security that matured, but did not settle as of December 31, 2023. It subsequently settled in 2024. Deposits

The following table shows the composition of deposits as of June 30, 2024 and December 31, 2023 (dollars in thousands): Â Â June 30, Â Â December 31, Â Â Â 2024 Â Â 2023 Â Â Â Amount Â Â % Â Â Amount Â Â % Â Non-interest-bearing deposits Â $ 501,991 Â Â Â 22.1 Â Â $ 523,784 Â Â Â 22.6 Â Interest bearing demand deposits Â Â 15,122 Â Â Â 0.7 Â Â Â - Â Â Â - Â NOW accounts Â Â 586,906 Â Â Â 25.8 Â Â Â 670,712 Â Â Â 28.9 Â Savings deposits Â Â 298,286 Â Â Â 13.1 Â Â Â 307,357 Â Â Â 13.2 Â Money market deposit accounts Â Â 401,246 Â Â Â 17.7 Â Â Â 400,154 Â Â Â 17.2 Â Certificates of deposit Â Â 469,544 Â Â Â 20.6 Â Â Â 419,474 Â Â Â 18.1 Â Total Â $ 2,273,095 Â Â Â 100.0 Â Â $ 2,321,481 Â Â Â 100.0 Â 53 Index Â Â June 30, 2024/ Â Â Â December 31, 2023 Â Â Â Change Â Â Â Amount Â Â % Â Non-interest-bearing deposits Â $ (21,793) Â Â (4.2) Interest bearing demand deposits Â Â 15,122 Â Â NA Â NOW accounts Â Â (83,806) Â Â (12.5) Savings deposits Â Â (9,071) Â Â (3.0) Money market deposit accounts Â Â 1,092 Â Â Â 0.3 Â Certificates of deposit Â Â 50,070 Â Â Â 11.9 Â Total Â $ (48,386) Â Â (2.1) Deposits decreased $48.4 million since December 31, 2023. The reduction in deposits resulted from customer funds transferred to higher-yielding investment alternatives; and seasonal reductions in municipal deposits as well as withdrawals used to fund various projects within municipalities. Brokered deposits totaled $116.8 million and $109.3 million as of June 30, 2024 and December 31, 2023, respectively. At June 30, 2024, the Bank estimates that balances held by customers in excess of the FDIC insurance limit ($250,000 per insured account) totaled $1.04 billion, or 45.7% of the Bankâ€™s total deposits. Included in this balance are balances held through Intrafi, which provides customers withÂ FDIC insurance coverage by placing customer funds with insured banks within the Intrafi network, as well as deposits collateralized by securities (almost exclusively municipal deposits). The total of these items was $498.0 million, or 21.9% of the Bankâ€™s total deposits, as of June 30, 2024. Borrowed Funds Borrowed funds were $334.8 million and $322.0 million as of June 30, 2024 and December 31, 2023, respectively. The increase in borrowed funds was due to the increase in loans and the seasonal decline in deposits. In April 2020, the Bank entered into two interest rate swap agreements to convert floating-rate debt to fixed rate debt on notional amounts of $15.0 million and $10.0 million. The interest rate swap instruments involve an agreement to receive a floating rate and pay a fixed rate, at specified intervals, calculated on the agreed-upon notional amounts. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense in the period. The interest rate swap agreements were entered into on April 1, 2020 and expire on April 1, 2025 and April 1, 2027. In April 2020, the Company entered into an interest rate swap agreement to convert floating-rate debt to fixed rate debt on a notional amounts of $7.5 million. The interest rate swap instrument involves an agreement to receive a floating rate and pay a fixed rate, at specified intervals, calculated on the agreed-upon notional amount. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense in the period. The interest rate swap agreements were entered into on April 13, 2020 and expire on June 17, 2027. In May of 2020, the Bank entered into three two year forward interest rate swaps that will convert floating rate debt to fixed rate debt on notional amounts of $6.0 million each.Â The interest rate swap instruments involves an agreement to receive a floating rate and pay a fixed rate, at specified intervals, calculated on the agreed-upon notional amount. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense in the period. The interest rate swap agreements were entered into on May 14, 2020 and expire on May 14, 2027, 2029 and 2032. The fair value of the interest rate swaps at June 30, 2024 was $5,297,000 and is included within fair value of derivative instruments on the consolidated balance sheets. The Companyâ€™s current strategy for borrowings is to consider terms and structures to manage interest rate risk and liquidity in a rising rate environment. The Companyâ€™s daily cash requirements or short-term investments are primarily met by using the financial instruments available through the Federal Home Loan Bank of Pittsburgh. 54 Index Stockholdersâ€™ Equity We evaluate stockholdersâ€™ equity in relation to total assets and the risks associated with those assets.Â The greater the capital resource, the more likely a corporation will meet its cash obligations and absorb unforeseen losses.Â For these reasons, capital adequacy has been, and will continue to be, of paramount importance to the Company. As such, the Company has implemented policies and procedures to ensure that it has adequate capital levels. As part of this process, we routinely stress test our capital levels and identify potential risk and alternative sources of additional capital should the need arise. Total stockholdersâ€™ equity was $286.5 million at June 30, 2024 compared to $279.7 million at December 31, 2023, an increase of $6,804,000, or 2.4%.Â Excluding accumulated other comprehensive loss, stockholdersâ€™ equity increased $7.8 million, or 2.6%. The accumulated comprehensive loss increased $1.0 million, which was primarily the result of the decrease in fair value of the Companyâ€™s available for sale investment portfolio caused by the increase in longer term market interest rates. For the first half of 2024, the Company had net income of $12.3 million and declared cash dividends of $4.6 million, or $0.97 per share, representing a cash dividend payout ratio of 37.7%. All of the Companyâ€™s debt investment securities are classified as available-for-sale, making this portion of the Companyâ€™s balance sheet more sensitive to the changing market value of investments due to changes in market interest rates. As a result of increases in longer term market interest rates, the defined benefit plan obligations and the interest rate swaps entered into during 2020, accumulated other comprehensive loss increased approximately $1.0 million from December 31, 2023. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Companyâ€™s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bankâ€™s assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Bankâ€™s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As permitted by applicable federal regulation, the Bank has opted to use the community bank leverage ratio (the â€œCBLRâ€) framework for determining its capital adequacy.Â Under the CBLR framework a qualifying community bank is considered well-capitalized if its leverage ratio (Tier 1 capital divided by average total consolidated assets) exceeds 9%. There is a two quarter grace period for a qualifying community bank to return to 9% as long as the CBLR is least 8%. If a qualifying community bank fails to maintain the applicable minimum CBLR during the grace period, or if it is unable to restore compliance with the CBLR within the grace period, then it will revert to the Basel III capital framework and the normal Prompt Corrective Action capital categories will apply. At June 30, 2024, the Bank leverage ratio under the CBLR framework was 8.88%, which is less than 9.0% requirement to be considered â€œwell-capitalizedâ€Â under the CBLR. As such, as of June 30, 2024, and going forward, the Bank reverted to the prompt corrective action framework and will noÂ longer utilize the CBLR framework until such time as the CBLR exceeds 9%. The following table provides the Bankâ€™s computed riskâ€‘based capital ratios as of June 30, 2024, which reflects the Bank being â€œwell capitalizedâ€ on that date (dollars in thousands): 55 Index Â Â Actual Â Â For Capital Adequacy Purposes Â Â To Be Well Capitalized Under Prompt Corrective Action Provisions Â June 30, 2024 Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â Total Capital (to Risk Weighted Assets): Â Company Â $ 275,549 Â Â Â 11.66 % Â $ 189,074 Â Â Â 8.00 % Â $ 236,342 Â Â Â 10.00 % Bank Â $ 279,717 Â Â Â 11.85 % Â $ 188,787 Â Â Â 8.00 % Â $ 235,984 Â Â Â 10.00 % Â Tier 1 Capital (to Risk Weighted Assets): Â Company Â $ 233,086 Â Â Â 9.86 % Â $ 141,805 Â Â Â 6.00 % Â $ 189,074 Â Â Â 8.00 % Bank Â $ 256,443 Â Â Â 10.87 % Â $ 141,590 Â Â Â 6.00 % Â $ 188,787 Â Â Â 8.00 % Â Common Equity Tier 1 Capital (to Risk Weighted Assets): Â Company Â $ 225,586 Â Â Â 9.54 % Â $ 106,354 Â Â Â 4.50 % Â $ 153,622 Â Â Â 6.50 % Bank Â $ 256,443 Â Â Â 10.87 % Â $ 106,193 Â Â Â 4.50 % Â $ 153,389 Â Â Â 6.50 % Â Tier 1 Capital (to Average Assets): Â Company Â $ 233,086 Â Â Â 8.07 % Â $ 115,584 Â Â Â 4.00 % Â $ 144,480 Â Â Â 5.00 % Bank Â $ 255,682 Â Â Â 8.88 % Â $ 115,501 Â Â Â 4.00 % Â $ 144,376 Â Â Â 5.00 % At December 31, 2023, the Bank leverage ratio under the CBLR framework was 8.54%. This ratio allowed the Bank to fall within the grace period of the CBLR as of December 31, 2023. Off-Balance Sheet Activities Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs but are not recorded on the Companyâ€™s balance sheet.Â The contractual amount of financial instruments with off-balance sheet risk was as follows at June 30, 2024 and December 31, 2023 (in thousands): Â Â June 30, 2024 Â Â December 31, 2023 Â Commitments to extend credit Â $ 462,409 Â Â $ 546,006 Â Standby letters of credit Â Â 16,107 Â Â Â 18,682 Â Â $ 478,516 Â Â $ 564,688 Â Â Â Â Â Â Â Â Â Allowance for Credit Losses - Off-Balance Sheet credit Exposure Â $ 1,066 Â Â $ 938 Â We also offer limited overdraft protection as a non-contractual courtesy which is available to demand deposit accounts in good standing. Overdraft charges as a result of ATM withdrawals and one-time point of sale (non-recurring) transactions require prior approval of the customer. The non-contractual amount of financial instruments with off-balance sheet risk at June 30, 2024 and December 31, 2023 was $13,050,000 and $13,121,000, respectively. The Company reserves the right to discontinue this service without prior notice. Liquidity Liquidity is a measure of the Companyâ€™s ability to efficiently meet normal cash flow requirements of both borrowers and depositors.Â To maintain proper liquidity, we use funds management policies, which include liquidity target ratios, along with our investment policies to assure we can meet our financial obligations to depositors, credit customers and stockholders.Â Liquidity is needed to meet depositorsâ€™ withdrawal demands, extend credit to meet borrowersâ€™ needs, provide funds for normal operating expenses and cash dividends, and to fund other capital expenditures. Cash generated by operating activities, investing activities and financing activities influences liquidity management. Our Companyâ€™s historical activity in this area can be seen in the Consolidated Statement of Cash Flows.Â The most important source of funds is core deposits.Â Repayment of principal on outstanding loans and cash flows created from the investment portfolio are also factors in liquidity management.Â Other sources of funding include brokered certificates of deposit and the sale of loans or investments, if needed. 56 Index The Companyâ€™s use of funds is shown in the investing activity section of the Consolidated Statement of Cash Flows, where the net loan activity is presented.Â Other uses of funds include purchasing stock from the Federal Home Loan Bank (FHLB) of Pittsburgh, as well as capital expenditures.Â Capital expenditures (including software purchases), during the first six months of 2024 were $226,000 compared to $1,926,000 during the same time period in 2023. Short-term debt from the FHLB supplements the Bankâ€™s availability of funds.Â The Bank achieves liquidity primarily from temporary or shortâ€‘term investments in the Federal Reserve and the FHLB.Â The Bank had a maximum borrowing capacity at the FHLB of approximately $1.11 billion, of which $367.4 million was outstanding, at June 30, 2024. The Bank also has two federal funds line with third party providers for $34.0 million as of June 30, 2024, which are unsecured and were undrawn upon as of June 30, 2024. The Company also has a borrower in custody line with the Federal Reserve Bank of approximately $14.2 million, which also was not drawn upon as of June 30, 2024. The Company has a $15.0 million line of credit with a New York community bank, of which $10.1 million was utilized as of June 30, 2024. The Company continues to evaluate its liquidity needs and as necessary finds additional sources. Citizens Financial Services, Inc. is a separate legal entity from the Bank and must provide for its own liquidity.Â In addition to its operating expenses, Citizens Financial Services, Inc. is responsible for paying any dividends declared to its shareholders.Â Citizens Financial also has repurchased shares of its common stock.Â Citizens Financial Services, Inc.â€™s primary source of income is dividends received from the Bank.Â Both federal and state laws impose restrictions on the ability of the Bank to pay dividends. In particular, the Bank may not, as a state-chartered bank which is a member of the Federal Reserve System, declare a dividend without approval of the Federal Reserve, unless the dividend to be declared by the Bankâ€™s Board of Directors does not exceed the total of:Â (i) the Bankâ€™s net profits for the current year to date, plus (ii) its retained net profits for the preceding two current years, less any required transfers to surplus.Â The Federal

Reserve Board and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions.Â The Prompt Corrective Action Rules, described above, further limit the ability of banks to pay dividends, because banks which are not classified as well capitalized or adequately capitalized may not pay dividends and no dividend may be paid which would make the Bank undercapitalized after the dividend.Â At June 30, 2024, Citizens Financial Services, Inc. (on an unconsolidated basis) had liquid assets of approximately $3.9 million. Interest Rate and Market Risk Management The objective of interest rate sensitivity management is to maintain an appropriate balance between the stable growth of income and the risks associated with maximizing income through interest sensitivity imbalances and the market value risk of assets and liabilities. Because of the nature of our operations, we are not subject to foreign currency exchange or commodity price risk and, because we have no trading portfolio, we are not subject to trading risk. At June 30, 2024, the Company has equity securities that represent only 0.05% of its total assets and, therefore, equity risk is not significant. The primary components of interest-sensitive assets include adjustable-rate loans and investments, loan repayments, investment maturities and money market investments.Â The primary components of interest-sensitive liabilities include maturing certificates of deposit, IRA certificates of deposit and short-term borrowings.Â Savings deposits, NOW accounts and money market investor accounts are considered core deposits and are not short-term interest sensitive (except for the top-tier money market investor accounts, typically help by local governments, which are paid current market interest rates). 57 Index Gap analysis, one of the methods used by us to analyze interest rate risk, does not necessarily show the precise impact of specific interest rate movements on our Companyâ€™s net interest income because the re-pricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures.Â In addition, assets and liabilities within the same period may, in fact, be repaid at different times and at different rate levels.Â We have not experienced the kind of earnings volatility that might be indicated from gap analysis. The Company currently uses a computer simulation model to better measure the impact of interest rate changes on net interest income. We use the model as part of our risk management and asset liability management processes that we believe will effectively identify, measure, and monitor the Companyâ€™s risk exposure.Â In this analysis, the Company examines the results of movements in interest rates with additional assumptions made concerning prepayment speeds on mortgage loans and mortgage securities.Â Â Shock scenarios, which assume a parallel shift in interest rates and is instantaneous, typically have the greatest impact on net interest income. The following is a rate shock analysis and the impact on net interest income as of June 30, 2024 (dollars in thousands): Â Â Â Â Â Â Change In Â Â % Change In Â Â Prospective One-Year Â Â Prospective Â Changes in Rates Â Net Interest Income Â Net Interest Income Â Net Interest Income Â -400 Shock Â $ 93,286 Â Â $ 6,936 Â Â Â 8.03 Â -300 Shock Â Â 91,313 Â Â Â 4,963 Â Â Â 5.75 Â -200 Shock Â Â 90,224 Â Â Â 3,874 Â Â Â 4.49 Â -100 Shock Â Â 88,709 Â Â Â 2,359 Â Â Â 2.73 Â Base Â Â 86,350 Â Â Â - Â Â Â - Â +100 Shock Â Â 84,010 Â Â Â (2,340) Â Â (2.71) +200 Shock Â Â 81,022 Â Â Â (5,328) Â Â (6.17) +300 Shock Â Â 78,534 Â Â Â (7,816) Â Â (9.05) +400 Shock Â Â 76,041 Â Â Â (10,309) Â Â (11.94) The model makes estimates, at each level of interest rate change, regarding cash flows from principal repayments on loans and mortgage backed securities, call activity of other investment securities, and deposit selection, re-pricing and maturity structure.Â Because of these assumptions, actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change on net interest income. Additionally, the changes above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. The changes in net interest income noted above are in line with Company policy for interest rate risk. Item 3-Quantitative and Qualitative Disclosure about Market Risk In the normal course of conducting business activities, the Company is exposed to market risk, principally interest rate risk, through the operations of its banking subsidiary.Â Interest rate risk arises from market driven fluctuations in interest rates that affect cash flows, income, expense and values of financial instruments and was discussed previously in this Form 10-Q.Â Management and a committee of the Board of Directors manage interest rate risk (see also â€œInterest Rate and Market Risk Managementâ€). Item 4-Control and Procedures (a) Disclosure Controls and Procedures The Companyâ€™s management, including the Companyâ€™s principal executive officer and principal financial officer, have evaluated the effectiveness of the Companyâ€™s â€œdisclosure controls and procedures,â€ as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the â€œExchange Actâ€).Â Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Companyâ€™s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SECâ€™s rules and forms, and (2) is accumulated and communicated to the Companyâ€™s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. 58 Index (b) Changes to Internal Control over Financial Reporting There were no changes in the Companyâ€™s internal control over financial reporting during the quarter ended June 30, 2024 that have materially affected, or are reasonable likely to materially affect, the Companyâ€™s internal control over financial reporting. PART II â€‘ OTHER INFORMATION Item 1 â€‘ Legal Proceedings Management is not aware of any pending or threatened litigation that would have a material adverse effect on the consolidated financial position of the Company.Â Any pending proceedings are ordinary, routine litigation incidental to the business of the Company and its subsidiary.Â In addition, no material proceedings are pending or are known to be threatened or contemplated against the Company and its subsidiary by government authorities. Item 1A â€“ Risk Factors In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, â€œItem 1.A. Risk Factorsâ€ in our Annual Report on Form 10-K for the year ended December 31, 2023, which could materially affect our business, financial condition or future results. At June 30, 2024, the risk factors of the Company have not changed materially from those reported in our 2023 Annual Report on Form 10-K.Â However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Item 2 â€“ Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities ISSUER PURCHASES OF EQUITY SECURITIES Â Â Â Â Â Â Â Â Â Â Â Â Â Â Period Â Total Number of Shares (or units Purchased) Â Â Average Price Paid per Share (or Unit) Â Â Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs Â Â Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1) Â 4/1/24 to 4/30/24 Â Â - Â Â $ 0.00 Â Â Â - Â Â Â 149,112 Â 5/1/24 to 5/31/24 Â Â 881 Â Â $ 42.02 Â Â Â 881 Â Â Â 148,231 Â 6/1/24 to 6/30/24 Â Â - Â Â $ 0.00 Â Â Â - Â Â Â 148,231 Â Total Â Â 881 Â Â $ 42.02 Â Â Â 881 Â Â Â 148,231 Â Â (1) On April 22, 2023, the Company announced that the Board of Directors authorized the Company to repurchase up to an additional 150,000 shares at an aggregate purchase price not to exceed $15.0 million over a period of 36 months. The repurchases will be conducted through open-market purchases or privately negotiated transactions and will be made from time to time depending on market conditions and other factors.Â No time limit was placed on the duration of the share repurchase program.Â Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. Â Item 3 â€‘ Defaults Upon Senior Securities Not applicable. 59 Index Item 4 â€“ Mine Safety Disclosure Not applicable. Item 5 â€‘ Other Information During the three months ended June 30, 2024, none of the Companyâ€™s directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Companyâ€™s securities that was intended to satisfy the affirmative defense conditions of SEC Rule 10b5-1(c) or any â€œnon-Rule 10b5-1 trading arrangementâ€ (as such term is defined in Item 408 of SEC Regulation S-K). Item 6 â€‘ Exhibits (a)Â The following documents are filed as a part of this report: Â Â Â 3.1 Restated Articles of Incorporation of Citizens Financial Services, Inc. (1) Â Â 3.2 Articles of Amendment of Restated Articles of Incorporation of Citizens Financial Services, Inc. (2) Â Â 3.3 Bylaws of Citizens Financial Services, Inc. (3) Â Â 3.4 Amendment No. 1 to Amended and Restated Bylaws of Citizens Financial Services, Inc. (4) Â 4.1 Form of Common Stock Certificate. (5) Â Â 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer Â Â 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer Â Â 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer Â Â 101 The following materials from the Companyâ€™s Quarterly Report on Form 10-Q for the period endedÂ June 30, 2024, formatted in XBRL (Extensible Business Reporting Language): (i) The Consolidated Balance Sheet (unaudited), (ii) the Consolidated Statement of Income (unaudited), (iii) the Consolidated Statement of Comprehensive Income (unaudited), (iv) the Consolidated Statement of Changes in Stockholdersâ€™ Equity, (v) the Consolidated Statement of Cash Flows (unaudited) and (vi) related notes (unaudited). Â Â 104 Cover Page Interactive Data File (embedded within the Inline XBRL document) (1) Incorporated by reference to Exhibit 3.1 to the Companyâ€™s Form 10-Q for the quarter ended June 30, 2018, as filed with the Commission on August 9, 2018. (2) Incorporated by reference to Exhibit 3.1 to the Companyâ€™s Current Report on Form 8-K, as filed with the Commission on April 26, 2021. (3) Incorporated by reference to Exhibit 3.1 to the Companyâ€™s Current Report on Form 8-K, as filed with the Commission on December 17, 2020. (4) Incorporated by reference to Exhibit 3.1 to the Companyâ€™s Current Report on Form 8-K, as filed with the Commission on November 23, 2022 Â (5) Incorporated by reference to Exhibit 4 to the Companyâ€™s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the Commission on March 9, 2023. 60 Index Signatures Â Â Â Â Â Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. Â Citizens Financial Services, Inc. Â (Registrant) Â Â August 8, 2024Â Â Â /s/ Randall E. Black Â By: Randall E. Black Â President and Chief Executive Officer Â (Principal Executive Officer) Â Â August 8, 2024 /s/ Stephen J. Guillaume Â By: Stephen J. Guillaume Â Chief Financial Officer Â (Principal Financial and Accounting Officer) Exhibit 31.1 Certification of Chief Executive Officer I, Randall E. Black, certify that: 1. Â Â Â Â I have reviewed this Form 10-Q of Citizens Financial Services, Inc.; 2.Â Â Â Â 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 Â Â 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.Â Â Â Â The registrantâ€™s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; (c) Evaluated the effectiveness of the 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; and 5.Â Â Â Â The registrantâ€™s other certifying officer(s) 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 the 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, 2024 By:Â /s/ Randall E. Black Â By:Â Randall E. Black Â President and Chief Executive Officer Â (Principal Executive Officer) Exhibit 31.2 Certification of Chief Financial Officer I, Stephen J. Guillaume, certify that: 1.Â Â Â Â I have reviewed this Form 10-Q of Citizens Financial Services, Inc.; 2.Â Â Â Â 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 Â Â 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.Â Â Â Â The registrantâ€™s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; (c) Evaluated the effectiveness of the 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; and 5.Â Â The registrantâ€™s other certifying officer(s) 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 the 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, 2024 By:Â /s/ Stephen J. Guillaume Â By:Â Stephen J. Guillaume Â Chief Financial Officer Â (Principal Financial and Accounting Officer) EXHIBIT 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer In connection with the Quarterly Report of Citizens Financial Services, Inc. (the â€œCompanyâ€) on Form 10-Q (the â€œReportâ€) for the period ended June 30, 2024 as filed with the Securities and Exchange Commission, the undersigned certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that: Â Â 1. The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and Â 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered in the Report. By:Â /s/ Randall E. Black Â By:Â Randall E. Black President and Chief Executive Officer (Principal Executive Officer) Â Â Date:Â August 8, 2024 Â Â Â By:Â /s/ Stephen J. Guillaume Â Â By:Â Stephen J. Guillaume Â Chief Financial Officer Â (Principal Financial and Accounting Officer) Â Â Â Date:Â August 8, 2024 Â