NORWOOD
FINANCIAL CORP

Annual Report 2023

SERVING OUR CUSTOMERS. LEADING OUR COMMUNITIES.

NORWOOD FINANCIAL CORP

A Letter To Our SHAREHOLDERS

We are pleased to share with you the Company's performance and achievements in this Annual Report.

We have been committed to serving our communities since 1871. In those nearly 153 years, we have seen many economic cycles, technological advancements, and changes in our communities. Throughout all of these changes and challenges, we have stood by our customers and communities proudly. The past three years have seen more than its fair share of challenges. From a pandemic with fears of economic hardships to high inflation and some of the fastest rate hikes in the history of the Federal Reserve, our team has stood together to serve our customers and communities. The strength and resilience of the people of Northeastern Pennsylvania and Upstate New York have shown through these difficult times.

This year brought the conclusion of the Covid spending which had filled our customers' accounts with SBA PPP funds and other government programs meant to support the economy. The Fed implemented eleven rate hikes from March 2022 to the most recent in July 2023. These actions increased our liability costs more rapidly than our assets could reprice. This rapid increase in rates combined with fewer deposit dollars in the system put a pinch on our net interest margin throughout the whole of 2023. Our 2022 Annual Report was themed "Strength, Security, Stability," as a nod to our 152 years in business serving our communities. As it turned out, it was the right message for an environment that none of us could have predicted. Throughout this year of high inflation, rate increases, and economic uncertainty, our team once again stood strong to serve our communities.

Our 2023 earnings reflect this changed environment. We present them here.

For the year ended December 31, 2023, net income totaled $16,759,000, a decrease of $12,474,000 from the $29,233,000 earned in the prior year. The decrease includes a $6,330,000 decrease in net interest income and a $4,648,000 increase in the provision for credit losses. Earnings per share on a fully diluted basis were $2.07 compared to $3.58 for the year ended December 31, 2022. Our earnings for 2023 resulted in a return on average assets of 0.79%, and a return on average tangible equity of 11.66%, compared to 1.43% and 19.25%, respectively, for the year ended December 31, 2022.

We also increased our cash dividend declared in the fourth quarter of 2023 to $0.30 per share, which represents a 3.5% increase compared to the fourth quarter of 2022. This makes 32 consecutive years of an increase in the Company's cash dividend, a remarkable achievement, and a legacy of creating shareholder value. I encourage you to read the Management's Discussion and Analysis as well as the Financial Statement with Footnotes, for a full report on our performance.

"THIS COMPANY IS COMMITTED TO CREATING A POSITIVE AND LASTING IMPACT ON OUR COMMUNITIES AND MADE CLOSE TO 400 CONTRIBUTIONS TO LOCAL SCHOOLS, FOOD BANKS, FIRST RESPONDERS, AND CHARITABLE ORGANIZATIONS THROUGHOUT THE YEAR."

James O. Donnelly | **President and Chief Executive Officer**

29	2	10	250+	$2B
Offices	States	Counties	Employees	Assets

The most exciting achievement of the year occurred when this Company was honored by *Bank Director Magazine* with two rankings in their *Ranking Banking, The Best US Banks 2023* publication. Wayne Bank was ranked as one of the top 25 best banks in the country, as well as number ten (#10) in the country for banks in the $1B - $5B asset size category. We were evaluated on our profitability, capital adequacy, asset quality, and total shareholder return, along with our ability to balance growth and profitability, deliver long-term shareholder value, and execute our goals in a secure manner. We were delighted and honored to be included in both prestigious lists. This is an enormous accomplishment and a testament to the dedication of our employees and to our ability to accomplish our strategic vision.

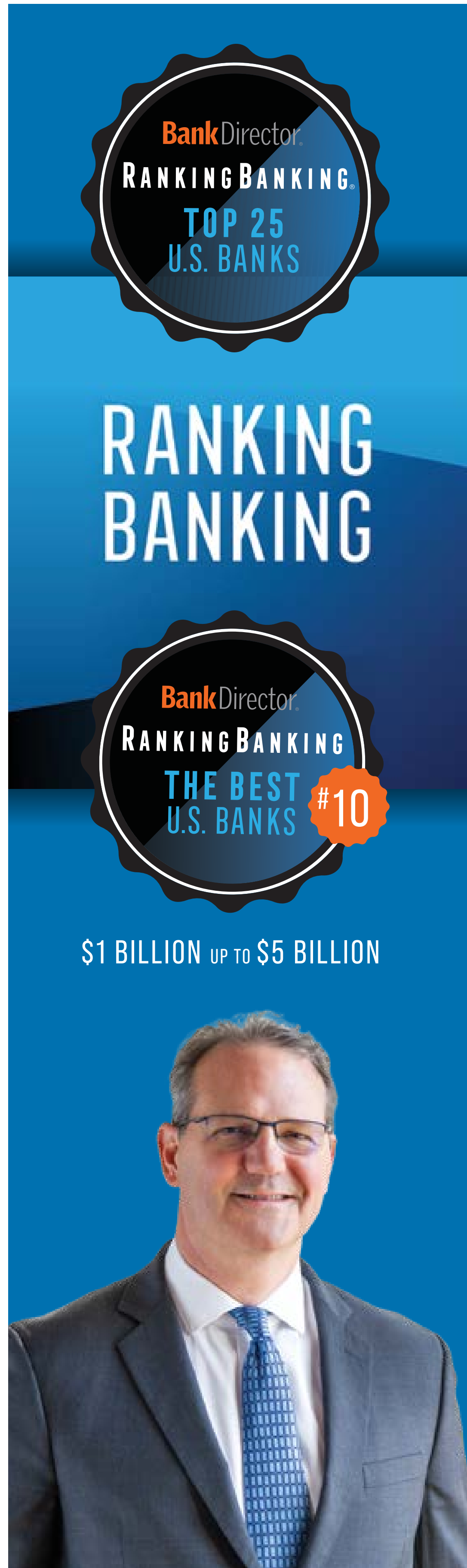
The Company also rejoined the Russell 2000® Index last year on June 23, 2023, as part of the 2023 Russell U.S. Indexes annual reconstitution. The Russell 2000® Index encompasses and tracks the performance of the 2,000 largest traded U.S. stocks, based on market capitalization. This distinguished designation shows our commitment to our shareholders and is a testament to our strong capital position and credit quality metrics. Notably, on the date we joined, Norwood Financial Corp had the highest level of stock trades in a single day in our history.

Rounding out the year's honors was our ranking of number eighty-four (#84) out of two hundred in the $2 billion to $10 billion asset size category for *American Banker's* top-performing banks of 2023. *American Banker* evaluated banks on profitability, efficiency, capital adequacy, and asset quality based on a three-year average return. We were so pleased to be included in this list and our ranking is another testament to our strong financial performance.

This Company is committed to creating a positive and lasting impact on our communities and made close to 400 contributions to local schools, food banks, first responders, and charitable organizations throughout the year. In 2023, our generous and caring employees participated in countless community events including parades, fundraisers, races, carnivals, sporting events, festivals, country fairs, and many more.

Wayne Bank is dedicated to reinvesting in the communities we serve and that includes improving our facilities for the benefit of our customers and employees. 2023 saw the start of a major renovation project for the Bank as our Corporate Office began an extensive transformation. The first-floor office space, excluding the lobby, was gutted and redesigned with modern aesthetics, technological improvements, functional upgrades, and better spacial planning to house our customer-facing departments of Wealth Management, Commercial Lending, and Norwood Investment Corp. Second floor renovations will begin in 2024 with a redesign of our back-office departments.

We also have a tradition of investing in technology and launched two new digital banking services in 2023. The first was our brand-new online account opening platform that allows customers to conveniently and securely open checking accounts, savings accounts, and CDs digitally from wherever they are. Since its launch in the second quarter, our customers have actively been opening accounts online. Our second new service, Transfer Now®, allows customers to transfer funds between checking, savings, brokerage, loan, and money market accounts at Wayne Bank and other financial institutions. This service is available through Wayne Bank's Online and Mobile Banking and allows for the option of one-time, recurring, and future-dated transfers, along with standard and express delivery options.



Wayne Bank joined The American Bankers Association ("ABA") and banks across the nation to promote the "#BanksNeverAskThat Anti-Phishing Campaign." Using attention-grabbing humor and engaging content, this campaign empowered consumers to identify fake bank communications and learn about common phishing scams. We shared eye-catching short videos and consumer tips on social media and in our Community Offices to educate our customers about the persistent threat of fraud. This included an interactive quiz, the "Scam City" video game, and a Spanish language version of the website, BankcosNuncaPidenEso.com.

Partnering again with the ABA, Wayne Bank participated in the "Lights, Camera, Save!" video contest for teens. We promoted the contest online, through social media, and out in the community and encouraged students aged 13-18 to create a 30-second or less video on using money wisely. A number of talented entries were received, but we ultimately selected a group of students from Honesdale High School's FBLA Club to move on to the next round of voting. The students will now compete at the national level for one of three cash prizes, including $5,000 for first place. As of the writing of this letter, they have made it into the top three in the country to compete for this exciting opportunity. We are so proud of them!

> "AS A COMMUNITY BANK, THE FOUNDATION OF OUR SUCCESS IS BUILT UPON OUR EXCEPTIONAL EMPLOYEES WHO LIVE AND WORK IN THE COMMUNITIES WE SERVE."

As a community bank, the foundation of our success is built upon our exceptional employees who live and work in the communities we serve. We are proud to honor the dedication of those employees who celebrated milestone years of service with Wayne Bank in 2023. Congratulations to **Jodi Wood,** Loan Operations Associate, and **Kelly Teeple**, Executive Administrative Assistant, for their impressive 35 years of service. Celebrating 25 years were **Annette Jurkowski**, Vice President and Assistant BSA/Compliance Officer; **Julie R. Kuen,** Senior Vice President and Retail Operations and Electronic Banking Manager, and **Gerry Moore**, Vice President and Delaware County Residential Sales Officer. Adding employees celebrating 20, 15, 10, and five-year anniversaries, the group represents 300 years of outstanding community banking.

The year's progress provided opportunities for employee growth and many employees were promoted for their hard work and dedication. Senior promotions included **Amanda Hall** to Senior Vice President and Financial Reporting Manager, **Derek C. Bellinge**r to Vice President and Residential Mortgage Sales Manager, **Douglas W. Atherton** to Vice President and Monroe County Regional Manager, and **Matthew Murphy** to Vice President and Residential Mortgage Fulfillment Manager.

In addition to our growth from within, we also strengthened our company by adding several highly skilled professionals to our team. The most senior employees to join Wayne Bank in 2023 were Senior Vice President and Finger Lakes Commercial Loan Team Leader, **Joseph J. Mahon**; Mortgage Loan Officer, **Holly DiLeo**; Vice President and Commercial Loan Officer, **Steven P. Lauer**; Vice President and Mortgage Loan Officer, **Bernyce A. Maltman**, and Vice President and Director of Risk, **Tracie A. Young**.

Wayne Bank Executive Team

Seated: **Tracie A. Young**, Senior Vice President, Director of Risk; **Nancy A. Hart**, Senior Vice President, Controller, & Director of Operations; **James O. Donnelly**, President & CEO; and **Diane M. Wylam**, Senior Vice President, Senior Trust Officer. Standing: **Ryan J. French**, Senior Vice President, Director of Human Resources; **Steven R. Daniels**, Senior Vice President, Director of Consumer Banking; **John F. Carmody**, Executive Vice President, Chief Lending Officer; **Scott D. White**, President, Bank of Cooperstown; **Joseph J. Mahon**, Senior Vice President, Finger Lakes Commercial Loan Team Leader; **Vincent G. O'Bell**, Executive Vice President, Chief Lending Officer; and **William S. Lance**, Executive Vice President, Chief Financial Officer.

Several of our employees were honored during the year with special awards. Executive Vice President and Chief Financial Officer, **William S. Lance**, and Senior Vice President and Controller, **Nancy A. Hart**, were recognized by the Pennsylvania Bankers Association ("PBA") for their 40-years of service to the banking industry (pictured right). Assistant Vice President and Commercial Loan Officer, **Anna Van Acker**, achieved honor student status from the PBA's 2023 School of Commercial Lending. **Steven R. Daniels**, Senior Vice President and Director of Consumer Banking, was announced as a winner of the PBA's Future Under 40 Awards. Executive Vice President and Chief Lending Officer, **Vincent G. O'Bell**, was reappointed as Chairman of the Scranton Lackawanna Health and Welfare Authority. Lastly, our Marketing Department was recognized for their hard work and creativity this year as a finalist for the Scranton Chamber of Commerce "SAGE" Awards Marketing Communications Excellence award for their "Pet Glow-Up" social media campaign.

PA Bankers Association 40 FUTURE

In 2023, we also celebrated the retirement of Executive Vice President and Chief Operating Officer, **Robert J. Mancuso.** Bob served the community banking industry for an impressive 46 years. During Bob's tenure with Wayne Bank, he provided leadership of numerous departments, was passionate about mentoring Bank employees to advance within their career paths, helped lead Wayne Bank through two mergers, and aided in the upgrading of our systems and software. We are grateful to Bob for being an integral part of the Wayne Bank team and congratulate him on his well-deserved retirement.

The banking environment in 2023 was a challenging one. The resilience of our communities and our employees was impressive in the face of these challenging times. We grew about 8% organically during this past year. As we look ahead, we are excited for the opportunity to serve our customers and communities in 2024. We will continue to invest in our employees, our facilities, our communities, and in technology to ensure a bright future.

We truly appreciate the support and confidence of our stockholders.

We thank you for your ownership interest in Norwood as we continue to work to enhance stockholder value. Please keep us in mind for all your financial needs.

James O. Donnelly
President and
Chief Executive Officer

Board of DIRECTORS

Lewis J. Critelli
Chairman of the Board

James O. Donnelly
President and CEO

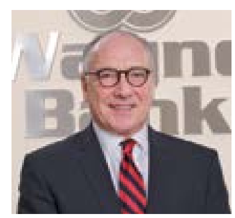
Dr. Andrew A. Forte
Vice Chairman

Joseph W. Adams
Board Member

Susan Campfield
Board Member

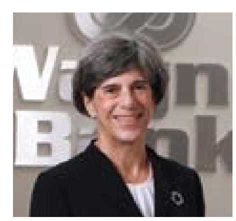
Jeffrey S. Gifford
Board Member

Meg L. Hungerford
Board Member

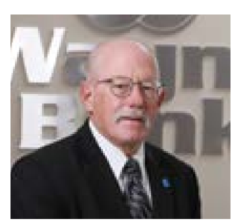


Kevin M. Lamont
Board Member

Ralph A. Matergia, Esq.
Board Member



Alexandra K. Nolan
Board Member



Dr. Kenneth A. Phillips
Board Member

William W. Davis, Jr.
Director Emeritus

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

FORM 10-K

(Mark One):

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

For the fiscal year ended December 31, 2023

or

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

For the transition period from ________ to ________

Commission File No. 0-28364

NORWOOD FINANCIAL CORP
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania **(State or Other Jurisdiction of Incorporation or Organization)**	**23-2828306** **(I.R.S. Employer Identification No.)**
717 Main Street, Honesdale, Pennsylvania **(Address of Principal Executive Offices)**	**18431** **(Zip Code)**

Registrant's Telephone Number, Including Area Code: (570) 253-1455

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $.10 par value	NWFL	The Nasdaq Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ YES ☒ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ YES ☒ NO

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of the registrant's Common Stock as of June 30, 2023, $29.53 per share, was $216.1 million based on 7,318,186 shares of Common Stock held by non-affiliates on that date. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of March 1, 2024, there were 8,110,156 shares outstanding of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the 2024 Annual Meeting of Stockholders. (Part III)

NORWOOD FINANCIAL CORP
ANNUAL REPORT ON FORM 10-K

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PART I

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of the Annual Report on Form 10-K.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement changes in our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we have acquired or may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- an increase in the Pennsylvania Bank Shares Tax to which our bank subsidiary's capital stock is currently subject, or imposition of any additional taxes on the capital stock of us or our bank subsidiary;
- changes in consumer demand, borrowing and savings habits
- the ability of third-party providers to perform their obligations to us;
- the ability of the U.S. Government to manage federal debt limits;
- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information and destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own;
- volatility in the securities markets;
- disruptions due to flooding, severe weather, or other natural disasters or Acts of God;
- acts of war, terrorism, or global military conflict; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing products and services described elsewhere in this Annual Report on Form 10-K.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Item 1. Business.

General

Norwood Financial Corp (the "Company"), a Pennsylvania corporation, was incorporated in 1995 to become the holding company for Wayne Bank (the "Bank"). The Company is a registered bank holding company subject to regulation and supervision by the Board of Governors of the Federal Reserve System ("Federal Reserve"). As of December 31, 2023, the Company had total consolidated assets of $2.201 billion, consolidated deposits of $1.795 billion, and consolidated stockholders' equity of $181.1 million. The Company's ratio of average equity to average assets was 8.14%, 8.87%, and 10.04% for fiscal years 2023, 2022 and 2021, respectively. The decrease in the 2023 level was due to the impact of rising interest rates and the related decrease in accumulated other comprehensive income (loss).

Wayne Bank is a Pennsylvania chartered bank and trust company headquartered in Honesdale, Pennsylvania. The Bank was originally chartered on February 17, 1870, as Wayne County Savings Bank and changed its name to Wayne County Bank and Trust in December 1943. In September 1993, the Bank adopted the name Wayne Bank. The Bank's deposits are currently insured to applicable limits by the Federal Deposit Insurance Corporation ("FDIC") and the Bank is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh. The Bank is regulated and examined by the Pennsylvania Department of Banking and Securities ("Department") and the FDIC. The Bank is an independent community bank with fifteen offices in Northeastern Pennsylvania and fourteen offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York.

The Bank offers a wide variety of personal and business credit services and trust and investment products and real estate settlement services to the consumers, businesses, nonprofit organizations, and municipalities in each of the communities that the Bank serves. The Bank primarily serves the northeastern Pennsylvania counties of Wayne, Pike, Monroe, Lackawanna and Luzerne and, to a much lesser extent, Susquehanna County in addition to the New York counties of Delaware, Sullivan, Ontario, Otsego and Yates. In addition, the Bank operates automated teller machines at twenty-nine branch facilities plus one machine at an off-site location.

The Company's main office is located at 717 Main Street, Honesdale, Pennsylvania and its main telephone number is (570) 253-1455. The Company maintains a website at waynebank.com. Information on our website should not be treated as part of this Annual Report on Form 10-K. The Company makes copies of its Securities and Exchange Commission ("SEC") filings available free of charge as soon as reasonably practicable after they are filed, through a link on its website to the SEC's website.

Completed Acquisitions

UpState New York Bancorp, Inc. On July 7, 2020, the Company completed the acquisition of UpState New York Bancorp, Inc. ("UpState"), and its wholly owned subsidiary, USNY Bank ("USNY Bank"). The acquisition was completed when UpState was merged with and into the Company, with the Company as the surviving corporation of the merger and USNY Bank was merged with and into Wayne Bank, with Wayne Bank as the surviving entity. At the time of completion of the acquisition, USNY Bank conducted its business from two Bank of the Finger Lakes offices in Geneva and Penn Yan, New York, and two Bank of Cooperstown offices in Cooperstown and Oneonta, New York.

In the merger, shareholders of UpState elected to receive for each share of UpState common stock they owned, either 0.9390 shares of the Company's common stock or $33.33 in cash, or a combination of both. All shareholder elections were subject to the allocation and proration procedures set forth in the Merger Agreement which were intended to ensure that 90% of the shares of UpState would be exchanged for the Company's common stock and 10% of the shares of UpState would be exchanged for cash. In addition, under the terms of the Merger Agreement, UpState shareholders received an additional $0.67 per share in cash for each share of UpState common stock held. In the aggregate, the merger consideration paid to UpState shareholders consisted of approximately $8,845,198 in cash and 1,865,738 shares of the Company's common stock.

Delaware Bancshares, Inc. On July 31, 2016, the Company completed the acquisition of Delaware Bancshares, Inc. ("Delaware") and its wholly owned subsidiary, The National Bank of Delaware County ("NBDC"). At the time of acquisition, Delaware had approximately $375.6 million in assets and 12 banking offices in Delaware and Sullivan Counties, New York. Pursuant to the terms of the Agreement and Plan of Merger, dated March 10, 2016, by and among the Company, Wayne Bank, Delaware and NBDC (the "Delaware Agreement"), Delaware was merged with and into the Company, with the Company as the surviving corporation of the merger (the "Merger") and NBDC was merged with and into Wayne Bank immediately thereafter. At the effective time of the Merger, each outstanding share of the common stock of Delaware was converted, at the election of the holder but subject to the limitations and allocation and proration provisions set forth in the Delaware Agreement, into either $16.68 in cash or 0.6221 of a share of the Company's common stock, par value $0.10 per share (the "Common Stock"). In the aggregate, the merger consideration paid to Delaware shareholders consisted of approximately $3,860,000 in cash and 431,605 shares of the Common Stock.

North Penn Bancorp, Inc.

On May 31, 2011, the Company completed the acquisition of North Penn Bancorp, Inc. ("North Penn") and its wholly owned subsidiary, North Penn Bank. At the time of acquisition, North Penn had approximately $158.9 million in assets and four banking offices in Lackawanna and Monroe Counties, Pennsylvania. Pursuant to the terms of the Agreement and Plan of Merger by and among the Company, Wayne Bank, and North Penn, North Penn was merged with and into the Company, with the Company as the surviving corporation of the merger (the "Merger") and North Penn Bank was merged with and into Wayne Bank immediately thereafter. At the effective time of the Merger, each outstanding share of the common stock of North Penn was converted, at the election of the holder but subject to the limitations and allocation and proration provisions set forth in the Merger Agreement, into either $19.12 in cash or 0.6829 of a share of the Company's common stock, par value $0.10 per share (the "Common Stock"). In the aggregate, the merger consideration paid to North Penn shareholders consisted of approximately $10,648,000 in cash and 530,994 shares of the Common Stock.

Competition

The competition for deposit products comes from other insured financial institutions such as commercial banks, thrift institutions, credit unions, and multi-state regional banks in the Company's market area of Wayne, Pike, Monroe, Lackawanna and Luzerne Counties, Pennsylvania and Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York as well as from on-line banks. Based on data compiled by the FDIC as of June 30, 2023 (the latest date for which such data is available), the Bank had the third largest share of FDIC-insured deposits in Wayne County with approximately 22.64%, the second largest share in Pike County with 18.88%, seventh largest share in Monroe County with 3.51%, the eleventh largest share in Lackawanna County with 1.13% and the seventeenth largest share in Luzerne County with 0.34%. At June 30, 2023, the Bank had the largest share of FDIC-insured deposits in Delaware County, New York, with 30.55% and the fifth largest share in Sullivan County, New York, with 8.68%. The Bank's market share in Ontario, Otsego and Yates Counties were 3.50%, 17.21% and 9.81%, respectively. This data does not reflect deposits held by credit unions with which the Bank also competes. Deposit competition also includes a number of insurance products sold by local agents and investment products such as mutual funds and other securities sold by local and regional brokers. Loan competition varies depending upon market conditions and comes from other insured financial institutions such as commercial banks, thrift institutions, credit unions, multi-state regional banks, and mortgage bankers.

Personnel

As of December 31, 2023, the Bank had 261 full-time and four part-time employees. None of the Bank's employees are represented by a collective bargaining group.

Trust Activities

The Bank operates a Wealth Management/Trust Department which provides estate planning, investment management and financial planning to customers for which it is generally compensated based on a percentage of assets under management. As of December 31, 2023, the Bank had $192.4 million of assets under management compared to $184.9 million as of December 31, 2022. The increase reflects growth and improved market valuations during 2023, such as stock market performance which can affect the value of a customer's investment portfolio.

Subsidiary Activities

The Bank, a Pennsylvania chartered bank, is the only wholly owned subsidiary of the Company. Norwood Investment Corp. ("NIC"), a Pennsylvania corporation incorporated in 1996 and a Pennsylvania licensed insurance agency, is a wholly owned subsidiary of the Bank. NIC's business is annuity and mutual fund sales and discount brokerage activities primarily to customers of the Bank. The annuities, mutual funds and other investment products are not insured by the FDIC or any other government agency. They are not deposits, obligations of, or guaranteed by any bank. Until February 16, 2018, securities were offered through Invest Financial, a registered broker/dealer. Effective February 16, 2018, the broker/dealer relationship transitioned to LPL Financial LLC ("LPL") as a result of the sale of Invest to LPL in 2017. LPL is a registered broker/dealer and a member of FINRA and the SIPC. NIC generated gross revenues for the Company of $296,000 and $119,000 in 2023 and 2022, respectively, which is included in Other Income.

WCB Realty Corp., a Pennsylvania corporation, is a wholly owned real estate subsidiary of the Bank whose principal asset is the administrative offices of the Company, which also includes the Main Office of the Bank.

WTRO Properties Inc. ("WTRO"), a Pennsylvania corporation, is a wholly owned real estate subsidiary of the Bank established to hold title to certain real estate upon which the Bank has foreclosed. As of December 31, 2023 and 2022, the outstanding balance of foreclosed properties on which WTRO held title totaled $0 and $346,000, respectively.

Regulation

Set forth below is a brief description of certain laws which relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulation of the Company

General. The Company, as a bank holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"), is subject to regulation and supervision by the Federal Reserve. The Company is required to file periodic reports of its operations with, and is subject to examination by, the Federal Reserve. This regulation and oversight is generally intended to ensure that the Company limits its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of its subsidiary bank.

Under the BHCA, the Company generally must obtain the prior approval of the Federal Reserve before it may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the Company would directly or indirectly own or control more than 5% of such shares.

Federal statutes impose restrictions on the ability of a bank holding company and its nonbank subsidiaries to obtain extensions of credit from its subsidiary bank, on the subsidiary bank's investments in the stock or securities of the holding company, and on the subsidiary bank's taking of the holding company's stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services by the subsidiary bank.

Source of Strength Doctrine. Under the Bank Holding Company Act, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. Under this source of strength doctrine, a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve regulations, or both.

Non-Banking Activities. The business activities of the Company, as a bank holding company, are restricted by the BHCA. Under the BHCA and the Federal Reserve's bank holding company regulations, a bank holding company generally may only engage in, or acquire or control voting securities or assets of a company engaged in, (1) banking or managing or controlling banks and other subsidiaries authorized under the BHCA and (2) any business activity the Federal Reserve has determined to be so closely related to banking or managing or controlling banks to be a proper incident thereto. These include any incidental activities necessary to carry on those activities, as well as a lengthy list of activities that the Federal Reserve has determined to be so closely related to the business of banking as to be a proper incident thereto.

In addition to the above authority, bank holding companies that qualify and elect to be treated as "financial holding companies" may engage in a broad range of additional activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance agency and underwriting, and making merchant banking investments. The Company has not made an election to be deemed a financial holding company.

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

Regulation of the Bank

General. As a Pennsylvania chartered, FDIC-insured commercial bank which is not a member of the Federal Reserve System, the Bank is subject to extensive regulation and examination by the Department and by the FDIC, which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not for the purpose of protecting stockholders. This regulatory structure also gives the federal and state banking agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department, the FDIC or the United States Congress, could have a material impact on the Company, the Bank and their operations.

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

The Federal Deposit Insurance Act ("FDIA"), however, prohibits state-chartered banks from making new investments, loans, or becoming involved in activities as principal and equity investments which are not permitted for national banks unless (1) the FDIC determines the activity or investment does not pose a significant risk of loss to the Deposit Insurance Fund and (2) the bank meets all applicable capital requirements. Accordingly, the additional operating authority provided to the Bank by the Banking Code is significantly restricted by the FDIA.

Interstate Banking. Wayne Bank operates branches in Pennsylvania and New York. Under the federal Riegle-Neal Interstate Banking and Branching Efficiency Act (the "Riegle-Neal Act"), an insured state bank that establishes a branch in another state may conduct any activity at such branch that is permissible under the laws of its home state to the extent that such activity is permissible either for a bank chartered by the host state or for a branch of an out-of-state national bank in the host state. The laws of the host state, including laws regarding community reinvestment, consumer protection, fair lending and branching within the host state, apply to any branch of an out-of-state bank to the same extent as such laws apply to a branch of an out-of-state national bank. The Riegle-Neal Act prohibits out-of-state banks from using their interstate branches primarily for purposes of deposit production. If a federal banking regulator reasonably determines from available information that an out-of-state bank's level of lending in a host state is less than half the loan-to-deposit ratio for all banks in the host state, the regulator may order the closure of the out-of-state branches or prohibit the opening of new branches in the host state unless the out-of-state bank has an acceptable plan or can give reasonable assurances that it will reasonably help meet the credit needs of the communities served in the host state.

Federal Deposit Insurance. The Bank's deposits are insured to applicable limits by the FDIC. The general maximum deposit insurance amount is $250,000.

The Bank is subject to deposit insurance assessments established by the FDIC to maintain the DIF. Under the FDIC's risk-based assessment system, banks that are deemed to be less risky pay lower assessments. Assessment rates for small institutions (those with less than $10 billion in assets) are based on an institution's weighted average CAMELS component ratings and certain financial ratios and are applied to the institution's assessment base, which equals its average total assets minus its average tangible equity.

In October 2022, the FDIC adopted a final rule that increased the initial base deposit insurance assessment rate schedules uniformly by 2 basis points beginning with the first quarterly assessment period of 2023. The increased assessment is expected to improve the likelihood that the DIF reserve ratio would reach the statutory minimum of 1.35% by the statutory deadline of September 30, 2028, consistent with the FDIC's amended restoration plan. The FDIC assessment rates effective January 1, 2023 (which are subject to certain adjustments) range from 5 to 18 basis points for institutions with CAMELS composite ratings of 1 or 2, 8 to 32 basis points for those with a CAMELS composite score of 3, and 18 to 32 basis points for those with CAMELS composite scores of 4 or 5.

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

Under the Basel III Capital Rules, banks are required to meet four minimum capital standards: (1) a "Tier 1" or "core" capital leverage ratio equal to at least 4% of total adjusted assets; (2) a common equity Tier 1 capital ratio equal to 4.5% of risk-weighted assets; (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets; and (4) a total capital ratio equal to 8% of total risk-weighted assets. Common equity Tier 1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless the bank has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other intangible assets. Tier 1 or core capital is defined as common equity Tier 1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. Risk weightings range from 0% for cash to 100% for property acquired through foreclosure, commercial loans, and certain other assets to 150% for exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

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

In assessing an institution's capital adequacy, the FDIC takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

The Bank is also subject to minimum capital requirements imposed by the Department on Pennsylvania-chartered depository institutions. Under the Department's capital requirements, a Pennsylvania bank or savings bank must maintain a minimum leverage ratio of Tier 1 capital (as defined under the FDIC's capital regulations) to total assets of 4%. In addition, the Department has the supervisory discretion to require higher leverage ratio for any institutions based on the institution's substandard performance in any of a number of areas. The Bank was in compliance with both the FDIC and the Pennsylvania capital requirements in effect as of December 31, 2023.

Prompt Corrective Regulatory Action. Under applicable federal statutes, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the FDIC's prompt corrective action regulations, an institution is deemed to be "well capitalized" if it has a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 8.0% or greater, a Common Equity Tier 1 risk-based capital ratio of 6.5% or better and a leverage ratio of 5.0% or greater.

An institution is "adequately capitalized" if it has a Total Risk-Based Capital Ratio of 8.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater, a Common Equity Tier 1 Capital Ratio of 4.5% or better and a Leverage Ratio of 4.0% or greater. An institution is "undercapitalized" if it has a Total Risk-Based Capital Ratio of less than 8.0%, a Tier 1 Risk-Based Capital ratio of less than 6.0%, a Common Equity Tier 1 ratio of less than 4.5% or a Leverage Ratio of less than 4.0%. An institution is deemed to be "significantly undercapitalized" if it has a Total Risk-Based Capital Ratio of less than 6.0%, a Tier 1 Risk-Based Capital Ratio of less than 4.0%, a Common Equity Tier 1 ratio of less than 3.0% or a Leverage Ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%

The prompt corrective action regulations provide for the imposition of a variety of requirements and limitations on institutions that fail to meet the above capital requirements. In particular, the FDIC may require any state non-member bank that is not "adequately capitalized" to take certain action to increase its capital ratios. If the non-member bank's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the bank's activities may be restricted.

At December 31, 2023, the Bank qualified as "well capitalized" under the prompt corrective action rules.

Affiliate Transaction Restrictions. Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. In particular, loans by a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of a bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and other extensions of credit generally are required to be secured by eligible collateral in specified amounts. Transactions with non-affiliates may be treated as transactions with an affiliate to the extent that proceeds from the transaction are used to benefit the affiliate. Federal law also requires that all transactions between a bank and its affiliates be on terms at least as favorable to the bank as transactions with non-affiliates.

Loans to One Borrower. Under Pennsylvania law, commercial banks have, subject to certain exemptions, lending limits to one borrower in an amount equal to 15% of the institution's capital accounts. An institution's capital account includes the aggregate of all capital, surplus, undivided profits, capital securities and general reserves for loan losses. Pursuant to the national bank parity provisions of the Pennsylvania Banking Code, the Bank may also lend up to the maximum amounts permissible for national banks, which are allowed to make loans to one borrower of up to 25% of capital and surplus in certain circumstances. As of December 31, 2023, the Bank's loans-to-one-borrower limitation was $32.5 million and the Bank was in compliance with such limitation.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Pittsburgh, which is one of 11 regional FHLBs. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB.

As a member, the Bank is required to purchase and maintain restricted stock in the FHLB of Pittsburgh in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of the Bank's outstanding advances from the FHLB. At December 31, 2023, the Bank was in compliance with this requirement.

Restrictions on Dividends. The Pennsylvania Banking Code states, in part, that dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus (retained earnings) is at least equal to contributed capital. The Bank has not declared or paid any dividends which cause the Bank's retained earnings to be reduced below the amount required. Finally, dividends may not be declared or paid if the Bank is in default in payment of any assessment due the FDIC.

The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. In addition, the Federal Reserve's guidance states that a bank holding company should consult with its regional Federal Reserve Bank in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the organization's capital structure. Finally, under the federal prompt corrective action regulations, the Federal Reserve may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Community Reinvestment. All insured depository institutions have a responsibility under the Community Reinvestment Act of 1977 (the "CRA") and federal regulations thereunder to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of the Bank, the FDIC is required to assess our record of meeting the credit needs of our entire community. The CRA requires the Bank's record of compliance with the CRA to be taken into account in the evaluation of applications by the Bank or the Company for approval of an expansionary proposal, such as a merger or other acquisition of another bank or the opening of a new branch office. The Bank received a "satisfactory" CRA rating in its most recent CRA performance evaluation by the FDIC in May 2022.

In May 2022, the FDIC and the other federal bank regulatory agencies issued a joint proposal to modernize the regulations implementing the CRA, which would change both the process and substantive tests that the regulators use to assess the record of each bank in fulfilling its obligation to the community. The regulatory agencies stated that the proposal is intended to achieve the following objectives: (i) expand access to credit, investment and basic banking services in low- and moderate-income communities, (ii) adapt to changes in the banking industry, including internet and mobile banking, (iii) provide greater clarity, consistency and transparency in the application of the regulations and (iv) tailor performance standards to account for differences in bank size, business model, and local conditions. The Company will evaluate the impact of the proposal's potential changes to the regulations implementing the CRA and their impact to our financial condition and/or results of operations, which cannot be predicted at this time.

Bank Secrecy Act / Anti-Money Laundering Laws. The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001 and the Anti-Money Laundering Act of 2020. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal bank regulatory agencies to consider the effectiveness of a bank's anti-money laundering activities when reviewing mergers and acquisitions.

Privacy Regulations and Cybersecurity. Federal regulations generally require that the Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. The Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

In November 2021, the federal bank regulatory agencies issued a final rule requiring banking organizations to notify their primary federal regulator as soon as possible and no later than 36 hours of determining that a "computer-security incident" that rises to the level of a "notification incident," as those terms are defined in the final rule, has occurred. A notification incident is a "computer-security incident" that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its customer base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The final rule also requires bank service providers to notify any affected bank to or on behalf of which the service provider provides services "as soon as possible" after determining that it has experienced an incident that materially disrupts or degrades, or is reasonably likely to materially disrupt or degrade, covered services provided to such bank for four or more hours

Incentive Compensation. The FDIC and the Federal Reserve review, as part of their regular, risk-focused examinations, the incentive compensation arrangements of banking organizations. These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. Deficiencies are incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In 2010, the FDIC and the other federal bank regulatory agencies issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

In 2016, the U.S. financial regulators, including the FDIC, the Federal Reserve and the SEC, proposed revised rules on incentive-based payment arrangements at financial institutions having at least $1 billion in total assets. These proposed rules have not been finalized.

In October 2023, the Nasdaq, adopted listing standards requiring listed companies to adopt policies providing for the recovery or "clawback" of excess incentive-based compensation earned by current or former executive officers during the three fiscal years preceding the date the listed company determines an accounting restatement is required. The Company adopted a clawback policy compliant with the new Nasdaq listing standard, effective October 2, 2023.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Incident Response Policy

The Board of Directors is responsible for overseeing the risks from cybersecurity threats. Each month, the Board is presented with the executive overview of the Cybersecurity Continuous Monitoring Review Report ("Report") prepared by the Company's third-party chief information security officer. The Board of Directors reviews the Report each month and, if warranted, directs senior management of the Company to take necessary and appropriate actions in accordance with the IR Policy (as defined below).

Wayne Bank has adopted an Incident Response Policy (the "IR Policy") for responding to cybersecurity incidents. This IR Policy applies to both potential and actual incidents. The IR Policy should be invoked in any context where the Bank believes that an incident may have occurred. The IR Policy applies to all employees, contractors, and third parties. The objectives of the IR Policy are to ensure the protection of customer data and all organization assets from security incidents and ensure timely detection, mitigation, and communication of security incidents to appropriate parties.

Implementation of the IR Policy requires cross-functional efforts from across the organization. The roles/functions involved and the related responsibilities in enforcing the IR Policy are spread across the entire organization of the Bank's senior leadership and chief credit officer.

Once the possibility of a cybersecurity incident has been noted, employees assigned to appropriate teams do the necessary research and analysis to confirm either that there is an incident requiring additional action, or that no further action is necessary. This will typically involve some combination of Operations and Information Technology. If an incident is confirmed, an incident response team is formed, and the team takes steps to contain the incident to limit damage, eradicate the incident to restore our full control of all Bank systems and eliminate unauthorized access, and recover data and full functionality. Detection and analysis continue during this phase as necessary to ensure that this phase has been successfully executed. This phase also involves communication as needed with employees, customers, partners and service providers, legal representatives, insurance provider, law-enforcement authorities, and regulatory bodies as necessary and appropriate.

In the post-incident phase, the Bank analyzes the root cause of the incident, identifies any changes that need to be made to policies, procedures, training, documentation, and technology to protect against similar incidents in the future, and institutes a plan to implement them. In addition, the Bank undertakes any additional communication with the necessary parties and the public, if appropriate, and the Bank's legal representatives, insurance provider, law-enforcement authorities, and regulatory bodies as appropriate to fully address the impact of the incident, and fully documents the entire incident.

During the fiscal year ended December 31, 2023, the risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have not materially affected the Company, its business strategy, results of operations, or financial condition.

Item 2. Properties.

The Bank operates from its main office located at 717 Main Street, Honesdale, Pennsylvania and twenty-eight additional branch offices in Northeastern Pennsylvania and upstate New York. The Bank's total investment in office property and equipment is $38.2 million with a net book value of $17.8 million as of December 31, 2023. The Bank currently operates automated teller machines at all of its community office facilities, as well as one off-site ATM. The Bank leases eight of its locations.

Item 3. Legal Proceedings.

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

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

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

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) ***Market Information***

STOCK LISTING

Norwood Financial Corp stock is traded on the Nasdaq Global Market under the symbol NWFL. As of December 31, 2023, there were approximately 1,250 registered stockholders based on the records of our transfer agent.

The following firms are known to make a market in the Company's stock:

Janney Montgomery Scott, LLC Philadelphia, PA 19103 215-665-6566	**RBC Capital Markets** Philadelphia, PA 19103 215-832-1500
	Stifel Nicolaus St,. Louis, MO 63102 314-342-2000

The following table sets forth the price range and cash dividends declared per share regarding common stock for the periods indicated:

	Closing Price Range		
	High	Low	Cash dividend Declared per share
Year 2023			
First Quarter	**$ 34.69**	**$ 28.65**	**$ 0.29**
Second Quarter	**32.08**	**24.00**	**0.29**
Third Quarter	**32.98**	**25.76**	**0.29**
Fourth Quarter	**34.49**	**24.27**	**0.30**
Year 2022			
First Quarter	$ 28.85	$ 26.23	$ 0.28
Second Quarter	29.00	23.44	0.28
Third Quarter	28.01	24.04	0.28
Fourth Quarter	34.25	26.58	0.29

The book value of the common stock was $22.99 per share as of December 31, 2023 compared to $20.86 per share as of December 31, 2022. As of December 31, 2023, the closing stock price was $32.91 per share, compared to $33.44 as of December 31, 2022.

TRANSFER AGENT

Computershare provides Transfer Agent services for the Company. Stockholders who may have questions regarding their stock ownership should contact the Transfer Agent at 800-662-7232, by regular mail at P.O. Box 43006, Providence, RI 02940-3006, or by overnight delivery at 150 Royall St, Suite 101, Canton, MA 02021.

DIVIDEND CALENDAR

Dividends on the Company's common stock, if approved by the Board of Directors, are customarily paid on or about February 1, May 1, August 1 and November 1.

AUTOMATIC DIVIDEND REINVESTMENT PLAN

The Plan, open to all shareholders, provides the opportunity to have dividends automatically reinvested into the Company's common stock. Participants in the Plan may also elect to make cash contributions to purchase additional shares of common stock. Stockholders of the Company may contact the transfer agent for additional information.

(b) ***Use of Proceeds.*** Not applicable.

(c) ***Issuer Purchases of Equity Securities.*** Set forth below is information regarding the Company's stock repurchases during the fourth quarter of the fiscal year ended December 31, 2023.

	Issuer Purchases of Equity Securities			
	Total Number of Shares (or Units) purchased	**Average Price Paid Per Share (or Unit)**	**Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ***	**Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs**
October 1 – 31, 2023	—	$ —	—	274,094
November 1 – 30, 2023	—	—	—	274,094
December 1 – 31, 2023	—	—	—	274,094
Total	—	$ —	—	274,094

Item 6. Selected Financial Data.

For the years ended December 31,	**2023**	**2022**	**2021**	**2020**	**2019**
Net interest income	**$62,067**	$68,397	$65,313	$50,476	$38,606
Provision for credit losses	**5,548**	900	4,200	5,450	1,250
Other income	**8,270**	9,926	8,056	7,182	6,355
Net realized (losses) gains on sales of loans and securities	**(146)**	6	269	598	423
Other expenses	**43,497**	41,044	38,578	34,440	27,311
Income before income taxes	**21,146**	36,385	30,860	18,366	16,823
Income tax expense	**4,387**	7,152	5,945	3,286	2,608
NET INCOME	**16,759**	29,233	24,915	15,080	14,215
Net income per share-Basic	**$2.08**	$3.59	$3.05	$2.09	$2.27
-Diluted	**$2.07**	$3.58	$3.04	$2.09	$2.25
Cash dividends declared	**$1.17**	$1.13	$1.06	$1.01	$0.97
Dividend pay-out ratio	**56.25%**	31.48%	34.75%	48.33%	42.73%
Return on average assets	**0.79%**	1.43%	1.24%	0.97%	1.18%
Return on average equity	**9.67%**	16.11%	12.35%	9.06%	10.83%
BALANCES AT YEAR-END					
Total assets	**2,201,079**	2,047,070	2,068,504	1,851,864	1,230,610
Loans receivable	**1,603,618**	1,473,945	1,354,931	1,410,732	924,581
Allowance for credit losses	**18,968**	16,999	16,442	13,150	8,509
Total deposits	**1,795,159**	1,727,727	1,756,793	1,535,385	957,529
Stockholders' equity	**181,070**	167,085	205,262	194,785	137,428
Trust assets under management	**192,374**	184,855	195,958	168,085	170,685
Book value per share	**$22.99**	$20.86	$25.24	$23.72	$21.67
Tier 1 Capital to risk-adjusted assets	**11.99%**	12.49%	12.49%	11.65%	13.08%
Total Capital to risk-adjusted assets	**13.06%**	13.58%	13.66%	12.62%	13.98%
Allowance for credit losses to total loans	**1.18%**	1.15%	1.21%	0.93%	0.92%
Non-performing assets to total assets	**0.35%**	0.07%	0.12%	0.24%	0.19%

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

INTRODUCTION

This Management's Discussion and Analysis and related financial data are presented to assist in the understanding and evaluation of the financial condition and results of operations for the Company and the Bank, as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022. This section should be read in conjunction with the consolidated financial statements and related footnotes.

CRITICAL ACCOUNTING POLICIES

Note 2 to the Company's consolidated financial statements lists significant accounting policies used in the development and presentation of its financial statements. This discussion and analysis, the significant accounting policies, and other financial statement disclosures identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company and its results of operations.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the determination of goodwill impairment. Please refer to the discussion of the allowance for credit losses calculation under "Allowance for Credit Losses and Non-performing Assets" in the "Financial Condition" section.

In connection with the acquisition of North Penn in 2011, we recorded goodwill in the amount of $9.7 million, representing the excess of amounts paid over the fair value of the net assets of the institution acquired at the date of acquisition. In connection with the acquisition of Delaware in 2016, we recorded goodwill in the amount of $1.6 million, representing the excess of amounts paid over the fair value of the net assets of the institution acquired at the date of acquisition. In connection with the acquisition of UpState in July 2020, we recorded goodwill in the amount of $17.9 million, representing the excess of amounts paid over the fair value of the net assets of the institution acquired at the date of acquisition. Goodwill is tested annually and deemed impaired when the carrying value of goodwill exceeds its implied fair value.

FINANCIAL CONDITION

TOTAL ASSETS

Total assets as of December 31, 2023 were $2.201 billion compared to $2.047 billion as of year-end 2022, an increase of $154.0 million. The increase in assets was primarily attributable to a $129.7 million increase in loans receivable.

LOANS RECEIVABLE

As of December 31, 2023, loans receivable totaled $1.604 billion compared to $1.474 billion as of year-end 2022, an increase of $129.7 million due primarily to a $64.2 million increase in consumer loans. Commercial real estate loans increased $23.6 million, while construction loans increased $19.0 million during the year ended December 31, 2023.

The deferred income taxes reflect temporary differences in the recognition of the revenue and expenses for tax reporting and financial statement purposes, principally because certain items are recognized in different periods for financial reporting and tax return purposes. Although realization is not assured, the Company believes it is more likely than not that all deferred tax assets will be realized.

The fair value of financial instruments is based upon quoted market prices, when available. For those instances where a quoted price is not available, fair values are based upon observable market based parameters, as well as unobservable parameters. Any such valuation is applied consistently over time.

The Bank's loan products include loans for personal and business use. Personal lending includes mortgage lending to finance principal residences and, to a lesser extent, second home dwellings. The Bank's loan products include fixed-rate mortgage products with terms up to 30 years which may be sold in the secondary market through the Federal National Mortgage Association ("Fannie Mae") or the FHLB, or held in the Bank's portfolio to the extent consistent with our asset/liability management strategies. Fixed-rate home equity loans are originated on terms up to 180 months. Home equity lines of credit tied to the prime rate are also offered. The Bank also offers indirect dealer financing of automobiles (new and used), boats, and recreational vehicles through a limited network of dealers in Northeast Pennsylvania and the Southern Tier of New York. At December 31, 2023, there were $247.7 million of indirect loans in the portfolio.

Commercial loans and commercial mortgages are provided to local small and mid-sized businesses at a variety of terms and rate structures. Commercial lending activities include lines of credit, revolving credit, term loans, mortgages, various forms of secured lending and a limited amount of letter of credit facilities. The rate structure may be fixed, immediately repricing tied to the prime rate or adjustable at set intervals. Also included in commercial loans are municipal finance lending in which the Bank has been active in recent years. Municipal lending includes both general obligations of local taxing authorities and revenue obligations of specific revenue producing projects such as sewer authorities and educational units.   At December 31, 2023, the Bank had approximately $149.2 million in loans on commercial rentals, as well as $115.2 million of loans outstanding on residential rentals, which are its largest lending concentrations.

The Bank's construction lending has primarily involved lending for commercial construction projects and for single-family residences. All loans for the construction of speculative sale homes have a loan-to-value ratio of not more than 80%. For both commercial and single-family projects, loan proceeds are disbursed during the construction phase according to a draw schedule based on the stage of completion. Construction projects are inspected by contracted inspectors or bank personnel. Construction loans are underwritten on the basis of the estimated value of the property as completed. For commercial projects, the Bank typically also provides the permanent financing after the construction period, as a commercial mortgage.

The Bank also, from time to time, originates loans secured by undeveloped land. Land loans granted to individuals have a term of up to five years. Land loans granted to developers may have an interest only period during development. The substantial majority of land loans have a loan-to-value ratio not exceeding 75%. The Bank has limited its exposure to land loans but may expand its lending on raw land, as market conditions allow, to qualified borrowers experienced in the development and sale of raw land.

Loans involving construction financing and loans on raw land have a higher level of risk than loans for the purchase of existing homes since collateral values, land values, development costs and construction costs can only be estimated at the time the loan is approved. The Bank has sought to minimize its risk in construction lending and in lending for the purchase of raw land by offering such financing primarily to builders and developers to whom the Bank has loaned funds in the past and to persons who have previous experience in such projects. The Bank also limits construction lending and loans on raw land to its market area, with which management is familiar.

Adjustable-rate loans decrease the risks associated with changes in interest rates by periodically repricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for payment default. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate may also be limited by the maximum periodic interest rate adjustment permitted in certain adjustable-rate mortgage loan documents, and, therefore is potentially limited in effectiveness during periods of rapidly rising interest rates. These risks have not had an adverse effect on the Bank.

Consumer lending, including indirect financing, provides benefits to the Bank's asset/liability management program by reducing the Bank's exposure to interest rate changes, due to their generally shorter terms. Such loans may entail additional credit risks compared to owner-occupied residential mortgage lending especially when unsecured or secured by collateral such as automobiles that depreciate rapidly.

Commercial lending including real-estate related loans entail significant additional risks when compared with residential real estate and consumer lending. For example, commercial loans typically involve larger loan balances to single borrowers or groups of related borrowers. The payment experience on such loans typically is dependent on the successful operation of the project and these risks can be significantly impacted by the cash flow of the borrowers and market conditions for commercial office, retail, and warehouse space. In periods of decreasing cash flows, the commercial borrower may permit a lapse in general maintenance of the property causing the value of the underlying collateral to deteriorate. The liquidation of commercial property is often more costly and may involve more time to sell than residential real estate. The Bank offsets such factors with requiring more owner equity, a lower loan to value ratio and by obtaining the personal guaranties of the principals. In addition, a majority of the Bank's commercial real estate portfolio is owner-occupied property.

Commercial loans and leases are considered to have a higher degree of credit risk than secured real estate lending. The repayment of unsecured commercial business loans is wholly dependent on the success of the borrower's business, while secured commercial business loans may be secured by collateral that may not be readily marketable in the event of default. Municipal financing includes lending to local taxing authorities and revenue-producing projects. Such loans may constitute the general obligation of the taxing authority or may rely on a specific revenue source which is responsible for the repayment of the debt. General obligations are considered to carry a lower level of risk than other loan types since they are backed by the full faith and credit of the taxing authority. Revenue obligations are backed solely by revenues generated by the project financed and repayment may be affected by the success of the project.

Due to the type and nature of the collateral, consumer lending generally involves more credit risk when compared with residential real estate lending. Consumer lending collections are typically dependent on the borrower's continuing financial stability, and thus, are more likely to be adversely affected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency is usually turned over to a collection agency.

There are additional risks associated with indirect lending since we must rely on the dealer to provide accurate information to us and accurate disclosures to the borrowers. These loans are principally done on a non-recourse basis. We seek to mitigate these risks by only dealing with dealers with whom we have a long-standing relationship.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") prohibits lenders from making residential mortgages unless the lender makes a reasonable and good faith determination that the borrower has a reasonable ability to repay the mortgage loan according to its terms. A borrower may recover statutory damages equal to all finance charges and fees paid within three years of a violation of the ability-to-repay rule and may raise a violation as a defense to foreclosure at any time. As authorized by the Dodd-Frank Act, the Consumer Financial Protection Bureau ("CFPB") has adopted regulations defining "qualified mortgages" that are presumed to comply with the Dodd-Frank Act's ability-to-repay rules. Under the CFPB regulations, qualified mortgages must satisfy the following criteria: (i) no negative amortization, interest-only payments, balloon payments, or term greater than 30 years; (ii) no points or fees in excess of 3% of the loan amount for loans over $100,000; (iii) borrower's income and assets are verified and documented; and (iv) the borrower's debt-to-income ratio generally may not exceed 43%. Qualified mortgages are conclusively presumed to comply with the ability-to-pay rule unless the mortgage is a "higher cost" mortgage, in which case the presumption is rebuttable. Under the Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in 2018, residential mortgages originated for portfolio by insured depository institutions, like the Bank, with less than $10 billion in total consolidated assets will be treated as qualified mortgages; provided that the mortgage terms do not include interest-only payments or negative amortization, total points and fees do not exceed 3% of the loan amount, prepayment penalties are not in excess of those permitted for qualified mortgages under Regulation Z and the lender has considered and documented the debt, income and financial resources of the borrower.

The Bank has established various lending limits for its officers and also maintains an Officer Loan Committee to approve higher loan amounts. The Officer Loan Committee is comprised of the President and Chief Executive Officer, Chief Lending Officer and other Bank officers. The Officer Loan Committee has the authority to approve all loans up to set limits based on the type of loan and the collateral. Requests in excess of these limits must be submitted to the Directors' Loan Committee or Board of Directors for approval. Additionally, the President and Chief Executive Officer, and the Chief Lending Officer and other officers have the authority to approve secured and unsecured loans up to amounts approved by the Board of Directors and maintained in the Bank's Loan Policy. Notwithstanding individual lending authority, certain loan policy exceptions must be submitted to the Officer Loan Committee for approval.

Hazard insurance coverage is required on all properties securing loans made by the Bank. Flood insurance is also required, when applicable.

Loan applicants are notified of the credit decision by letter. If the loan is approved, the loan commitment specifies the terms and conditions of the proposed loan including the amount, interest rate, amortization term, a brief description of the required collateral, and the required insurance coverage. The borrower must provide proof of fire, flood (if applicable) and casualty insurance on the property serving as collateral and title insurance, and these applicable insurances must be maintained during the full term of the loan.

The following table sets forth maturities and interest rate sensitivity for selected categories of loans as of December 31, 2023. Scheduled repayments are reported in the maturity category in which payment is due. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less.

	One Year or Less	After One to Five Years	After Five Years Through 15 years	After 15 years	Total
	(dollars in thousands)				
Real Estate:					
Residential	$ 42,432	$ 118,830	$ 115,031	$ 40,253	$ 316,546
Commercial	70,547	179,159	340,895	84,555	675,156
Agricultural	4,309	16,808	31,868	10,874	63,859
Construction	2,602	7,253	22,160	19,438	51,453
Commercial loans	85,865	85,367	24,849	4,495	200,576
Other agricultural loans	11,803	16,597	3,290	276	31,966
Consumer loans	99,549	151,510	12,470	792	264,321
Total	$ 317,107	$ 575,524	$ 550,563	$ 160,683	$ 1,603,877
Loans with fixed rates	$ 34,440	$ 181,822	$ 394,898	$ 232,780	$ 843,940
Loans with floating rates	219,481	490,418	50,038	-	759,937
Total	$ 253,921	$ 672,240	$ 444,936	$ 232,780	$ 1,603,877

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses totaled $18,968,000 as of December 31, 2023, and represented 1.18% of total loans receivable compared to $16,999,000 and 1.15% of total loans as of year-end 2022. Net charge-offs for 2023 totaled $6,078,000 and represented 0.39% of average loans compared to $343,000 and 0.02% of average loans in 2022.

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

The Company has limited exposure to higher-risk loans. The Company does not originate option ARM products, interest only loans, sub-prime loans or loans with initial teaser rates in its residential real estate portfolio. As of December 31, 2023, the Company had $16,805,000 million of junior lien home equity loans. For the year ended December 31, 2023, there were $0 of charge-offs for this portfolio, with recoveries of $0 in 2023.

Loan concentrations are considered to exist when there are amounts loaned to a number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. Our lending activity is heavily concentrated in the geographic market areas we serve. At December 31, 2023, the Company had no concentrations of loans in any one industry exceeding 10% of its total loan portfolio. An industry for this purpose is defined as a group of businesses that are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

As of December 31, 2023 and 2022, the Company considered its concentration of credit risk to be acceptable. As of December 31, 2023, the highest concentrations are in commercial rentals and the residential rentals category, with loans outstanding of $149.2 million, or 9.3% of loans outstanding, to commercial rentals, and $115.2 million, or 7.2% of loans outstanding, to residential rentals. For the year ended December 31, 2023, the Company recognized charge offs of $6,000 on commercial rentals and $44,000 on residential rentals. There were no charge-offs on loans within these concentrations in 2022.

Banking regulators have established guidelines of less than 100% of tier 1 capital plus allowance for credit losses in construction lending and less than 300% of tier 1 capital plus allowance for credit losses in commercial real estate lending that management monitors as part of the risk management process. The construction concentration ratio is a percentage of the outstanding construction and land development loans to total tier 1 capital plus allowance for credit losses. The commercial real estate concentration ratio is a percentage of the outstanding balance of non-owner occupied commercial real estate, multifamily, and construction and land development loans to tier 1 capital plus allowance for credit losses. Management strives to operate within the thresholds set forth above.

As of December 31, 2023, the Company had $675.2 million of commercial real estate loans, which represented 42.1% of total loans outstanding. Non-owner occupied commercial real estate loans totaled $294.9 million, or 18.4% of total loans outstanding and 134.8% of regulatory capital requirements. As of December 31, 2023, the Company had $51.5 million of construction loans, which represented 3.2% of total loans outstanding and 23.5% of regulatory capital requirements.

The following table sets forth information with respect to the Bank's allowance for credit losses as of December 31, 2023 and 2022:

	As of December 31, 2023	As of December 31, 2022
	(dollars in thousands)	
Total loans receivable, net of deferred fees	$ 1,603,618	$ 1,473,945
Allowance balance at beginning of period	$ 16,999	$ 16,442
Net (charge-offs) recoveries:		
Real Estate-Residential	(28)	(42)
Real Estate-Commercial	(139)	62
Real Estate-Agricultural	—	—
Real Estate-Construction	—	—
Commercial loans	(4,932)	30
Other agricultural loans	—	—
Consumer	(979)	(393)
Total	(6,078)	(343)
Impact of Adopting ASC 326	2,466	—
Provision Expense	5,581	900
Allowance balance at end of period	$ 18,968	$ 16,999
Average loans receivable:		
Real Estate-Residential	$ 306,404	$ 286,545
Real Estate-Commercial	692,681	635,207
Real Estate-Agricultural	67,367	65,937
Real Estate-Construction	38,017	24,472
Commercial loans	197,598	185,687
Other agricultural loans	33,859	36,352
Consumer	229,739	166,803
Total average loans outstanding	$ 1,565,665	$ 1,401,003
Net (charge-offs) recoveries as a percent of average loans outstanding		
Real Estate-Residential	(0.01)%	(0.01)%
Real Estate-Commercial	(0.02)	0.01
Real Estate-Agricultural	-	-
Real Estate-Construction	-	-
Commercial loans	(2.50)	0.02
Other agricultural loans	-	-
Consumer	(0.43)	(0.24)
Total net charge-offs	(0.39)%	(0.02)%
Credit Quality Ratios:		
As a percent of year-end loans, net of unearned income:		
Allowance for credit losses	1.18%	1.15%
Nonaccrual loans	0.48%	0.08%
Nonperforming loans	0.48%	0.08%
Allowance for credit losses to nonaccrual loans	248.86%	1527.31%
Allowance for credit losses to nonperforming loans	248.86%	1527.31%

During the twelve month period ended December 31, 2023, the Bank recognized a charge-off in the amount of $4,806,000 on one commercial credit relationship resulting from the borrower's inability to make scheduled contractual payments. This isolated event contributed to an increase in net charge-offs for the twelve months ended December 31, 2023 to $6,078,000 from the $343,000 of net charge-offs reported for the twelve months ended December 31, 2022. As of December 31, 2023, the remaining carrying value of the credit was $4,150,000, which was classified as a nonaccrual loan. As a result of this charge-off and transfer to nonperforming loans, the provision for credit losses increased to $5,548,000 for the twelve months ended December 31, 2023, compared to $900,000 for the twelve months ended December 31, 2022.

The following table sets forth the allocation of the Bank's allowance for credit losses by loan category and the percent of loans in each category to total loans at the date indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which credit losses may occur. The total allowance is available to absorb losses from any type of loan.

	As of December 31,			
	2023		2022	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
	(dollars in thousands)			
Real estate – residential	$ 1,351	7.1 %	$ 2,833	20.3 %
Real estate – commercial	11,871	62.6	8,293	44.2
Real estate – agricultural	58	0.3	259	4.7
Real estate – construction	933	4.9	409	2.2
Commercial	1,207	6.4	2,445	12.7
Other agricultural loans	94	0.5	124	2.4
Consumer	3,454	18.2	2,636	13.5
Total	$ 18,968	100 %	$ 16,999	100 %

Additional information about the allowance for credit losses at December 31, 2023 is presented under "Item 1. Business" of this Annual Report on Form 10-K, as well as in Note 2 and Note 4 to the audited consolidated financial statements.

NON-PERFORMING ASSETS

Non-performing assets consist of non-performing loans and real estate owned as a result of foreclosure, which is held for sale. Loans are placed on non-accrual status when management believes that a borrower's financial condition is such that collection of interest is doubtful. Commercial and real estate related loans are generally placed on non-accrual when interest is 90 days delinquent. When loans are placed on non-accrual, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses.

As of December 31, 2023, non-performing loans totaled $7,622,000 and represented 0.48% of total loans compared to $1,113,000 or 0.08% as of December 31, 2022. The increase in the level of non-performing loans was due primarily to one commercial relationship in the amount of $6,956,000 that was transferred to non-accrual status in the third quarter of 2023. As of December 31, 2023, the carrying value of this credit was $4,150,000. In January 2024, a $3,900,000 payment was received through the sale of assets. The remaining $250,000 was reclassified to accounts receivable and is expected to be collected through contractual future payments.

Foreclosed real estate owned totaled $97,000 as of December 31, 2023 and $346,000 as of December 31, 2022. During 2023, one property with a carrying value of $346,000 was disposed of through a sale, after a partial write down of $54,000, and one property with a carrying value of $290,000 was disposed of through a sale. The Company recorded a gain of $80,000 on the sale of these two properties during the year ended December 31, 2023. Additionally, two properties with a carrying value of $387,000 were transferred to foreclosed real estate owned in 2023.

SECURITIES

The securities portfolio consists of U.S. Treasury securities, U.S. Government agencies, mortgage-backed securities issued by government sponsored entities and municipal obligations. The Company classifies its investments into two categories: held to maturity (HTM) and available for sale (AFS). The Company does not have trading securities. Securities classified as HTM are those in which the Company has the ability and the intent to hold the security until contractual maturity. As of December 31, 2023, there were no securities carried in the HTM portfolio. Securities classified as AFS are eligible to be sold due to liquidity needs or interest rate risk management. These securities are adjusted to and carried at their fair value with any unrealized gains or losses recorded net of deferred income taxes, as an adjustment to capital and reported in the equity section of the Consolidated Balance Sheet as other comprehensive income. As of December 31, 2023, $406.3 million of securities were so classified and carried at their fair value, with unrealized losses, net of tax, of $47.8 million included in accumulated other comprehensive income (loss) as a component of stockholders' equity. The Company considers its investment portfolio a source of earnings and liquidity. Investment securities may also be pledged to secure public deposits and customer repurchase agreements.

As of December 31, 2023, the average life of the portfolio was 6.7 years. The Company has maintained a relatively short average life in the portfolio in order to generate cash flow to support loan growth and maintain liquidity levels. Purchases for the year totaled $12.7 million, while maturities and principal reductions totaled $33.7 million and proceeds from sales were $3.3 million. The purchases were funded principally by cash flow generated from the portfolio.

The following table sets forth certain information regarding securities not carried at fair value through earnings, weighted average yields, and maturities of the Company's securities portfolio as of December 31, 2023 and 2022. Yields on tax-exempt securities are stated on a fully taxable equivalent basis using a Federal tax rate of 21%. Actual maturities may differ from contractual maturities as certain instruments have call features which allow prepayment of obligations. Maturity on the mortgage-backed securities is based upon contractual terms, the average life may differ as a result of changes in cash flow.

	One Year or Less		After One Through Five Years		After Five Through Ten Years		After Ten Years		Total Investment Securities	
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield
	(dollars in thousands)									
U.S. Treasury securities	$ 26,495	4.12 %	$ 27,105	1.68 %	$ —	— %	$ —	— %	$ 53,600	2.84 %
U.S. Government agencies	—	—	5,531	1.75	10,465	1.64	—	—	15,996	1.69
State and political subdivision	2,341	3.44	6,970	2.51	47,305	1.98	72,863	2.35	129,479	2.23
Mortgage-backed securities - government sponsored entities	265	2.55	2,030	2.01	16,619	2.35	188,270	1.81	207,184	1.86
Total Investment Securities	$ 29,101	4.05 %	$ 41,636	1.84 %	$ 74,389	2.01 %	$261,133	1.96 %	$406,259	2.09 %

The portfolio had no adjustable-rate instruments as of December 31, 2023 and 2022. The portfolio contained no private label mortgage-backed securities, collateralized debt obligations (CDOs), or trust preferred securities, and no off-balance sheet derivatives were in use. As of December 31, 2023, the portfolio did not contain any step-up bonds. The mortgage-backed securities portfolio includes pass-through bonds and collateralized mortgage obligations (CMO's) issued by Fannie Mae, Freddie Mac and the Government National Mortgage Association (GNMA).

The Company evaluates the securities in its portfolio for credit losses as fair value declines below cost. In estimating credit losses, management considers the financial condition and near-term prospects of the issuer. As of December 31, 2023, the Company held 336 investment securities in a loss position, which had a combined unrealized loss of $60.6 million. Management believes that these losses are principally due to changes in interest rates and concluded that the decline in the value of these securities was not indicative of a credit loss. The Company did not recognize any credit losses on the available-for-sale debt securities for the twelve months ended December 31, 2023, nor did they recognize any other-than- temporary-impairment charges for the twelve months ended December 31, 2022.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record fair value adjustments to certain financial instruments and determine fair value disclosures (see Note 16 of Notes to the Consolidated Financial Statements).

Approximately $407.5 million, which represents 18.5% of total assets at December 31, 2023, consisted of financial instruments recorded at fair value on a recurring basis. This amount consists entirely of the Company's available for sale securities portfolio and interest rate derivatives. The Company uses valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value. There were no transfers into or out of Level 3 for any instruments for the years ended December 31, 2023 and 2022.

The Company utilizes a third party provider to perform valuations of the investments. Methods used to perform the valuations include: pricing models that vary based on asset class, available trade and bid information, actual transacted prices, and proprietary models for valuations of state and municipal obligations. In addition, the Company has a sample of fixed-income securities valued by another independent source. The Company does not adjust values received from its providers, unless it is evident that fair value measurement is not consistent with the Company's policies.

The Company also utilizes a third party provider to provide the fair value of certain loan servicing rights. Fair value for the purpose of this measurement is defined as the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced liquidation. The fair value of mortgage servicing rights as of December 31, 2023 and 2022 was $506,000 and $498,000, respectively.

DEPOSITS

The Bank provides a full range of deposit products to its retail and business customers. These include interest-bearing and noninterest bearing transaction accounts, statement savings and money market accounts. Certificate of deposit terms range up to five years for retail instruments. As of December 31, 2023, the Bank does not have any brokered deposits obtained through internet listing services, and no broker deposits which were secured through Cede & Co. The Bank participates in the Jumbo CD ($100,000 and over) markets with local municipalities and school districts which are typically priced on a competitive bid basis. Other services the Bank offers its customers include IntraFi CDARS and ICS, cash management, direct deposit, Remote Deposit Capture, mobile deposit capture, Zelle and Automated Clearing House (ACH) activity. The Bank operates thirty automated teller machines and is affiliated with the MoneyPass® ATM network. Internet banking including bill-pay is offered through the website at www.waynebank.com. Other services, such as eStatements and mobile banking are available online.

The following table sets forth information regarding deposit categories of the Company.

	Years Ended December 31,			
	2023		2022	
	Average		Average	
	Balance	Rate Paid	Balance	Rate Paid
	(dollars in thousands)			
Noninterest-bearing demand	$ 418,631	— %	$ 442,607	— %
Interest-bearing demand	228,909	1.13	233,000	0.22
Money Market	237,421	1.37	306,518	0.32
Savings	248,629	0.15	298,933	0.08
Time	610,725	3.25	487,674	0.97
Total	$ 1,744,315		$ 1,768,732	

As of December 31, 2023 and 2022, the total of uninsured deposits of the Company was $644,486,000 and $629,101,000, respectively. Total uninsured deposits is calculated based on regulatory reporting requirements and reflects the portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution and amounts in any other uninsured investment or deposit accounts that are classified as deposits and not subject to any federal or state deposit insurance regime.

As of December 31, 2023, the total of U.S. time deposits in excess of the Federal Deposit Insurance Corporation insurance limits were $269,499,000.

The following table indicates the amount of time deposits that are uninsured by time remaining until maturity as of December 31, 2023:

	Amount (in thousands)
Three months or less	**$ 91,837**
Over 3 through 6 months	**73,208**
Over 6 months through 12 months	**76,793**
Over 12 months	**27,661**
	$ 269,499

Total deposits as of December 31, 2023, were $1.795 billion, an increase of $67.4 million from December 31, 2022. Non-maturity interest-bearing deposits decreased $102.9 million in 2023, while non-interest bearing demand deposits decreased $35.0 million. Time deposits increased $205.3 million during 2023.

Time deposits over $250,000, which consist principally of school district funds, other public funds and short-term deposits from large commercial customers with maturities generally less than one year, totaled $241.8 million as of December 31, 2023, compared to $213.6 million at year-end 2022. These deposits are subject to competitive bid and the Company bases its bid on current interest rates, loan demand, investment portfolio structure and the relative cost of other funding sources.

As of December 31, 2023, non-interest bearing demand deposits totaled $399.5 million compared to $434.5 million at December 31, 2022. Cash management accounts in the form of securities sold under agreements to repurchase included in short-term borrowings, totaled $54.1 million at December 31, 2023 compared to $51.0 million as of December 31, 2022. These balances represent commercial and municipal customers' funds invested in overnight securities. The Company considers these accounts as a source of core funding.

RESULTS OF OPERATIONS

SUMMARY

Net income for the Company for the year ended December 31, 2023 was $16,759,000, which was $12,474,000 lower than the $29,233,000 earned in the year ended December 31, 2022. Earnings per share on a fully diluted basis were $2.07 for 2023 compared to $3.58 in 2022. The return on average assets for the year ended December 31, 2023, was 0.79%, and the return on average equity was 9.67%, compared to 1.43% and 16.11%, respectively, for the year ended December 31, 2022. Net interest income decreased $6,330,000 for the year ended December 31, 2023. The decrease in net income for the year ended December 31, 2023, is primarily attributable to a $4,648,000 increase in the provision for credit losses, a $1,808,000 decrease in other income, and a $2,453,000 increase in other expenses.

For the year ended December 31, 2023, fully taxable equivalent ("fte") net interest income totaled $62,816,000, a decrease of $6,348,000 from the year ended December 31, 2022 total. Average loans outstanding increased $164.7 million in 2023, which contributed to an increase in interest income (fte) of $19.2 million. During the year ended December 31, 2023, average interest-bearing deposits decreased $441,000. During the year ended December 31, 2023, however, total interest expense increased $19.6 million due increased market interest rates. The cost of borrowed funds increased $6.6 million in 2023, compared to the prior year due to an increase in borrowings, and higher market interest rates. During the year ended December 31, 2023, the resulting net interest spread (fte) decreased to 2.47% compared to 3.38% at December 31, 2022, as a 0.78% increase in the yield earned was offset by a 1.69% increase in the cost of funds.

Total other income for the year ended December 31, 2023 was $8,124,000, compared to $9,932,000 in the prior year, a decrease of $1,808,000. During the year ended December 31, 2023, gains on the sale of loans and investment securities decreased $152,000 in the aggregate, while gains on the sale of foreclosed real estate owned decreased $347,000. Earnings and proceeds on life insurance policies decreased $75,000 in 2023 compared to 2022, while all other items of other income decreased $1,234,000, net, in 2023. The decrease in 2023 includes $1.1 million of earnings recognized in 2022 due to the payoff of purchased impaired loans acquired at a discount.

During the year ended December 31 ,2023, other expenses were $43,497,000, compared to $41,044,000 for the same period in 2022, an increase of $2,453,000. Salaries and benefits costs increased $1,494,000 in 2023, while data processing costs increased $394,000. Taxes, other than income decreased $447,000. All other operating expenses increased $1,012,000, net, in 2023. Income tax expense for the 2023 year totaled $4,387,000, which was a decrease of $2,765,000 from the 2022 year ended. The effective tax rate in 2023 was 20.7% compared to 19.7% in 2022.

The following table sets forth changes in net income (in thousands):

Net income 2022	$	29,233
Net interest income		(6,330)
Provision for credit losses		(4,648)
Net gains on sales of loans and securities		(152)
Net gains on sales of foreclosed real estate		(347)
Other income		(1,309)
Salaries and employee benefits		(1,494)
Occupancy, furniture and equipment		(116)
Date processing and related operations		(394)
Advertising		(113)
FDIC insurance assessment		(373)
Indirect dealer fees		(547)
Shares tax expense		447
Other expenses		137
Income tax expense		2,765
Net income 2023	$	16,759

NET INTEREST INCOME

Net interest income is the most significant source of revenue for the Company and represented 88.4% of total revenue for the year ended December 31, 2023. Net interest income (fte) totaled $62,816,000 for the year ended December 31, 2023 compared to $69,164,000 for 2022, an decrease of $6,348,000. The resulting fte net interest spread and net interest margin were 2.47% and 3.06%, respectively, in 2023 compared to 3.38% and 3.53%, respectively, in 2022.

Interest income (fte) for the year ended December 31, 2023 totaled $96,289,00 compared to $76,433,000 in 2022. The fte yield on average earning assets was 4.68%, increasing 78 basis points from the 3.90% reported last year. The tax-equivalent yield on total loans was 5.46% in 2023, increasing from 4.73% in 2022, while average loans outstanding increased $164.7 million, resulting in an increase in interest income (fte) from loans of $19.2 million. The yield on securities increased 17 basis points in 2023 due primarily to higher yields on new securities purchased during the year ended December 31, 2023. During the year ended December 31, 2023, while average securities outstanding decreased $1.4 million, interest income (fte) from securities outstanding, increased $803,000 from the year ended December 31, 2022.

Interest expense was $33,473,000 for the year ended December 31, 2023, which resulted in an average cost of interest-bearing liabilities of 2.21% compared to total interest expense of $7,269,000 during the year ended December 31, 2022, with an average cost of 0.52%. Total interest-bearing deposits cost was 1.96% for the year ended December 31, 2023, which was an increase of 147 basis points over the 2022 fiscal year ended. The increase in cost was due primarily to time certificates of deposit that repriced to current market rates upon maturity, resulting in an increase in the interest rate paid from 0.97% in 2022 to 3.25% in 2023. Borrowing costs also increased in 2023, reflecting the higher market interest rate environment.

PROVISION FOR CREDIT LOSSES

The provision for credit losses was $5,548,000 in 2023 compared to $900,000 in 2022. During the twelve month period ended December 31, 2023, the Bank recognized a charge-off in the amount of $4,806,000 on one commercial credit relationship resulting from the borrower's inability to make scheduled contractual payments. This isolated event contributed to an increase in net charge-offs for the twelve months ended December 31, 2023 to $6,078,000 from the $343,000 of net charge-offs reported for the twelve months ended December 31, 2022. As of December 31, 2023, the remaining carrying value of the credit was $4,150,000, which was classified as a nonaccrual loan.

The Company makes provisions for, or releases of, credit losses in an amount necessary to maintain the allowance for credit losses at an acceptable level under the current expected credit loss methodology analysis.

OTHER INCOME

Total other income was $8,124,000 for the year ended December 31, 2023, compared to $9,932,000 in 2022, a decrease of $1,808,000. Debit card fees decreased $194,000 in 2023, loan related service fees decreased $222,000, and gains on the sale of foreclosed real estate owned decreased $347,000. During 2023, gains on the sale of loans and investment securities decreased $152,000 in the aggregate, while all other items of other income decreased $893,000, net, due primarily to $1.1 million of income recognized in 2022 on previously acquired purchased impaired loans that were carried at a discount.

Other Income (dollars in thousands)
For the year ended December 31

		2023		2022
Service charges on deposit accounts	**$**	428	$	420
ATM Fees		446		452
Overdraft Fees		1,344		1,155
Safe deposit box rental		92		93
Loan related service fees		706		928
Debit card		2,301		2,495
Fiduciary activities		898		845
Commissions on mutual funds & annuities		296		118
Earnings on and proceeds from bank-owned life insurance		1,012		1,087
Other income		667		1,906
		8,190		9,499
Net realized (losses) gains on sales of securities		(209)		3
Gains on sales of loans		63		3
Gains on sales of foreclosed real estate owned		80		427
Total	**$**	8,124	$	9,932

OTHER EXPENSES

Other expenses totaled $43,497,000 for the year ended December 31, 2023, compared to $41,044,000 in the 2022 fiscal year. Salaries and employee benefits costs increased $1,494,000 in 2023, while data processing costs increased $394,000. FDIC insurance assessments increased $373,000. During the year ended December 31, 2023, all other operating expenses increased $192,000, net. The Company's efficiency ratio, which measures total other expenses as a percentage of net interest income (fte) plus other income, was 61.3% in 2023 compared to 51.9% in 2022.

Other Expenses (dollars in thousands)
For the year ended December 31

		2023		2022
Salaries	**$**	**14,514**	$	13,791
Employee benefits		**9,051**		8,280
Occupancy		**3,864**		3,701
Furniture and equipment		**1,219**		1,266
Data processing and related operations		**3,342**		2,948
Federal Deposit Insurance Corporation insurance assessment		**985**		612
Advertising		**630**		516
Professional fees		**1,676**		1,719
Postage and telephone		**981**		959
Taxes, other than income		**566**		1,013
Foreclosed real estate		**129**		73
Amortization of intangible assets		**85**		101
Other		**6,455**		6,065
Total	**$**	**43,497**	$	41,044

INCOME TAXES

Income tax expense for the year ended December 31, 2023 totaled $4,387,000, which resulted in an effective tax rate of 20.7%, compared to $7,152,000 and 19.7% for 2022.

CAPITAL AND DIVIDENDS

Total stockholders' equity as of December 31, 2023, was $181.1 million, compared to $167.1 million as of December 31, 2022. Earnings retention, net of a $9.5 million reduction resulting from cash dividends declared, contributed to the increase. Fluctuations in interest rates during the year ended December 31, 2023, impacted the fair value of the Company's Available-for-Sale securities, and contributed to $10.0 million increase in accumulated other comprehensive income. As of December 31, 2023 the Company had a leverage capital ratio of 9.00%, a Tier 1 risk-based capital ratio and a common equity Tier 1 risk-based capital ratio of 11.99%, and a total risk-based capital ratio of 13.06%, compared to 9.36%, 12.49% and 13.58%, respectively, at December 31, 2022.

NON-GAAP FINANCIAL MEASURES

This Annual Report contains or references fully taxable-equivalent interest income and net interest income, which are non-GAAP financial measures. Tax-equivalent interest income and net interest income are derived from GAAP interest income and net interest income using a marginal tax rate of 21%. We believe the presentation of interest income and net interest income on a fully taxable-equivalent basis ensures comparability of interest income and net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice.

The following table reconciles net interest income to net interest income on a fully taxable-equivalent basis:

(dollars in thousands)	Years ended December 31, 2023	2022
Net interest income	**$ 62,067**	$ 68,397
Tax-equivalent basis adjustment using a 21% marginal tax rate	**749**	767
Net interest income on a fully taxable equivalent basis	**$ 62,816**	$ 69,164

CONSOLIDATED AVERAGE BALANCE SHEETS WITH RESULTANT INTEREST AND RATES
(Tax-Equivalent Basis, dollars in thousands)

Year Ended December 31	2023			2022		
	Average Balance (2)	Interest (1)	Average Rate	Average Balance (2)	Interest (1)	Average Rate
ASSETS						
Interest-earning assets:						
Interest-bearing deposits with banks	**$ 7,537**	**$ 409**	**5.43 %**	$ 77,496	$ 602	0.78 %
Securities available for sale:						
Taxable	**411,633**	**8,390**	**2.04**	405,374	7,262	1.79
Tax-exempt	**70,598**	**1,940**	**2.75**	78,224	2,265	2.90
Total securities available for sale	**482,231**	**10,330**	**2.14**	483,598	9,527	1.97
Loans receivable (3)(4)	**1,565,665**	**85,550**	**5.46**	1,401,003	66,304	4.73
Total interest-earning assets	**2,055,433**	**96,289**	**4.68**	1,962,097	76,433	3.90
Noninterest earning assets:						
Cash and due from banks	**26,633**			24,560		
Allowance for credit losses	**(18,122)**			(16,854)		
Other assets	**64,626**			77,800		
Total noninterest earning assets	**73,137**			85,506		
TOTAL ASSETS	**$ 2,128,570**			$ 2,047,603		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand and money market	**$ 466,329**	**5,824**	**1.25**	$ 539,518	1,506	0.28
Savings	**248,629**	**378**	**0.15**	298,933	242	0.08
Time	**610,726**	**19,827**	**3.25**	487,674	4,723	0.97
Total interest-bearing deposits	**1,325,684**	**26,029**	**1.96**	1,326,125	6,471	0.49
Short-term borrowings	**93,455**	**3,048**	**3.26**	69,711	524	0.75
Other borrowings	**94,931**	**4,396**	**4.63**	11,045	274	2.48
Total interest-bearing liabilities	**1,514,070**	**33,473**	**2.21**	1,406,881	7,269	0.52
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	**418,631**			442,607		
Other liabilities	**22,595**			16,616		
Total noninterest-bearing liabilities	**441,226**			459,223		
Stockholders' equity	**173,274**			181,499		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 2,128,570**			$ 2,047,603		
Net Interest Income/spread (tax equivalent basis)		**62,816**	**2.47 %**		69,164	3.38 %
Tax-equivalent basis adjustment		**(749)**			(767)	
Net Interest Income		**$ 62,067**			$ 68,397	
Net interest margin (tax equivalent basis)			**3.06 %**			3.53 %

(1) Interest and yields are presented on a tax-equivalent basis using a marginal tax rate of 21%.
(2) Average balances have been calculated based on daily balances.
(3) Loan balances include non-accrual loans and are net of unearned income.
(4) Loan yields include the effect of amortization of purchased credit marks and deferred fees net of costs.

RATE/VOLUME ANALYSIS

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

(dollars in thousands)	Increase/(Decrease) 2023 compared to 2022 Variance due to		
	Volume	Rate	Net
INTEREST-EARNING ASSETS:			
Interest-bearing deposits	$ (818)	$ 625	$ (193)
Securities available for sale:			
Taxable	125	1,003	1,128
Tax-exempt securities	(216)	(109)	(325)
Total securities available for sale	(91)	894	803
Loans receivable	8,474	10,772	19,246
Total interest-earning assets	7,565	12,291	19,856
INTEREST-BEARING LIABILITIES			
Interest-bearing demand and money market	(795)	5,113	4,318
Savings	(64)	200	136
Time	3,370	11,734	15,104
Total interest-bearing deposits	2,511	17,047	19,558
Short-term borrowings	626	1,898	2,524
Other borrowings	2,702	1,420	4,122
Total interest-bearing liabilities	5,839	20,365	26,204
Net interest income (tax-equivalent basis)	$ 1,726	$ (8,074)	$ (6,348)

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

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

MARKET RISK

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

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates and the relationship of different interest rates. To manage the impact of the rate changes, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities at approximately the same time intervals. The Company uses net interest simulation to assist in interest rate risk management. The process includes simulating various interest rate environments and their impact on net interest income. As of December 31, 2023, the level of net interest income at risk in a ± 200 basis points increase was within the Company's policy limit of a decline less than 10% of net interest income.

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

At December 31, 2023, the Bank had a negative 90-day interest sensitivity gap of $43.6 million or 1.98% of total assets. A negative gap indicates that the balance sheet has a higher level of rate-sensitive liabilities (RSL) than rate-sensitive assets (RSA) at the specific time interval. This would indicate that in an increasing rate environment, the cost of interest-bearing liabilities would increase faster than the yield on interest-earning assets in the 90-day period. The level of RSA and RSL for an interval is managed by ALCO strategies, including adjusting the average life of the investment portfolio through purchases and sales, pricing of deposit liabilities to attract long or short-term time deposits, utilizing borrowings to fund loan growth, loan pricing to encourage variable-rate products and evaluation of loan sales of long-term, fixed-rate mortgages.

The Company analyzes and measures the time periods in which RSA and RSL will mature or reprice in accordance with their contractual terms and assumptions. Management believes that the assumptions used are reasonable. The interest rate sensitivity of assets and liabilities could vary substantially if differing assumptions were used or if actual experience differs from the assumptions used in the analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Interest rates may change at different rates changing the shape of the yield curve. The level of rates on the investment securities may also be affected by the spread relationship between different investments. Further, in the event of a significant change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed. Finally, the ability of borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase. It should be noted that the operating results of the Company are not subject to foreign currency exchange or commodity price risk.

The following table displays interest-sensitivity as of December 31, 2023 (dollars in thousands):

	3 Months Or Less	**3-12 Months**	**1-3 Years**	**Over 3 Years**	**Total**
Federal funds sold and interest-bearing deposits	$ 37,587	$ —	$ —	$ —	$ 37,587
Securities	16,099	41,137	65,648	283,375	406,259
Loans Receivable	237,678	257,551	559,921	548,468	1,603,618
Total Rate Sensitive Assets (RSA)	$ 291,364	$ 298,688	$ 625,569	$ 831,843	$ 2,047,464
Non-maturity interest-bearing deposits	$ 104,379	$ 107,882	$ 286,392	$ 187,852	$ 686,505
Time Deposits	185,991	398,767	116,845	7,506	709,109
Borrowings	44,595	47,784	88,030	17,903	198,312
Total Rate Sensitive Liabilities (RSL)	$ 334,965	$ 554,433	$ 491,267	$ 213,261	$ 1,593,926
Interest sensitivity gap	$ (43,601)	$ (255,745)	$ 134,302	$ 618,582	$ 453,538
Cumulative gap	(43,601)	(299,346)	(165,044)	453,538	
RSA/RSL-cumulative	86.9 %	66.3 %	88.1 %	128.5 %	
As of December 31, 2022					
Interest sensitivity gap	$ (46,676)	$ (158,452)	$ 27,463	$ 647,143	$ 469,478
Cumulative gap	(46,676)	(205,128)	(177,665)	469,478	
RSA/RSL-cumulative	83.1 %	70.3 %	85.0 %	138.5 %	

Certain interest-bearing deposits with no stated maturity dates are included in the interest-sensitivity table above. The balances allocated to the respective time periods represent an estimate of the total outstanding balance that has the potential to migrate either through withdrawal or transfer to time deposits, thereby impacting the interest-sensitivity position of the Company. The estimates were derived from a non-maturity deposit study, which was prepared by an independent third party provider. The purpose of the study was to estimate the average lives of various deposit types and their pricing sensitivity to movements in market interest rates.

INFLATION

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary. The consolidated financial statements and related financial data are presented following GAAP. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, except for securities available for sale, impaired loans, and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

LIQUIDITY

Liquidity is the ability to fund customers' borrowing needs and their deposit withdrawal requests while supporting asset growth. The Company's primary sources of liquidity include deposit generation, asset maturities, cash flow from payments on loans and securities and access to borrowing from the Federal Reserve Discount Window, the Federal Home Loan Bank and other correspondent banks.

As of December 31, 2023, the Company had cash and cash equivalents of $66.1 million in the form of cash, due from banks, balances with the Federal Reserve Bank, and short-term deposits with other institutions. In addition, at December 31, 2023, the Company had securities available for sale of $406.3 million, which could be used for liquidity needs. This results in the Company having total liquidity at December 31, 2023 of $472.4 million, or 21.5% of total assets as, of December 31, 2023, compared to total liquidity of $450.8 million, or 22.0% of total assets as of December 31, 2022. The Company also monitors other liquidity measures for compliance with Company policy guidelines. Based upon these measures, the Company believes its liquidity is adequate.

The Company maintains established lines of credit with the Federal Reserve Bank, the Federal Home Loan Bank of Pittsburgh (FHLB), the Atlantic Community Bankers Bank (ACBB) and other correspondent banks, which support liquidity needs. The total available credit under all lines was $199.1 million, which consists of $32.1 million with the Federal Reserve Bank, $150.0 million with the Federal Home Loan Bank of Pittsburgh, $7.0 million with the Atlantic Community Bankers Bank, and $10.0 million with PNC Bank. As of December 31, 2023 and December 31, 2022, there was $124.2 million and $42.3 million outstanding respectively. The maximum borrowing capacity from FHLB at December 31, 2023 was $682.4 million. As of December 31, 2023, the Company had $30.0 million of term borrowings from the Federal Reserve Bank under the Bank Term Funding Program, and $114.2 million in borrowings from the FHLB, compared to $0 and $40.0 million, respectively, at December 31, 2022. Outstanding Letters of Credit to secure public funds totaled $136.6 million and $92.9 million at December 31, 2023 and 2022, respectively.

Item 8. Financial Statements and Supplementary Data.

REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

TO THE STOCKHOLDERS OF NORWOOD FINANCIAL CORP

Management of Norwood Financial Corp and its subsidiary (Norwood) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Norwood's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

Management assessed the effectiveness of Norwood's internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria established in *Internal Control – Integrated Framework* as set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based upon its assessment, management has concluded that, as of December 31, 2023, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with all federal and state laws and regulations, is effective based on the criteria established in the *Internal Control – Integrated Framework.*

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

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Norwood Financial Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Norwood Financial Corp. and subsidiaries (the "Company") as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Basis for Opinion (Continued)

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involve our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses (ACL)

Description of the Matter
The Company's loan portfolio totaled $1.6 billion as of December 31, 2023, and the associated ACL was $18.9 million. As discussed in Note 4 to the consolidated financial statements, estimating an appropriate allowance for credit losses requires management to make certain assumptions about expected losses on loans in the loan portfolio over their remaining contractual life as of the balance sheet date. The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. Loans that do not share similar risk characteristics are evaluated on an individual basis, at the balance sheet date. The measurement of expected credit losses on collectively evaluated loans is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Management applies qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and procedures, terms and volume of the loan portfolio, experience and ability of management, volume and severity of problem credits, quality of the loan review system, and concentrations of credit.

We identified these qualitative adjustments within the ACL as critical audit matters because they involve a high degree of subjectivity. While the determination of these qualitative adjustments includes analysis of observable data over the historical loss period, the judgments required to assess the directionality and magnitude of adjustments is highly subjective. Auditing these complex judgments and assumptions involved especially challenging auditor judgment due to the nature of audit evidence and the nature and extent of effort required to address these matters.

Allowance for Credit Losses (ACL) (Continued)

How We Addressed the Matter in Our Audit
The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of internal controls over the calculation of the allowance for credit losses, including the qualitative factor adjustments.
- Testing the completeness and accuracy of the data inputs used by management as a basis for the qualitative factors by agreeing them to internal and external data sources.
- Testing management's process and evaluating the reasonableness of their inputs and assumptions by evaluating the reasonableness of the qualitative factor adjustments, including the magnitude and directional consistency of the adjustments.

We have served as the Company's auditor since 2009.

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 14, 2024

CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
	(In Thousands, Except Share and Per Share Data)	
ASSETS		
Cash and due from banks	**$ 28,533**	$ 28,847
Interest-bearing deposits with banks	**37,587**	3,019
Cash and cash equivalents	**66,120**	31,866
Securities available for sale	**406,259**	418,927
Loans receivable (net of allowance for credit losses 2023: $18,968; 2022: $16,999)	**1,584,650**	1,456,946
Regulatory stock, at cost	**7,318**	5,418
Premises and equipment, net	**17,838**	17,924
Bank owned life insurance	**46,439**	43,364
Accrued interest receivable	**8,123**	6,917
Foreclosed real estate owned	**97**	346
Deferred tax assets, net	**21,353**	23,549
Goodwill	**29,266**	29,266
Other intangibles	**221**	306
Other assets	**13,395**	12,241
Total Assets	**$ 2,201,079**	$ 2,047,070
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	**$ 399,545**	$ 434,529
Interest-bearing demand	**253,133**	237,891
Money market deposit accounts	**206,928**	273,165
Savings	**226,444**	278,372
Time	**709,109**	503,770
Total Deposits	**1,795,159**	1,727,727
Short-term borrowings	**74,076**	93,215
Other borrowings	**124,236**	40,000
Accrued interest payable	**10,510**	2,653
Other liabilities	**16,028**	16,390
Total Liabilities	**2,020,009**	1,879,985
STOCKHOLDERS' EQUITY		
Preferred stock, no par value, authorized: 5,000,000 shares, issued: none	**—**	—
Common stock, $0.10 par value, authorized: 20,000,000 shares issued: 2023: 8,310,847 shares; 2022: 8,291,401 shares	**831**	829
Surplus	**97,700**	96,897
Retained earnings	**135,284**	130,020
Treasury stock at cost: 2023: 200,690 shares; 2022: 124,650 shares	**(5,397)**	(3,308)
Accumulated other comprehensive loss	**(47,348)**	(57,353)
Total Stockholders' Equity	**181,070**	167,085
Total Liabilities and Stockholders' Equity	**$ 2,201,079**	$ 2,047,070

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2023	2022
	(In Thousands, Except Share and Per Share Data)	
INTEREST INCOME		
Loans receivable, including fees	**$ 85,209**	$ 66,013
Securities		
Taxable	**8,389**	7,262
Tax exempt	**1,533**	1,789
Interest-bearing deposits with banks	**409**	602
Total Interest Income	**95,540**	75,666
INTEREST EXPENSE		
Deposits	**26,029**	6,471
Short-term borrowings	**3,048**	524
Other borrowings	**4,396**	274
Total Interest Expense	**33,473**	7,269
Net Interest Income	**62,067**	68,397
PROVISION FOR CREDIT LOSSES	**5,548**	900
Net Interest Income After Provision for Credit Losses	**56,519**	67,497
OTHER INCOME		
Service charges and fees	**5,613**	5,661
Income from fiduciary activities	**898**	845
Net realized (losses) gains on sales of securities	**(209)**	3
Net gain on sale of loans	**63**	3
Net gain on sale of foreclosed real estate owned	**80**	427
Earnings and proceeds on life insurance policies	**1,012**	1,087
Other	**667**	1,906
Total Other Income	**8,124**	9,932
OTHER EXPENSES		
Salaries and employee benefits	**23,565**	22,071
Occupancy	**3,864**	3,701
Furniture and equipment	**1,219**	1,266
Data processing and related operations	**3,342**	2,948
Federal Deposit Insurance Corporation insurance assessment	**985**	612
Advertising	**630**	516
Professional fees	**1,676**	1,719
Postage and telephone	**981**	959
Taxes, other than income	**566**	1,013
Foreclosed real estate	**129**	73
Amortization of intangible assets	**85**	101
Other	**6,455**	6,065
Total Other Expenses	**43,497**	41,044
Income before Income Taxes	**21,146**	36,385
INCOME TAX EXPENSE	**4,387**	7,152
Net income	**$ 16,759**	$ 29,233
EARNINGS PER SHARE		
BASIC	**$ 2.08**	$ 3.59
DILUTED	**$ 2.07**	$ 3.58

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)	Years Ended December 31, 2023	2022
NET INCOME	**$ 16,759**	$ 29,233
Other comprehensive income (loss):		
Unrealized (loss) gain on pension liability	**(106)**	(784)
Tax Effect	**22**	165
Investment securities available for sale:		
Unrealized holding gain (loss)	**12,561**	(71,488)
Tax Effect	**(2,637)**	15,012
Reclassification of losses (gains) from sale of securities	**209**	(3)
Tax Effect	**(44)**	1
Other comprehensive income (loss)	**10,005**	(57,097)
COMPREHENSIVE INCOME (LOSS)	**$ 26,764**	$ (27,864)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022
(In Thousands, Except Share and Per Share Data)

	Common Stock				Treasury Stock			
	Shares	Amount	Surplus	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Total
	(Dollars in Thousands, Except per Share Data)							
BALANCE - DECEMBER 31, 2021	8,266,751	$ 827	$ 96,443	$ 110,015	65,328	$ (1,767)	$ (256)	$ 205,262
Net Income	—	—	—	29,233	—	—	—	29,233
Other comprehensive loss	—	—	—	—	—	—	(57,097)	(57,097)
Cash dividends declared ($1.13 per share)	—	—	—	(9,228)	—	—	—	(9,228)
Acquisition of treasury stock	—	—	—	—	96,062	(2,515)	—	(2,515)
Stock options exercised	1,650	—	(212)	—	(32,775)	869	—	657
Sale of treasury stock for ESOP	—	—	27	—	(3,965)	105	—	132
Compensation expense related to stock options	—	—	269	—	—	—	—	269
Restricted stock awards	23,000	2	370	—	—	—	—	372
BALANCE - DECEMBER 31, 2022	8,291,401	829	96,897	130,020	124,650	(3,308)	(57,353)	167,085
Net Income	**—**	**—**	**—**	**16,759**	**—**	**—**	**—**	**16,759**
Other comprehensive loss	**—**	**—**	**—**	**—**	**—**	**—**	**10,005**	**10,005**
Cash dividends declared ($1.17 per share)	**—**	**—**	**—**	**(9,484)**	**—**	**—**	**—**	**(9,484)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**114,254**	**(3,100)**	**—**	**(3,100)**
Cumulative effect of adoption of ASU 2016-13	**—**	**—**	**—**	**(2,011)**	**—**	**—**	**—**	**(2,011)**
Stock options exercised	**—**	**—**	**(129)**	**—**	**(38,000)**	**1,015**	**—**	**886**
Sale of treasury stock for ESOP	**—**	**—**	**18**	**—**	**(3,064)**	**82**	**—**	**100**
Compensation expense related to stock options	**—**	**—**	**401**	**—**	**—**	**—**	**—**	**401**
Restricted stock awards	**19,446**	**2**	**513**	**—**	**2,850**	**(86)**	**—**	**429**
BALANCE - DECEMBER 31, 2023	**8,310,847**	**$ 831**	**$ 97,700**	**$ 135,284**	**200,690**	**$ (5,397)**	**$ (47,348)**	**$ 181,070**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	2022
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 16,759**	$ 29,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**5,548**	900
Depreciation	**1,375**	1,470
Amortization of intangible assets	**85**	101
Deferred income taxes	**583**	419
Net amortization of securities premiums and discounts	**841**	1,303
Net realized loss (gain) on sales of securities	**209**	(3)
Earnings and proceeds on life insurance policies	**(1,012)**	(1,087)
(Loss) gain on sales of fixed assets and foreclosed real estate owned	**96**	(379)
Net amortization of loan fees	**602**	(217)
Net gain on sale of loans	**(63)**	(3)
Mortgage loans originated for sale	**(4,973)**	(845)
Proceeds from sale of loans originated for sale	**5,036**	848
Compensation expense related to stock options	**401**	269
Compensation expense related to restricted stock	**429**	372
Increase in accrued interest receivable	**(1,206)**	(1,028)
Increase in accrued interest payable	**7,857**	1,450
Other, net	**(2,743)**	(2,069)
Net Cash Provided by Operating Activities	**29,824**	30,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	**3,345**	5,113
Proceeds from maturities and principal reductions on mortgage-backed securities	**33,712**	40,780
Purchases	**(12,668)**	(130,828)
Purchase of regulatory stock	**(16,528)**	(6,366)
Redemption of regulatory stock	**14,628**	4,875
Net increase in loans	**(136,245)**	(118,999)
Proceeds from bank-owned life insurance	**437**	761
Purchase of bank-owned life insurance	**(2,500)**	(3,000)
Purchase of premises and equipment	**(1,412)**	(2,153)
Proceeds from sales of foreclosed real estate owned	**662**	1,823
Proceeds from sales of bank premises and fixed assets	**1**	—
Net Cash Used for Investing Activities	**(116,568)**	(207,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**67,432**	(29,066)
Net (decrease) increase in short-term borrowings	**(19,139)**	32,393
Repayments of other borrowings	**(70,764)**	(29,998)
Proceeds from other borrowings	**155,000**	40,000
Stock options exercised	**886**	657
Sale of treasury stock for ESOP	**100**	132
Acquisition of treasury stock	**(3,100)**	(2,515)
Cash dividends paid	**(9,417)**	(9,158)
Net Cash Provided by Financing Activities	**120,998**	2,445
Net Increase (Decrease) in Cash and Cash Equivalents	**34,254**	(174,815)
CASH AND CASH EQUIVALENTS - BEGINNING	**31,866**	206,681
CASH AND CASH EQUIVALENTS - ENDING	**$ 66,120**	$ 31,866

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid	**$ 25,616**	$ 5,819
Income taxes paid, net of refunds	**$ 4,936**	$ 6,891
Supplemental Schedule of Noncash Investing Activities		
Transfers of loans to foreclosed real estate owned and repossession of other assets	**$ 2,103**	$ 776
Dividends payable	**$ 2,433**	$ 2,366
Impact of adopting ASC 326	**$ 2,466**	$ —

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

Norwood Financial Corp (Company) is a one bank holding company. Wayne Bank (Bank) is a wholly-owned subsidiary of the Company. The Bank is a state-chartered bank headquartered in Honesdale, Pennsylvania. The Company derives substantially all of its income from bank-related services which include interest earnings on commercial mortgages, residential real estate mortgages, commercial and consumer loans, as well as interest earnings on investment securities and fees from deposit services to its customers. The Company is subject to regulation and supervision by the Federal Reserve Board while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank’s wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp. and WTRO Properties. All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the determination of goodwill impairment.

Significant Group Concentrations of Credit Risk

Most of the Company’s activities are with customers located within its markets in Northeastern Pennsylvania and the New York Counties of Delaware, Sullivan, Ontario, Otsego and Yates. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Concentrations of Credit Risk

The Bank operates primarily in Wayne, Pike, Lackawanna, Luzerne and Monroe Counties, Pennsylvania and Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. Accordingly, the Bank has extended credit primarily to commercial entities and individuals in these areas whose ability to honor their contracts is influenced by the region’s economy. These customers are also the primary depositors of the Bank. The Bank is limited in extending credit by legal lending limits to any single borrower or group of related borrowers.

Securities

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company’s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using a method which approximates the interest method over the term of the security.

Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the term of the security.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each Consolidated Balance Sheet date.

Allowance for Credit Losses – Available for Sale Securities

The Bank measures expected credit losses on available-for-sale debt securities when the Bank 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 security'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 Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank 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. 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 Bank 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 $1,940,000 at 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.

Other-than-temporary-impairment

Prior to adopting ASU 2016-13, declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating credit losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to not sell the securities and it is more likely than not that it will not have to sell the securities before recovery of their cost basis.

Regulatory Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system is required to maintain an investment in capital stock of its district FHLB according to a predetermined formula. This regulatory stock has no quoted market value and is carried at cost.

Management evaluates the regulatory stock for impairment. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB. Management considers the FHLB's regulatory capital ratios, liquidity, and the fact that new shares of FHLB stock continue to change hands at the $100 par value. Management believes no credit loss is necessary related to FHLB stock as of December 31, 2023.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Credit Losses

The allowance for credit losses is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company's loan portfolio is segmented by loan types that have similar risk characteristics and behave similarly during economic cycles.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on a preferred group of macroeconomic indicators used to create projections of economic conditions, obtained from the St. Louis Federal Reserve economic database. The Company selected nine metrics which was correlated with the bank and its peer group's historical loss patterns. The adjustments are then weighted for relevance before applying to each pool. Future macroeconomic forecast adjustments are then obtained using an eight-quarter moving average for each metric for the reasonable and supportable period. Each quarter, management reviews factors and applies any additional adjustments based on local and current conditions

The Bank has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. We evaluate all commercial loans that meet the following criteria: (1) when it is determined that foreclosure is probable, (2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, (3) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Loan Losses

Prior to adopting ASU 2016-13, the allowance for loan losses was established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans were acquired with impairment or are the subject of a restructuring agreement.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Purchased Credit Deteriorated ("PCD") Loans

The Bank has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. A loan is considered a PCD loan if, at acquisition, it is probable that the Company will be unable to collect all contractually required payments receivable. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon a third party appraisal. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. The Company's loan servicing assets at December 31, 2023 and 2022, respectively, were not impaired. Total servicing assets included in other assets as of December 31, 2023 and 2022, were $188,000 and $213,000, respectively.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is calculated principally on the straight-line method over the respective assets estimated useful lives as follows:

	Years
Buildings and improvements	10 - 40
Furniture and equipment	3 - 10

Leases

The Company applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. See Note 8 for related disclosures.

Transfers of Financial Assets

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

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of its carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in foreclosed real estate owned on the Consolidated Balance Sheets. As of December 31, 2023 and 2022, foreclosed real estate owned totaled $97,000 and $346,000, respectively. As of December 31, 2023, the Company has initiated formal foreclosure proceedings on 2 consumer residential mortgage loans with an outstanding balance of $98,000.

Bank Owned Life Insurance

The Company invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a select group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies or from death benefits realized is included in other income on the Consolidated Statements of Income.

Goodwill

In connection with three acquisitions the Company recorded goodwill in the amount of $29.3 million, representing the excess of amounts paid over the fair value of net assets of the institutions acquired. Goodwill is tested and deemed impaired when the carrying value of goodwill exceeds its implied fair value. The value of the goodwill can change in the future. We expect the value of the goodwill to decrease if there is a significant decrease in the franchise value of the Bank. If an impairment loss is determined in the future, we will reflect the loss as an expense for the period in which the impairment is determined, leading to a reduction of our net income for that period by the amount of the impairment loss. No impairment was recognized for the years ended December 31, 2023 and 2022.

Other Intangible Assets

At December 31, 2023, the Company had other intangible assets of $221,000, which is net of accumulated amortization of $1,533,000. These intangible assets will continue to be amortized using the sum-of-the-years digits method of amortization over ten years. At December 31, 2022, the Company had other intangible assets of $306,000, which was net of accumulated amortization of $1,448,000. Amortization expense related to other intangible assets was $85,000 and $101,000 for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023, the estimated future amortization expense for the core deposit intangible is as follows (in thousands):

2024	$	69
2025		54
2026		38
2027		26
2028		19
Thereafter		15
	$	221

Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. These differences are measured at the enacted tax rates that will be in effect when these differences reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and its subsidiary file a consolidated federal income tax return. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company analyzes each tax position taken in its tax returns and determines the likelihood that the position will be realized. Only tax positions that are "more-likely-than-not" to be realized can be recognized in an entity's financial statements. For tax positions that do not meet this recognition threshold, an entity will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any unrecognized tax benefits at December 31, 2023 or 2022, or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months.

Advertising Costs

Advertising costs are expensed as incurred.

Earnings per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period less any unvested restricted shares. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations.

Employee Benefit Plans

The Company has a defined contributory profit-sharing plan which includes provisions of a 401(k) plan. The Company's contributions are expensed as the cost is incurred.

The Company has several supplemental executive retirement plans. To fund the benefits under these plans, the Company is the owner of single premium life insurance policies on the participants.

The Company provides pension benefits to eligible employees. The Company's funding policy is to contribute at least the minimum required contributions annually.

Interest Rate Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments.

Stock Option Plans

The Company recognizes the value of share-based payment transactions as compensation costs in the financial statements over the period that an employee provides service in exchange for the award. The fair value of the share-based payments for stock options is estimated using the Black-Scholes option-pricing model. The Company used the modified-prospective transition method to record compensation expense. Under the modified-prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified-prospective method.

Restricted Stock

The Company recognizes compensation cost related to restricted stock based on the market price of the stock at the grant date over the vesting period. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted stock under the Company's 2014 Equity Incentive Plan. The Company recognizes compensation expense for the fair value of the restricted stock on a straight-line basis over the requisite service period for the entire award.

Cash Flow Information

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks and federal funds sold.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, letters of credit and commitments to sell loans. Such financial instruments are recorded on the balance sheets when they become receivable or payable.

Trust Assets

Assets held by the Company in a fiduciary capacity for customers are not included in the financial statements since such items are not assets of the Company. Trust income is reported on the accrual method.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and defined benefit pension obligations, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income as presented in the Consolidated Statement of Comprehensive Income.

Revenue Recognition

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

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

(dollars in thousands)	2023	2022
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 428**	$ 419
ATM Fees	**446**	452
Overdraft Fees	**1,344**	1,155
Safe deposit box rental	**92**	93
Loan related service fees	**584**	849
Debit card	**2,301**	2,496
Fiduciary activities	**898**	845
Commissions on mutual funds & annuities	**296**	119
Gain on sales of other real estate owned	**80**	427
Other income	**667**	1,906
Noninterest Income (in-scope of Topic 606)	**7,136**	8,761
Out-of-scope of Topic 606:		
Net realized (losses) gains on sales of securities	**(209)**	3
Loan servicing fees	**122**	78
Gain on sales of loans	**63**	3
Earnings on and proceeds from bank-owned life insurance	**1,012**	1,087
Noninterest Income (out-of-scope of Topic 606)	**988**	1,171
Total Noninterest Income	**$ 8,124**	$ 9,932

Segment Reporting

The Company acts as an independent community financial services provider and offers traditional banking related financial services to individual, business and government customers. Through its Community Office and automated teller machine network, the Company offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of safe deposit services. The Company also performs personal, corporate, pension and fiduciary services through its Trust Department.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, mortgage banking and trust operations of the Company. As such, discrete information is not available and segment reporting would not be meaningful.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no material effect on net income or stockholders' equity.

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires the Company to measure the current expected credit losses ("CECL") on financial assets measured at amortized cost, including loans, 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 Bank. 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 Bank adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Bank recorded a cumulative effect decrease to retained earnings of $1,751,000 related to loans, $260,000 related to unfunded commitments, and $0 related to available-for-sale securities.

The Bank 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. On January 1, 2023, the amortized cost basis of the PCD assets were adjusted to reflect the addition of $250,000 of the allowance for credit losses ("ACL").

The Bank 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 Bank as of the date of adoption.

The impact of the change from the incurred loss model to the current expected credit loss model is detailed below (in thousands).

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on debt securities available for sale	$ -	$ -	$ -
ACL on loans			
Residential real estate	2,833	(1,545)	1,288
Commercial real estate	8,293	5,527	13,820
Agricultural	259	(200)	59
Construction	409	388	797
Commercial loans	2,445	(1,156)	1,289
Other agricultural loans	124	3	127
Consumer	2,636	(551)	2,085
Liabilities			
ACL for unfunded commitments	-	329	329
	$ 16,999	$ 2,795	$ 19,794

During the year ended December 31, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral-dependent or discounted cash flow method.

New Accounting Pronouncements Not Yet Adopted

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls “reference rate reform” if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. This Update is not expected to have a significant impact on the Company’s financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which provides optional temporary guidance for entities transitioning away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) to new references rates so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions within Topic 848. ASU 2021-01 clarifies that the derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. ASU 2021-01 is effective immediately for all entities. Entities may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. The amendments in this update do not apply to contract modifications made, as well as new hedging relationships entered into, after December 31, 2022, and to existing hedging relationships evaluated for effectiveness for periods after December 31, 2022, except for certain hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship. This Update is not expected to have a significant impact on the Company’s financial statements.

In March 2023, the FASB issued ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force*, which permits reporting entities to elect to account for their tax equity investments regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method (PAM) if certain conditions are met. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The adoption of ASU 2023-02 is not expected to have a significant impact on the Entity's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This guidance is effective for public business entities for annual period beginning after December 15, 2024. The adoption of ASU 2023-09 is not expected to have a significant impact on the Entity's consolidated financial statements.

NOTE 3 - SECURITIES

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

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

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
AVAILABLE FOR SALE:				
U.S. Treasury securities	$ 45,066	$ —	$ (3,212)	$ 41,854
U.S. Government agencies	21,266	—	(2,943)	18,323
States and political subdivisions	157,524	2	(29,674)	127,852
Mortgage-backed securities-government sponsored entities	268,400	—	(37,502)	230,898
Total debt securities	$ 492,256	$ 2	$ (73,331)	$ 418,927

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

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

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 25,733	$ (849)	$ 16,121	$ (2,363)	$ 41,854	$ (3,212)
U.S. Government agencies	8,321	(885)	10,002	(2,058)	18,323	(2,943)
States and political subdivisions	66,680	(11,194)	57,367	(18,480)	124,047	(29,674)
Mortgage-backed securities-government sponsored entities	102,361	(10,639)	128,537	(26,863)	230,898	(37,502)
	$ 203,095	$ (23,567)	$ 212,027	$ (49,764)	$ 415,122	$ (73,331)

The Company has five debt securities in the less than twelve month category and 331 debt securities in the twelve months or more category as of December 31, 2023. In management's opinion, the unrealized losses on securities reflect changes in interest rates subsequent to the acquisition of specific securities. The Company does not intend to sell the securities in an unrealized loss position and is unlikely to be required to sell these securities before a recovery of fair value, which may be maturity. The Company concluded that the decline in fair value of these securities was not indicative of a credit loss. No securities in the portfolio required an allowance for credit losses to be recorded during the year ended December 31, 2023, and no impairment was recorded during the year ended December 31, 2022.

The amortized cost and fair value of debt securities as of December 31, 2023 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	**$ 28,999**	**$ 28,836**
Due after one year through five years	**42,636**	**39,606**
Due after five years through ten years	**70,136**	**57,770**
Due after ten years	**84,447**	**72,863**
	226,218	**199,075**
Mortgage-backed securities - government sponsored entities	**240,600**	**207,184**
	$ 466,818	**$ 406,259**

Gross realized gains and gross realized losses on sales of securities available for sale were $4,000 and $213,000, respectively, in 2023, compared to $14,000 and $11,000, respectively, in 2022. The proceeds from the sales of securities totaled $3,345,000 and $5,113,000 for the years ended December 31, 2023 and 2022, respectively.

Securities with a carrying value of $344,204,000 and $378,472,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

NOTE 4 - LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31, 2023		December 31, 2022	
Real Estate:				
Residential	**$ 316,546**	**19.7 %**	$ 298,813	20.3 %
Commercial	**675,156**	**42.1**	651,544	44.2
Agricultural	**63,859**	**4.0**	68,915	4.7
Construction	**51,453**	**3.2**	32,469	2.2
Commercial loans	**200,576**	**12.5**	187,257	12.7
Other agricultural loans	**31,966**	**2.0**	35,277	2.4
Consumer loans to individuals	**264,321**	**16.5**	200,149	13.5
Total loans	**1,603,877**	**100.0 %**	1,474,424	100.0 %
Deferred fees, net	**(259)**		(479)	
Total loans receivable	**1,603,618**		1,473,945	
Allowance for credit losses	**(18,968)**		(16,999)	
Net loans receivable	**$ 1,584,650**		$ 1,456,946	

As of December 31, 2023 and 2022, the Company considered its concentration of credit risk to be acceptable. As of December 31, 2023, the highest concentrations are in commercial rentals and the residential rentals category, with loans outstanding of $149.2 million, or 9.3% of loans outstanding, to commercial rentals, and $115.2 million, or 7.2% of loans outstanding, to residential rentals. For the year ended December 31, 2023, the Company recognized charge offs of $6,000 on commercial rentals and $44,000 on residential rentals. There were no charge-offs on loans within these concentrations in 2022.

During 2023, the Company sold residential mortgage loans totaling $4,973,000. During 2022, the Company sold residential mortgage loans totaling $845,000. Gross realized gains and gross realized losses on sales of residential mortgage loans were $63,000 and $0, respectively, in 2023 and $3,000 and $0, respectively, in 2022. The proceeds from the sales of residential mortgage loans totaled $5,036,000 and $848,000 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the outstanding value of loans serviced for others totaled $59.2 million and $60.0 million, respectively

Changes in the accretable yield for purchased credit-impaired loans were as follows for the twelve months ended December 31,2022:

(In thousands)

	2022
Balance at beginning of period	$ 1,884
Additions	—
Accretion	(710)
Reclassification and other	653
Balance at end of period	$ 1,827

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 as of December 31, 2022 (in thousands):

	December 31, 2022
Outstanding Balance	
	$ **8,368**
Carrying Amount	
	$ **6,290**

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential non-performing loans. The system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific credit loss allowances are established for identified losses based on a review of such information. All loans identified as individually analyzed are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Allowance for credit losses are measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

The following table shows the amount of loans in each category that were individually and collectively evaluated for credit loss under ASC 326:

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

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment under ASC 310:

	Real Estate Loans							
	Residential	Commercial	Agricultural	Construction	Commercial Loans	Other Agricultural	Consumer Loans	Total
					(In thousands)			
December 31, 2022								
Individually evaluated for impairment	$ —	$ 402	$ —	$ —	$ 61	$ —	$ —	$ 463
Loans acquired with deteriorated credit quality	567	2,049	2,034	—	1,640	—	—	6,290
Collectively evaluated for impairment	298,246	649,093	66,881	32,469	185,556	35,277	200,149	1,467,671
Total Loans	$ 298,813	$ 651,544	$ 68,915	$ 32,469	$ 187,257	$ 35,277	$ 200,149	$ 1,474,424

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, under ASC 310.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
December 31, 2022		(In thousands)	
With no related allowance recorded:			
Real Estate Loans			
Commercial	**$ 402**	**$ 402**	**$ —**
Commercial loans	**11**	**11**	**—**
Subtotal	**413**	**413**	**—**
With an allowance recorded:			
Real Estate Loans			
Commercial	**50**	**50**	**50**
Subtotal	**50**	**50**	**50**
Total:			
Real Estate Loans			
Residential			—
Commercial	**$ 402**	**$ 402**	**$ —**
Commercial loans	**61**	**61**	**50**
Total Impaired Loans	**$ 463**	**$ 463**	**$ 50**

The following information for impaired loans is presented for the year ended 2022, under ASC 310:

	Average Recorded Investment		Interest Income Recognized
	2022		2022
		(In thousands)	
Total:			
Real Estate Loans			
Commercial	$ 740		$ 93
Commercial loans	24		—
Total Loans	$ 764		$ 93

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

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

Based on the most recent analysis performed, the following table presents the recorded investment in non-homogenous pools by internal risk rating systems, under ASC 326 (in thousands):

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Commercial real estate									
Risk Rating									
Pass	$ 78,496	$ 131,948	$ 112,102	$ 65,949	$ 72,480	$ 186,116	$ 13,332	$ -	$ 660,423
Special Mention	1,300	411	243	1,331	-	6,157	1,579	-	11,021
Substandard	-	-	-	1,444	36	2,232	-	-	3,712
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 79,796	$ 132,359	$ 112,345	$ 68,724	$ 72,516	$ 194,505	$ 14,911	$ -	$ 675,156
Commercial real estate									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ 112	$ 42	$ -	$ -	$ 154
Real Estate - Agriculture									
Risk Rating									
Pass	$ 2,635	$ 12,509	$ 5,433	$ 7,606	$ 7,746	$ 24,654	$ 522	$ -	$ 61,105
Special Mention	-	-	-	-	399	490	150	-	1,039
Substandard	-	508	-	1,018	-	189	-	-	1,715
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 2,635	$ 13,017	$ 5,433	$ 8,624	$ 8,145	$ 25,333	$ 672	$ -	$ 63,859

Real Estate - Agriculture									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial loans									
Risk Rating									
Pass	$ 48,571	$ 41,863	$ 24,443	$ 13,752	$ 9,914	$ 15,384	$ 38,644	$ -	$ 192,571
Special Mention	553	1,412	257	134	20	188	768	-	3,332
Substandard	-	126	342	656	-	49	3,500	-	4,673
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 49,124	$ 43,401	$ 25,042	$ 14,542	$ 9,934	$ 15,621	$ 42,912	$ -	$ 200,576
Commercial loans									
Current period gross charge-offs	$ -	$ 32	$ 24	$ 4,856	$ -	$ 41	$ -	$ -	$ 4,953
Other agricultural loans									
Risk Rating									
Pass	$ 2,670	$ 5,286	$ 3,251	$ 2,912	$ 2,373	$ 3,836	$ 11,091	$ -	$ 31,419
Special Mention	-	-	2	185	86	-	155	-	428
Substandard	-	-	-	-	119	-	-	-	119
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 2,670	$ 5,286	$ 3,253	$ 3,097	$ 2,578	$ 3,836	$ 11,246	$ -	$ 31,966
Other agricultural loans									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total									
Risk Rating									
Pass	$ 132,372	$ 191,606	$ 145,229	$ 90,219	$ 92,513	$ 229,990	$ 63,589	$ -	$ 945,518
Special Mention	1,853	1,823	502	1,650	505	6,835	2,652	-	15,820
Substandard	-	634	342	3,118	155	2,470	3,500	-	10,219
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 134,225	$ 194,063	$ 146,073	$ 94,987	$ 93,173	$ 239,295	$ 69,741	$ -	$ 971,557

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful and Loss within the internal risk rating system as of December 31, 2022 (in thousands):

	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
December 31, 2022						
Commercial real estate loans	$ 646,775	$ 1,079	$ 3,690	$ —	$ —	$ 651,544
Real estate - agricultural	66,444	368	2,103	—	—	68,915
Commercial loans	186,966	184	107	—	—	187,257
Other agricultural loans	34,071	556	650	—	—	35,277
Total	$ 934,256	$ 2,187	$ 6,550	$ —	$ —	$ 942,993

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

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

For residential real estate loans, construction loans and consumer loans, the Company evaluates credit quality based on the performance of the individual credits. The following table presents the recorded investment in the loan classes based on payment activity as of December 31, 2022, under ASC 310 (in thousands):

December 31, 2022	**Performing**	**Nonperforming**	**Total**
Residential real estate loans	$ 298,327	$ 486	$ 298,813
Construction	32,469	—	32,469
Consumer loans to individuals	199,985	164	200,149
Total	$ 530,781	$ 650	$ 531,431

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2023 and December 31, 2022 (in thousands):

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

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Purchased Credit Impaired Loans	Total Loans
December 31, 2022								
Real Estate loans								
Residential	$ 297,350	$ 187	$ 223	$ —	$ 486	$ 896	$ 567	$ 298,813
Commercial	648,688	405	—	—	402	807	2,049	651,544
Agricultural	66,751	130	—	—	—	130	2,034	68,915
Construction	32,469	—	—	—	—	—	-	32,469
Commercial loans	185,485	71	—	—	61	132	1,640	187,257
Other agricultural loans	35,277	—	—	—	—	—	—	35,277
Consumer loans	198,893	853	239	—	164	1,256	-	200,149
Total	$ 1,464,913	$ 1,646	$ 462	$ —	$ 1,113	$ 3,221	$ 6,290	$ 1,474,424

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

	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
December 31, 2023					
Real Estate loans					
Residential	$ **432**	$ **-**	$ **432**	$ **-**	$ **432**
Commercial	**2,211**	**-**	**2,211**	**-**	**2,211**
Agricultural	**-**	**-**	**-**	**-**	**-**
Construction	**-**	**-**	**-**	**-**	**-**
Commercial loans	**4,264**	**-**	**4,264**	**-**	**4,264**
Other agricultural loans	**-**	**-**	**-**	**-**	**-**
Consumer loans	**162**	**553**	**715**	**-**	**715**
Total	$ **7,069**	$ **553**	$ **7,622**	$ **-**	$ **7,622**

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 of December 31, 2023:

	Real Estate	Other	None	Total
December 31, 2023				
Real Estate loans				
Residential	$ 432	$ -	$ -	$ 432
Commercial	2,211	-	-	2,211
Agricultural	-	-	-	-
Construction	-	-	-	-
Commercial loans	49	4,215	-	4,264
Other agricultural loans	-	-	-	-
Consumer loans	-	715	-	715
Total	$ 2,692	$ 4,930	$ -	$ 7,622

The following table presents the allowance for credit losses by the classes of the loan portfolio under ASC 326:

(In thousands)	**Residential Real Estate**	**Commercial Real Estate**	**Agricultural**	**Construction**	**Commercial**	**Other Agricultural**	**Consumer**	**Total**
Beginning balance, December 31, 2022	**$ 2,833**	**$ 8,293**	**$ 259**	**$ 409**	**$ 2,445**	**$ 124**	**$ 2,636**	**$ 16,999**
Impact of adopting ASC 326	**(1,545)**	**5,527**	**(200)**	**388**	**(1,156)**	**3**	**(551)**	**2,466**
Charge Offs	**(34)**	**(154)**	**—**	**—**	**(4,953)**	**—**	**(1,067)**	**(6,208)**
Recoveries	**6**	**15**	**—**	**—**	**21**	**—**	**88**	**130**
Provision for credit losses	**91**	**(1,810)**	**(1)**	**136**	**4,850**	**(33)**	**2,348**	**5,581**
Ending balance, December 31, 2023	**$ 1,351**	**$ 11,871**	**$ 58**	**$ 933**	**$ 1,207**	**$ 94**	**$ 3,454**	**$ 18,968**
Ending balance individually evaluated	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 135**	**$ 135**
Ending balance collectively evaluated	**$ 1,351**	**$ 11,871**	**$ 58**	**$ 933**	**$ 1,207**	**$ 94**	**$ 3,319**	**$ 18,833**

The following table presents the allowance for loan losses by the classes of the loan portfolio under ASC 310:

(In thousands)	Residential Real Estate	Commercial Real Estate	Agricultural	Construction	Commercial	Other Agricultural	Consumer	Total
Beginning balance, December 31, 2021	$ 2,175	$ 10,878	$ —	$ 133	$ 1,490	$ —	$ 1,766	$ 16,442
Charge Offs	(172)	(20)	—	—	(16)	—	(457)	(665)
Recoveries	130	82	—	—	46	—	64	322
Provision for loan losses	700	(2,647)	259	276	925	124	1,263	900
Ending balance, December 31, 2022	$ 2,833	$ 8,293	$ 259	$ 409	$ 2,445	$ 124	$ 2,636	$ 16,999
Ending balance individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 50	$ —	$ —	$ 50
Ending balance collectively evaluated for impairment	$ 2,833	$ 8,293	$ 259	$ 409	$ 2,395	$ 124	$ 2,636	$ 16,949

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

During the period ended December 31, 2023, the allowance for credit losses increased from $16,999,000 to $18,968,000 This $1,969,000 increase in the required allowance was due primarily to charge-offs on one large commercial relationship.

During the period ended December 31, 2022, the allowance for loan losses increased from $16,442,000 to $16,999,000. This $557,000 increase in the required allowance was due primarily to a $2.4 million increase in the qualitative factor related to loan growth and a $445,000 increase in the qualitative factor related to large balance loans, which was partially offset by a $2.3 million decrease in the qualitative factor related to the Covid pandemic.

Interest income that would have been recorded on loans accounted for on a non-accrual basis under the original terms of the loans was $694,000 and $182,000 for 2023 and 2022, respectively.

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

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. The following table presents modifications made to borrowers experiencing financial difficulty:

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

Term Extension

	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivable	Financial Effect

Commercial real estate loans	$ 4,321,547	0.64 %	Extended maturity date of loans by three to six months.
Total	$ 4,321,547		

Combination - Term Extension and Interest Rate Adjustment

	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivable	Financial Effect
Consumer loans to individuals	$ 19,225	0.01 %	New loans were granted which extended terms for a weighted average of 34 months and rates were increased from a weighted average rate of 5.25% to a weighted average rate of 11.03%
Total	$ 19,225		

As of December 31, 2023, all loan modifications made to borrowers experiencing financial difficulty were current per the modified contractual terms.

During the year ended December 31, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the CECL loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral-dependent or discounted cash flow method.

As of December 31, 2022, there were no troubled debt restructured loans. During 2022, there were no new loans relationships identified as troubled debt restructurings. During 2022, there were no charge-offs on loans classified as troubled debt restructurings.

NOTE 5 - PREMISES AND EQUIPMENT

Components of premises and equipment at December 31 are as follows:

	2023	2022
	(In Thousands)	
Land and improvements	**$ 3,877**	$ 3,864
Buildings and improvements	**24,115**	23,444
Furniture and equipment	**10,215**	10,506
	38,207	37,814
Accumulated depreciation	**(20,369)**	(19,890)
	$ 17,838	$ 17,924

Depreciation expense totaled $1,375,000 and $1,470,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 - DEPOSITS

Aggregate time deposits in denominations greater than $250,000 were $269,499,000 and $213,623,000 at December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

2024	**$**	**584,758**
2025		**104,605**
2026		**12,240**
2027		**3,642**
2028		**3,864**
	$	**709,109**

NOTE 7 – BORROWINGS

Short-term borrowings at December 31 consist of the following:

		2023		2022
		(In Thousands)		
Securities sold under agreements to repurchase	**$**	**54,076**	$	50,951
Federal Home Loan Bank short-term borrowings		**20,000**		42,264
	$	**74,076**	$	93,215

The outstanding balances and related information of short-term borrowings are summarized as follows:

	Years Ended December 31,			
		2023		2022
		(Dollars In Thousands)		
Average balance during the year	**$**	**93,455**	$	69,711
Average interest rate during the year		**3.26 %**		0.75 %
Maximum month-end balance during the year	**$**	**136,408**	$	93,215
Weighted average interest rate at the end of the year		**3.14 %**		2.65 %

Securities sold under agreements to repurchase generally mature within one day to one year from the transaction date. Securities with an amortized cost and fair value of $63,542,000 and $55,056,000 at December 31, 2023 and $63,737,000 and $54,562,000 at December 31, 2022, respectively, were pledged as collateral for these agreements. The securities underlying the agreements were under the Company's control.

The collateral pledged for repurchase agreements that are classified as secured borrowings is summarized as follows (in thousands):

	As of December 31, 2023									
	Remaining Contractual Maturity of the Agreements									
		Overnight and continuous		Up to 30 days		30-90 days		Greater than 90 days		Total
Repurchase Agreements:										
Mortgage-backed securities - government sponsored entities	$	**55,056**	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**55,056**
Total liability recognized for repurchase agreements									**$**	**54,076**

	As of December 31, 2022									
	Remaining Contractual Maturity of the Agreements									
		Overnight and continuous		Up to 30 days		30-90 days		Greater than 90 days		Total
Repurchase Agreements:										
Mortgage-backed securities - government sponsored entities	$	54,562	$	—	$	—	$	—	$	54,562
Total liability recognized for repurchase agreements									$	50,951

The Company has a line of credit commitment available from the FHLB of Pittsburgh for borrowings of up to $150,000,000, which renews annually in June. At December 31, 2023, there was $20,000,000 of borrowings outstanding on this line. There was $42,264,000 of borrowings outstanding on this line of credit at December 31, 2022. The Company has a line of credit commitment available from Atlantic Community Bankers Bank for $7,000,000, which expires on June 30, 2024. There were no borrowings under this line of credit at December 31, 2023 and 2022. The Company has a line of credit commitment available from PNC Bank for $10,000,000 at December 31, 2023. There were no borrowings under this line of credit at December 31, 2023 and December 31, 2022.

Other borrowings consisted of the following at December 31, 2023 and 2022:

	2023	2022
	(In Thousands)	
Notes with the FHLB:		
Amortizing fixed rate borrowing due December 2023 at 5.08%	$ —	$ 40,000
Fixed rate borrowing due April 2025 at 4.26%	20,000	—
Amortizing fixed rate borrowing due September 2025 at 5.67%	4,406	—
Fixed rate borrowing due April 2026 at 4.04%	20,000	—
Amortizing fixed rate borrowing due May 2027 at 4.37%	25,950	—
Amortizing fixed rate borrowing due July 2028 at 4.70%	13,880	—
Fixed rate borrowing due July 2028 at 4.49%	10,000	—
	$ 94,236	$ 40,000
Notes with the Federal Reserve Bank:		
Fixed rate borrowing due March 2024 at 4.83%	$ 10,000	$ —
Fixed rate borrowing due September 2024 at 5.55%	20,000	—
	$ 30,000	$ —

Contractual maturities and scheduled cash flows of other borrowings at December 31, 2023 are as follows (in thousands):

2024	$ 42,636
2025	32,577
2026	31,119
2027	5,967
2028	11,937
	$ 124,236

The Bank's maximum borrowing capacity with the FHLB was $682,417,000 of which $114,236,000 was outstanding in the form of advances and $136,650,000 was outstanding in the form of letters of credit at December 31, 2023. Advances from the FHLB are secured by qualifying assets of the Bank.

NOTE 8 – OPERATING LEASES

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

The Company has elected to account for the variable nonlease components, such as common area maintenance charges, utilities, real estate taxes, and insurance, separately from the lease component. Such variable nonlease components are reported in net occupancy expense on the Consolidated Statements of Income when paid. These variable nonlease components were excluded from the calculation of the present value of the remaining lease payments, therefore, they are not included in other assets and other liabilities on the Consolidated Balance Sheets. The lease cost associated with the operating leases for the year ending December 31, 2023 and 2022, amounted to $718,000 and $609,000 respectively. The right-of-use asset associated with operating leases amounted to $3,906,000 and $4,109,000 at December 31, 2023 and 2022, respectively. The lease liability associated with operating leases amounted to $4,013,000 and $4,195,000 at December 31, 2023 and 2022, respectively.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease. The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at December 31, 2023.

	Operating
Weighted-average remaining term	**9.5**
Weighted-average discount rate	**2.67%**

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2023, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets:

Undiscounted cash flows due (in thousands)	Operating
2024	**$ 664**
2025	**680**
2026	**524**
2027	**401**
2028	**401**
2029 and thereafter	**2,013**
Total undiscounted cash flows	**4,683**
Discount on cash flows	**670**
Total lease liabilities	**$ 4,013**

Under Topic 842, the lessee can elect to not record on the Consolidated Balance Sheets a lease whose term is twelve months or less and does not include a purchase option that the lessee is reasonably certain to exercise. As of December 31, 2023, the Company had no leases that had a term of twelve months or less.

NOTE 9 – EMPLOYEE BENEFIT PLANS

The Company has a defined contributory profit-sharing plan which includes provisions of a 401(k) plan. The plan permits employees to make pre-tax contributions, not to exceed the limits set by the Internal Revenue Service. The amount of contributions to the plan, including matching contributions, is at the discretion of the Board of Directors. All employees over the age of 21 are eligible to participate in the plan and receive Company contributions after 90 days of employment. Eligible employees are able to contribute to the Plan at the beginning of the first quarterly period after their date of employment. Employee contributions vest immediately, and any Company contributions are fully vested after four years. The Company's contributions are expensed as the cost is incurred, funded currently, and amounted to $1,270,000 and $1,310,000 for the years ended December 31, 2023 and 2022, respectively.

The Company has several non-qualified supplemental executive retirement plans for the benefit of certain executive officers and former officers. At December 31, 2023 and 2022, other liabilities include $3,697,000 and $3,518,000 accrued under the Plan. Compensation expense includes approximately $655,000 and $461,000 relating to the supplemental executive retirement plan for 2023 and 2022, respectively. To fund the benefits under this plan, the Company is the owner of single premium life insurance policies on participants in the non-qualified retirement plan. At December 31, 2023 and 2022, the cash value of these policies was $46,439,000 and $43,364,000, respectively.

The Company provides postretirement benefits in the form of split-dollar life arrangements to employees who meet the eligibility requirements. The net periodic postretirement benefit expense included in salaries and employee benefits was $87,000 and $101,000 for the years ended December 31, 2023 and 2022, respectively.

FASB authoritative guidance on accounting for deferred compensation and postretirement benefit aspects of endorsement split-dollar life insurance arrangements requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance that provides a benefit to an employee that extends to postretirement periods. The life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. This expense is included in the SERP plan expense for 2023 and 2022 discussed above. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the FASB authoritative guidance on employer's accounting for postretirement benefits other than pensions. The accumulated postretirement benefit obligation was $1,818,000 and $1,731,000 at December 31, 2023 and 2022, respectively.

Certain key executives have change in control agreements with the Company. These agreements provide certain potential benefits in the event of termination of employment following a change in control.

The Company participates in the Pentegra Mulitemployer Defined Benefit Pension Plan (EIN 13-5645888 and Plan # 333) as a result of its acquisition of North Penn. As of December 31, 2023 and 2022, the Company's Plan was 102.0% and 106.7% funded, respectively, and total contributions made are not more than 5% of the total contributions to the Plan. The Company's expense related to the Plan was $7,000 in 2023 and $11,000 in 2022. During the plan years ending December 31, 2023 and 2022, the Company made contributions of $7,000 and $11,000, respectively.

As a result of its acquisition of Delaware, the Company is a member of the New York State Bankers Retirement System. Substantially all full-time employees who were former employees of Delaware are covered under this defined benefit pension plan (the "Delaware Plan"). The Company's funding policy is to contribute at least the minimum required contribution annually. Pension cost is computed using the projected unit credit actuarial cost method. Effective December 31, 2012, the Delaware Plan was closed to new participants and accrued benefits were frozen.

The following table sets forth the projected benefit obligation and change in plan assets for the Delaware Plan at December 31:

(in Thousands)		2023		2022
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$**	**(5,747)**	$	(7,622)
Service cost		**—**		—
Interest cost		**(299)**		(216)
Actuarial (gain) loss		**(110)**		1,615
Benefits paid		**464**		476
Benefit obligation at end of year	**$**	**(5,692)**	$	(5,747)
Change in plan assets:				
Fair value of plan assets at beginning of year	**$**	**5,205**	$	7,691
Actual return on plan assets		**315**		(1,933)
Benefits paid		**(544)**		(553)
Fair value of assets at end of year		**4,976**		5,205
Funded status at end of year	**$**	**(716)**	$	(542)

The Delaware Plan paid $464,000 and $476,000 in benefit payments in 2023 and 2022, respectively. Estimated benefit payments under the Delaware Plan are expected to be approximately $457,000, $443,000, $442,000, $433,000 and $422,000 for the next five years. Payments are expected to be approximately $2,040,000 in total for the five-year period ending December 31, 2033. The Company was not required to make any contributions to the Delaware Plan in 2023 or 2022. The decrease in the projected discount rate from 5.44% to 5.18% increased the projected benefit obligation for the year ended December 31, 2023 by approximately $138,000.

The accumulated benefit obligation for the Delaware Plan was $5,692,000 and $5,747,000 at December 31, 2023 and 2022, respectively.

The following table sets forth the amounts recognized in accumulated other comprehensive income (loss) for the years ended December 31 (in thousands):

		2023		2022
Transition asset	**$**	**—**	$	—
Prior service credit		**—**		—
(Loss) gain		**625**		731
Total	**$**	**625**	$	731

Net pension cost (income) included the following components (in thousands):

		2023		2022
Service cost benefits earned during the period	**$**	**—**	$	—
Interest cost on projected benefit obligation		**299**		216
Actual return on assets		**(220)**		(336)
Net amortization and deferral		**(11)**		(53)
Net periodic pension cost (income)	**$**	**68**	$	(173)

The weighted average assumptions used to determine the benefit obligation at December 31 are as follows:

	2023	2022
Discount rate	**5.18 %**	**5.44 %**

The weighted average assumptions used to determine the net periodic pension cost at December 31 are as follows:

	2023	2022
Discount rate	**5.18 %**	**5.44 %**
Expected long-term return on plan assets	**6.50 %**	**6.00 %**
Rate of compensation increase	**— %**	**— %**

The expected long-term return on plan assets was determined based upon expected returns on individual asset types included in the asset portfolio.

The Delaware Plan's weighted-average asset allocations at December 31, by asset category, are as follows:

	2023	2022
Cash equivalents	**0.2 %**	**16.6 %**
Equity securities	**31.5 %**	**25.1 %**
Fixed income securities	**36.1 %**	**21.7 %**
Other	**32.2 %**	**36.6 %**
	100.0 %	**100.0 %**

The New York Bankers Retirement System ("System") overall investment strategy is to invest in a diversified portfolio while managing the variability between the assets and projected liabilities of underfunded pension plans. Substantially all of the System's assets to one fund, Commingled Pensions Trust Fund (LDI Diversified Balanced) of JPMorgan Chase Bank, N.A. ("JPMCBLDI Diversified Balanced Fund" or the "Fund"). The Fund is a collective investment fund managed by the Trustee under the Declaration of Trust. The Trustee is the Fund's manager and makes day-to-day investment decisions for the Fund. The Fund is a group trust within the meaning of Internal Revenue Service Revenue Ruling 81-100, as amended. In reliance upon exemptions from the registration requirements of the federal securities laws, neither the Fund nor the Fund's Units are registered with the Securities and Exchange Commission ("SEC") or any state securities commission. Because the Fund is not subject to registration under federal or state securities laws, certain protections that might otherwise be provided to investors in registered funds are not available to investors in the Fund. However, as a bank-sponsored collective investment trust holding qualified retirement plan assets, the Fund is required to comply with applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Trustee is subject to supervision and regulation by the Office of the Comptroller of the Currency and the Department of Labor.

The Fund employs a liability driven investing ("LDI") strategy for pension plans that are seeking a solution that is balanced between growth and hedging. The Bloomberg Barclays Long A U.S. Corporate Index, the Fund's primary liability-performance benchmark, is used as a proxy for plan projected liabilities. The growth-oriented portion of the Fund invests in a mix of asset classes that the Fund's Trustee believes will collectively maximize total risk-adjusted return through a combination of capital appreciation and income. This portion of the Fund will comprise between 35% and 90% of the portfolio and will invest directly or indirectly via underlying funds in a broad mix of global equity, credit, global fixed income, real estate and cash-plus strategies. The remaining portion of the Fund, between 10% and 65% of the portfolio, provides exposure to U.S. long duration fixed income and is used to minimize volatility relative to a plan's projected liabilities. This portion of the Fund will invest directly or indirectly via underlying funds in investment grade corporate bonds and securities issued by the U.S. Treasury and its agencies or instrumentalities.

At December 31, 2023 and 2022, the portfolio was substantially managed by one investment firm who manages approximately 98% and 96%, respectively, of the System's assets. Also, at December 31, 2023 and 2022, approximately $2.6 million and $7.0 million, respectively, of System's assets in the short-term investment fund (STIF) account had not yet been allocated to an investment firm, nor deployed for benefit payments or expenses.

At December 31, 2023 and 2022, the System had an investment concentration of approximately 98% and 96%, respectively, of its total portfolio in the JPMCB LDI Diversified Balanced Fund, a commingled pension trust fund managed by one investment firm..

NOTE 10 - INCOME TAXES

The components of the provision for federal income taxes are as follows:

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
Current	**$ 3,804**	$ 6,733
Deferred	**583**	419
	$ 4,387	$ 7,152

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for tax reporting and financial statement purposes, principally because certain items, such as the allowance for credit losses and loan fees are recognized in different periods for financial reporting and tax return purposes. As of December 31, 2023, the Company had a $3,176,000 net operating loss carryforward that will begin to expire by December 31, 2035. A valuation allowance has not been established for deferred tax assets. Realization of the deferred tax assets is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. Deferred tax assets are recorded in other assets.

Income tax expense of the Company is less than the amounts computed by applying statutory federal income tax rates to income before income taxes because of the following:

	Percentage of Income Before Income Taxes	
	Years Ended December 31,	
	2023	**2022**
Tax at statutory rates	**21.0 %**	21.0 %
Tax exempt interest income, net of interest expense disallowance	**(2.0)**	(1.6)
Earnings and proceeds on life insurance	**(0.7)**	(0.6)
Other	**2.4**	0.9
	20.7 %	19.7 %

The net deferred tax asset included in other assets in the accompanying Consolidated Balance Sheets includes the following amounts of deferred tax assets and liabilities:

	2023	**2022**
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	**$ 4,447**	$ 3,985
Deferred compensation	**867**	834
Core deposit intangible	**175**	204
Pension liability	**282**	267
Foreclosed real estate valuation allowance	**—**	19
Net operating loss carryforward	**745**	829
Purchase price adjustment	**1,278**	1,779
Net unrealized loss on securities	**12,717**	15,399
Other	**3,447**	2,838
Total Deferred Tax Assets	**23,958**	26,154
Deferred tax liabilities:		
Premises and equipment	**1,047**	1,085
Deferred loan fees	**1,427**	1,366
Net unrealized gain on pension liability	**131**	154
Total Deferred Tax Liabilities	**2,605**	2,605
Net Deferred Tax Asset	**$ 21,353**	$ 23,549

The Company's federal and state income tax returns for taxable years through 2020 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

NOTE 11 - REGULATORY MATTERS AND STOCKHOLDERS' EQUITY

The Company and Bank are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company'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 regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1 and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2023 and 2022, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2023, the most recent notification from the regulators has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2023:						
Total capital (to risk-weighted assets)	**$ 217,528**	**13.06 %**	**≥$133,240**	**≥8.00%**	**≥$166,550**	**≥10.00%**
Tier 1 capital (to risk-weighted assets)	**199,772**	**11.99**	**≥$99,930**	**≥6.00**	**≥$133,240**	**≥8.00**
Common Equity Tier 1 capital (to risk-weighted assets)	**198,264**	**11.99**	**≥$74,947**	**≥4.50**	**≥$108,257**	**≥6.50**
Tier 1 capital (to average assets)	**199,772**	**9.00**	**≥$88,769**	**≥4.00**	**≥$110,961**	**≥5.00**
As of December 31, 2022:						
Total capital (to risk-weighted assets)	$ 211,055	13.58 %	≥$124,303	≥8.00%	≥$155,379	≥10.00%
Tier 1 capital (to risk-weighted assets)	194,124	12.49	≥$93,228	≥6.00	≥$124,303	≥8.00
Common Equity Tier 1 capital (to risk-weighted assets)	194,124	12.49	≥$69,921	≥4.50	≥$100,997	≥6.50
Tier 1 capital (to average assets)	194,124	9.36	≥$82,934	≥4.00	≥$103,668	≥5.00

The Bank's ratios do not differ significantly from the Company's ratios presented above.

The Company and the Bank are subject to regulatory capital rules which, among other things, impose a common equity Tier 1 minimum capital requirement of 4.50% of risk-weighted assets; set the minimum leverage ratio for all banking organizations at a uniform 4.00% of total assets; set the minimum Tier 1 capital to risk-based assets requirement at 6.00% of risk-weighted assets; and assign a risk-weight of 150% to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also require unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt out is exercised, which the Company and the Bank have done. The rule also limits a banking organization's dividends, stock repurchases and other capital distributions, and certain discretionary bonus payments to executive officers, if the banking organization does not hold a "capital conservation buffer" consisting of 2.50% of common equity Tier 1 capital to risk-weighted assets above regulatory minimum risk-based requirements. The Company and the Bank are in compliance with their respective new capital requirements, including the capital conservation buffer, as of December 31, 2023.

Pennsylvania banking regulations limit the ability of the Bank to pay dividends or make loans or advances to the Company. Dividends that may be paid in any calendar year are limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2023, dividends from the Bank available to be paid to the Company, without prior approval of the Bank's regulatory agency, totaled $53.0 million, subject to the Bank meeting or exceeding regulatory capital requirements. The Company's principal source of funds for dividend payments to shareholders is dividends received from the Bank.

NOTE 12 - STOCK BASED COMPENSATION

At the Annual Meeting held on April 22, 2014, the Company's stockholders approved the Norwood Financial Corp 2014 Equity Incentive Plan. An aggregate of 375,000 shares of authorized but unissued Common Stock of the Company were reserved for future issuance under the Plan. This includes up to 60,000 shares for awards to outside directors. The Plan also authorized the Company to award restricted stock to officers and outside directors, limited to 63,000 shares of restricted stock awards for officers and 12,000 shares of restricted stock awards for outside directors. At the Annual Meeting held on April 24, 2018, the Company's stockholders approved an amendment to the 2014 Equity Incentive Plan to ease certain restrictions on restricted stock awards to outside directors. As a result of this amendment, the number of shares available for restricted stock awards to officers was reduced by 300 shares to 62,700, while the number of shares available for restricted stock awards to outside directors was increased by 20,300 to 32,300 shares. At the Annual Meeting held on April 26, 2022, the Company's stockholders approved an amendment to the 2014 Equity Incentive Plan to increase the number of shares available for awards. As a result of this amendment, the number of shares available for stock awards to officers was increased by 60,000 shares, including 40,000 shares for restricted stock awards, while the number of shares available for stock awards to outside directors was increased by 40,000 shares, including 30,000 shares for restricted stock awards. Under this plan, the Company has granted 418,432 shares, which included 270,866 options to employees, 10,400 options to directors, 86,591 shares of restricted stock to officers and 50,575 shares of restricted stock to directors. The restricted shares vest over five years. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted stock under the company's restricted stock plan. Management recognizes compensation expense for the fair value of restricted stock on a straight-line basis over the requisite service period for the entire award. As of December 31, 2023, there were 56,569 shares available for future awards under this plan, which includes 17,544 shares available for officer awards and 39,025 shares available for awards to outside directors. Included in these totals are 16,109 shares available for restricted stock awards to officers and 11,725 shares available for restricted stock awards to outside directors.

Total unrecognized compensation cost related to stock options was $346,000 as of December 31, 2023 and $382,000 as of December 31, 2022. Salaries and employee benefits expense includes $401,000 and $269,000 of compensation costs related to options for the years ended December 31, 2023 and 2022, respectively. Compensation costs related to restricted stock amounted to $429,000 and $372,000 for the years ended December 31, 2023 and 2022, respectively. The expected future compensation expense relating to non-vested restricted stock outstanding as of December 31, 2023 and 2022 was $1,356,000 and $1,294,000, respectively.

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	2023			2022		
	Options	**Weighted Average Exercise Price**	**Intrinsic Value**	**Options**	**Weighted Average Exercise Price**	**Intrinsic Value**
Outstanding, beginning of year	**218,975**	**$ 26.70**		226,075	$ 26.37	
Granted	**41,000**	**29.66**		38,000	33.53	
Exercised	**(38,000)**	**23.30**		(34,425)	19.08	
Forfeited	**(6,250)**	**29.16**		(10,675)	27.56	
Outstanding, end of year	**215,725**	**$ 29.81**	**$ 759**	218,975	$ 26.70	$ 1,100
Exercisable, end of year	**174,725**	**$ 29.85**	**$ 626**	180,975	$ 27.68	$ 1,100

Exercise prices for options outstanding as of December 31, 2023 ranged from $19.03 to $36.02 per share. The weighted average remaining contractual life is 6.9 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years Ended December 31, 2023	2022
Dividend yield	**3.59%**	3.57%
Expected life	**10 years**	10 years
Expected volatility	**35.09%**	35.01%
Risk-free interest rate	**3.88%**	3.87%
Weighted average fair value of options granted	**$ 8.90**	$ 10.06

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Proceeds from stock option exercises totaled $886,000 in 2023. Shares issued in connection with stock option exercises are issued from available treasury shares or from available authorized shares. During 2023, for the shares issued in connection with stock option exercises, 38,000 shares in total, all shares were issued from treasury shares.

As of December 31, 2023, outstanding stock options consist of the following:

	Options Outstanding	Exercise Price	Remaining Life, Years	Options Exercisable	Exercise Price
	4,125	**$ 19.39**	**1.0**	**4,125**	**$ 19.39**
	7,125	**19.03**	**1.9**	**7,125**	**19.03**
	10,125	**22.37**	**3.0**	**10,125**	**22.37**
	23,750	**32.81**	**4.0**	**23,750**	**32.81**
	20,600	**32.34**	**5.0**	**20,600**	**32.34**
	22,500	**36.02**	**6.0**	**22,500**	**36.02**
	23,500	**26.93**	**7.0**	**23,500**	**26.93**
	1,000	**26.35**	**7.3**	**1,000**	**26.35**
	1,000	**25.38**	**7.5**	**1,000**	**25.38**
	27,500	**25.80**	**8.0**	**27,500**	**25.80**
	33,500	**33.53**	**9.0**	**33,500**	**33.53**
	2,500	**29.60**	**9.2**		
	38,500	**29.66**	**10.0**		
Total	**215,725**			**174,725**	

A summary of the Company's restricted stock activity and related information for the years ended December 31 is as follows:

	2023		2022	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested, beginning of year	**44,460**	**$30.12**	32,030	$26.76
Granted	**19,446**	**29.66**	23,000	30.25
Vested	**(15,090)**	**30.20**	(10,570)	30.89
Forfeited	**(2,850)**	**30.15**	—	—
Non-vested at December 31	**45,966**	**$29.90**	44,460	$30.12

NOTE 13 - EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings per share:

	Years Ended December 31, 2023	2022
	(In Thousands, Except Per Share Data)	
Numerator, net income	**$ 16,759**	$ 29,233
Denominator:		
Weighted average shares outstanding	**8,105**	8,174
Less: Weighted average unvested restricted shares	**(43)**	(37)
Denominator: Basic earnings per share	**8,062**	8,137
Weighted average shares outstanding, basic	**8,062**	8,137
Add: Dilutive effect of stock options and restricted stock	**22**	40
Denominator: Diluted earnings per share	**8,084**	8,177
Basic earnings per common share	**$ 2.08**	$ 3.59
Diluted earnings per common share	**$ 2.07**	$ 3.58

Stock options which had no intrinsic value because their effect would be anti-dilutive, and therefore would not be included in the diluted EPS calculation, were 56,000 and 60,500 for the years ended December 31, 2023 and 2022, respectively, based on the closing price of the Company's common stock which was $32.91 and $33.44 as of December 31, 2023 and 2022, respectively.

NOTE 14 - OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

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

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

	December 31, 2023	December 31, 2022
	(In Thousands)	
Commitments to grant loans	**$ 72,625**	$ 90,379
Unfunded commitments under lines of credit	**154,339**	149,883
Standby letters of credit	**8,336**	15,052
	$ 235,300	$ 255,314

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit when deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

NOTE 15 – INTEREST RATE SWAPS

The Company enters into interest rate swaps that allow our commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate into a fixed-rate. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are not marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820. There was no effect on earnings in any periods presented. At December 31, 2023, based upon the swap contract values, the company pledged cash in the amount of $350,000 as collateral for its interest rate swaps with a third-party financial institution which had a fair value $1,225,000.

Summary information regarding these derivatives is presented below:

(Amounts in thousands)

	Notional Amount, December 31, 2023	Notional Amount, December 31, 2022	Interest Rate Paid	Interest Rate Received	Fair Value December 31, 2023	Fair Value December 31, 2022
Customer interest rate swap						
Maturing November, 2030	$ **6,145**	$ 6,513	Term SOFR + Margin	Fixed	$ **746**	$ 889
Maturing December, 2030	**4,032**	4,297	Term SOFR + Margin	Fixed	**479**	575
Total	$ **10,177**	$ 10,810			$ **1,225**	$ 1,464
Third party interest rate swap						
Maturing November, 2030	$ **6,145**	$ 6,513	Fixed	Term SOFR + Margin	$ **746**	$ 889
Maturing December, 2030	**4,032**	4,297	Fixed	Term SOFR + Margin	**479**	575
Total	$ **10,177**	$ 10,810			$ **1,225**	$ 1,464

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

(Amounts in thousands)

	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
December 31, 2023				
Interest rate derivatives	Other assets	$ **1,225**	Other liabilities	$ **1,225**
December 31, 2022				
Interest rate derivatives	Other assets	1,464	Other liabilities	$ 1,464

NOTE 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022 are as follows (in thousands):

Description	Fair Value Measurement Reporting Date using Total	Level 1	Level 2	Level 3
December 31, 2023				
ASSETS				
U.S. Treasury securities	**$ 53,600**	**$ —**	**$ 53,600**	**$ —**
U.S. Government agencies	**15,996**	**—**	**15,996**	**—**
States and political subdivisions	**129,479**	**—**	**129,479**	**—**
Mortgage-backed securities-government sponsored entities	**207,184**	**—**	**207,184**	**—**
Interest rate derivatives	**1,225**	**—**	**1,225**	**—**
LIABILITIES				
Interest rate derivatives	**1,225**	**—**	**1,225**	**—**
December 31, 2022				
ASSETS				
U.S. Treasury securities	$ 41,854	$ —	$ 41,854	$ —
U.S. Government agencies	18,323	—	18,323	—
States and political subdivisions	127,852	—	127,852	—
Mortgage-backed securities-government sponsored entities	230,898	—	230,898	—
Interest rate derivatives	1,464	—	1,464	—
LIABILITIES				
Interest rate derivatives	1464	—	1464	—

Securities:

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

Interest Rate Swaps:

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

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

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022 are as follows (in thousands):

	Fair Value Measurement Reporting Date using			
Description	Total	Level 1	Level 2	Level 3
December 31, 2023				
Individually analyzed loans held for investment	**$ 7,487**	**$ —**	**$ —**	**$ 7,487**
Foreclosed real estate	**97**	**—**	**—**	**97**
December 31, 2022				
Impaired loans	$ 413	$ —	$ —	$ 413
Foreclosed real estate	346	—	—	346

Individually Analyzed loans (generally carried at fair value):

The Company measures impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the lowest level of input that is significant to the fair value measurements.

As of December 31, 2023, the fair value investment in individually analyzed loans totaled $7,487,000, which included 28 loan relationships with a carrying value of $7,069,000 that did not require a specific allowance for credit loss since either the estimated realizable value of the collateral or the discounted cash flows exceeded the recorded investment in the loan. As of December 31, 2023, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of $5,277,000 over the life of the loans. As of December 31, 2023, the fair value investment in individually analyzed loans included 21 loan relationships with a carrying value of $553,000 that required a valuation allowance of $135,000 since the estimated realizable value of the collateral did not support the recorded investment in the loan. As of December 31, 2023, the Company has recognized charge-offs against the allowance for credit losses on these individually analyzed loans in the amount of $0 over the life of the loan

As of December 31, 2022, the fair value investment in impaired loans totaled $413,000, which included two loan relationships with a carrying value of $413,000 that did not require a valuation allowance since either the estimated realizable value of the collateral or the discounted cash flows exceeded the recorded investment in the loan. As of December 31, 2022, the Company has recognized charge-offs against the allowance for loan losses on these impaired loans in the amount of $0 over the life of the loans. As of December 31, 2022, the fair value investment in impaired loans included one loan relationships with a carrying value of $50,000 that required a valuation allowance of $50,000 since the estimated realizable value of the collateral did not support the recorded investment in the loan. As of December 31, 2022, the Company has recognized charge-offs against the allowance for loan losses on this impaired loan in the amount of $0 over the life of the loan.

Foreclosed real estate owned (carried at fair value):

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

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

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

	Quantitative Information about Level 3 Fair Value Measurements				
(dollars in thousands)		**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
December 31, 2022					
Impaired loans	$	413	Appraisal of collateral(1)	Appraisal adjustments(2)	0%-10.0% (8.92%)
Foreclosed real estate owned	$	346	Appraisal of collateral(1)	Liquidation Expenses(2)	7.00% (7.00%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less any associated allowance.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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

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

The estimated fair values of the Bank's financial instruments not required to be measured or reported at fair value were as follows at December 31, 2023 and December 31, 2022. (In thousands):

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

	Fair Value Measurements at December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents (1)	$ 31,866	$ 31,866	$ 31,866	$ —	$ —
Loans receivable, net	1,456,946	1,418,300	—	—	1,418,300
Mortgage servicing rights	213	498	—	—	498
Regulatory stock (1)	5,418	5,418	5,418	—	—
Bank owned life insurance (1)	43,364	43,364	43,364	—	—
Accrued interest receivable (1)	6,917	6,917	6,917	—	—
Financial liabilities:					
Deposits	1,727,727	1,727,184	1,223,958	—	503,226
Short-term borrowings (1)	93,215	93,215	93,215	—	—
Other borrowings	40,000	40,074	—	—	40,074
Accrued interest payable (1)	2,653	2,653	2,653	—	—
Off-balance sheet financial instruments:					
Commitments to extend credit and outstanding letters of credit	—	—	—	—	—

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

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the changes in accumulated other comprehensive income (loss) (in thousands) by component, net of tax, for the years ended December 31, 2023 and 2022:

	Unrealized gains on available for sale securities (a)	Unrealized gain on pension liability (a)	Total (a)
Balance as of December 31, 2022	**$ (57,931)**	**$ 578**	**$ (57,353)**
Other comprehensive income (loss) before reclassification	**9,924**	**(84)**	**9,840**
Amount reclassified from accumulated other comprehensive loss	**165**	**—**	**165**
Total other comprehensive income	**10,089**	**(84)**	**10,005**
Balance as of December 31, 2023	**$ (47,842)**	**$ 494**	**$ (47,348)**

	Unrealized gains on available for sale securities (a)	Unrealized gain on pension liability (a)	
Balance as of December 31, 2021	$ (1,453)	$ 1,197	$ (256)
Other comprehensive income (loss) before reclassification	(56,476)	(619)	(57,095)
Amount reclassified from accumulated other comprehensive loss	(2)	—	(2)
Total other comprehensive loss	(56,478)	(619)	(57,097)
Balance as of December 31, 2022	$ (57,931)	$ 578	$ (57,353)

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

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the years ended December 31, 2023 and 2022:

Details about other comprehensive income	Amount Reclassified From Accumulated Other Comprehensive Income (a)		Affected Line Item in Consolidated Statements of Income
	Twelve months ended December 31, 2023	Twelve months ended December 31, 2022	
Unrealized gains on available for sale securities	**$ (209)**	$ 3	Net realized gains on sales of securities
	44	(1)	Income tax expense
	$ (165)	$ 2	

(a) Amounts in parentheses indicate debits to net income.

NOTE 18 - NORWOOD FINANCIAL CORP (PARENT COMPANY ONLY) FINANCIAL INFORMATION

BALANCE SHEETS

	December 31, 2023	December 31, 2022
	(In Thousands)	
ASSETS		
Cash on deposit in bank subsidiary	$ 1,699	$ 3,938
Investment in bank subsidiary	180,508	164,248
Other assets	2,666	2,365
Total assets	$ 184,873	$ 170,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ 3,803	$ 3,466
Stockholders' equity	181,070	167,085
Total liabilities and stockholders' equity	$ 184,873	$ 170,551

STATEMENTS OF INCOME

	Years Ended December 31, 2023	Years Ended December 31, 2022
Income:	(In Thousands)	
Dividends from bank subsidiary	$ 9,483	$ 13,228
Expenses	834	743
	8,649	12,485
Income tax benefit	(245)	(219)
	8,894	12,704
Equity in undistributed earnings of subsidiary	7,865	16,529
Net Income	$ 16,759	$ 29,233
Comprehensive Income (Loss)	$ 26,764	$ (27,864)

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	Years Ended December 31, 2022
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 16,759	$ 29,233
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Undistributed earnings of bank subsidiary	(7,865)	(16,529)
Other, net	398	607
Net Cash Provided by Operating Activities	9,292	13,311
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock options exercised	886	657
Sale of treasury stock for ESOP	100	132
Acquisition of treasury stock	(3,100)	(2,515)
Cash dividends paid	(9,417)	(9,158)
Net Cash Used in Financing Activities	(11,531)	(10,884)
Net (Decrease) Increase in Cash and Cash Equivalents	(2,239)	2,427
CASH AND CASH EQUIVALENTS - BEGINNING	3,938	1,511
CASH AND CASH EQUIVALENTS - ENDING	$ 1,699	$ 3,938

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

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

(b) ***Internal Control over Financial Reporting.*** Management's Report on Internal Control over Financial Reporting is included in this Annual Report on Form 10-K under Item 8.

(c) ***Changes in Internal Control over Financial Reporting***. There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information contained under the sections captioned "Proposal I - Election of Directors" and "Corporate Governance" in the Proxy Statement for the 2024 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller. The Code of Ethics is posted on the stockholder services page of Wayne Bank's website at www.waynebank.com/stockholder-services. The Company intends to report any waiver or amendment to its Code of Ethics on its website at www.waynebank.com/stockholder-services.

Item 11. Executive Compensation.

The information contained under the sections captioned "Executive Compensation" and "Director Compensation" in the Proxy Statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

(a)**Security Ownership of Certain Beneficial Owners**

Information required by this item is incorporated herein by reference to the Section captioned "Principal Holders of Our Common Stock" of the Proxy Statement.

(b)**Security Ownership of Management**

Information required by this item is incorporated herein by reference to the section captioned "Proposal I - Election of Directors" of the Proxy Statement.

(c)**Changes in Control**

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d)**Equity Compensation Plan Information**

EQUITY COMPENSATION PLAN INFORMATION

	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights*	(b) Weighted-average exercise price of outstanding options, warrants and rights *	(c) Number of securities remaining available for future issuance under equity compensation plans, (excluding securities reflected in column (a)) *
Equity compensation plans approved by security holders:			
2014 Equity Incentive Plan, as amended	215,725	$ 29.81	56,569
Equity compensation plans not approved by security holders:.			
None	—	—	—
TOTAL	215,725	$ 29.81	56,569

* Share and per share data adjusted for the 50% stock dividend declared on August 8, 2017.

(1) The second amendment to the 2014 Equity Incentive Plan, which increased the total shares available for stock awards by 100,000 shares, was approved by the stockholders of the Company at the Annual Meeting of Stockholders on April 26, 2022.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated herein by reference to the sections in the Proxy Statement captioned "Related Party Transactions" and "Corporate Governance".

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section in the Proxy Statement captioned "Proposal III -Ratification of Appointment of Independent Auditors."

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)Listed below are all financial statements, schedules and exhibits filed as part of this Annual Report on Form 10-K.

1.The consolidated balance sheets of Norwood Financial Corp and subsidiary as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2023, together with the related notes and the independent registered public accounting firm reports of S.R. Snodgrass, P.C. (PCAOB: 00074), independent registered public accounting firm.

2.Schedules omitted as they are not applicable.

3. The following exhibits are filed as part of the Form 10-K

No.	Description
3(i)	Amended and Restated Articles of Incorporation of Norwood Financial Corp (8)
3(ii)	Bylaws of Norwood Financial Corp
4.1	Specimen Stock Certificate of Norwood Financial Corp (1)
4.2	Description of Capital Stock of Norwood Financial Corp (10)
10.2†	Change in Control Severance Agreement with William S. Lance (2)
10.11†	2014 Equity Incentive Plan, as amended (4)
10.12†	Addendum to Change in Control Severance Agreement with William S. Lance (5)
10.13†	Salary Continuation Agreement, dated September 1, 2017, between Wayne Bank and William S. Lance (3)
10.15†	Change-In-Control Severance Agreement, dated February 14, 2022, by and among Norwood Financial Corp, Wayne Bank, and Vincent G. O'Bell (14)
10.16†	Change-In-Control Severance Agreement, dated January 16, 2018, by and among Norwood Financial Corp, Wayne Bank, and John F. Carmody (6)
10.17†	Addendum, dated January 16, 2018, to Change-In-Control Severance Agreement, dated March 2, 2010, by and among Norwood Financial Corp, Wayne Bank and William S. Lance (6)
10.19	Wayne Bank Executive Annual Incentive Plan (9)
10.20	Salary-Continuation Agreement dated March 1, 2021, between Wayne Bank and John F. Carmody (7)
10.21	First Amendment to Salary-Continuation Agreement dated January 24, 2023, between Wayne Bank and William S. Lance (15)
10.22	Addendum to Change in Control Severance Agreement dated January 20, 2023 with William S. Lance (16)
10.23	Employment Agreement dated May 9, 2022, by and among Norwood Financial Corp, Wayne Bank and James O Donnelly (11)
10.24	Stock Award Agreement dated May 10, 2022, between Norwood Financial Corp and James O. Donnelly (12)
10.25	Salary-Continuation Agreement dated May 10, 2022, between Wayne Bank and James O. Donnelly (14)
19	Norwood Financial Corp Insider Trading Policy
21	Subsidiaries of Norwood Financial Corp
23	Consent of S.R. Snodgrass, P.C.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of Sarbanes Oxley Act of 2002
97	Norwood Financial Corp Incentive-Based Compensation Recovery Policy
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2023, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

†	Management contract or compensatory plan or arrangement.

(1)	Incorporated herein by reference into this document from the identically numbered Exhibit to the Company's Form 10, Registration Statement initially filed in paper with the Commission on April 29, 1996, Registration No. 0-28364.
(2)	Incorporated herein by reference from the identically numbered exhibits to the Company's Form 10-K filed with the Commission on March 15, 2010.
(3)	Incorporated by reference from the exhibits to the Current Report on Form 8-K filed with the Commission on September 5, 2017.
(4)	Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-266622) filed with the Commission on August 8, 2022.
(5)	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2015.
(6)	Incorporated by reference into this document from the exhibits to the Company's Current Report on Form 8-K filed with the Commission on January 16, 2018
(7)	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 2, 2021, (File No. 0-28364).
(8)	Incorporated herein by reference from the identically numbered exhibit to the Company's Form 10-K filed with the Commission on March 13, 2020.
(9)	Incorporated herein by reference from the identically numbered exhibit to the Company's Form 10-K filed with the Commission on March 13, 2020.
(10)	Incorporated herein by reference from the identically numbered exhibit to the Company's Form 10-K filed with the Commission on March 9, 2021.
(11)	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 12, 2022, (File No. 0-28364).
(12)	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on May 12, 2022, (File No. 0-28364).
(13)	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on May 12, 2022, (File No. 0-28364).
(14)	Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K filed with the Commission on March 11, 2022, (File No. 0-28364).
(15)	Incorporated herein by reference from the identically numbered exhibit to the Company's Form 10-K filed with the Commission on March 17, 2023
(16)	Incorporated herein by reference from the identically numbered exhibit to the Company's Form 10-K filed with the Commission on March 17, 2023

<u>Item 16. Form 10-K Summary</u>

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORWOOD FINANCIAL CORP

Dated: March 14, 2024

By: /s/ James O. Donnelly
James O. Donnelly
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 14, 2024 on behalf of the registrant and in the capacities indicated.

/s/ James O. Donnelly
James O. Donnelly
President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Lewis J. Critelli
Lewis J. Critelli
Director

/s/ Andrew A. Forte
Dr. Andrew A. Forte
Director

/s/ Susan Campfield
Susan Campfield
Director

/s/ Joseph W. Adams
Joseph W. Adams
Director

/s/ Kevin M. Lamont
Kevin M. Lamont
Director

/s/ Ralph A. Matergia
Ralph A. Matergia
Director

/s/ Kenneth A. Phillips
Dr. Kenneth A. Phillips
Director

/s/ Jeffrey S. Gifford
Jeffrey S. Gifford
Director

/s/ Alexandra K. Nolan
Alexandra K. Nolan
Director

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

/s/ Meg L. Hungerford
Meg L. Hungerford
Director

DIRECTORY OF OFFICERS

NORWOOD FINANCIAL CORP

Lewis J. Critelli....................................Chairman of the Board
Dr. Andrew A. Forte ....Vice Chairman of the Board
James O. Donnelly.... President & Chief Executive Officer, CEO

WAYNE BANK

Lewis J. Critelli....................................Chairman of the Board
Dr. Andrew A. Forte ....Vice Chairman of the Board
James O. Donnelly.........President and Chief Executive Officer
William S. Lance ....Executive Vice President, Chief Financial Officer & Secretary
John F. Carmody ....Executive Vice President, Chief Credit Officer
Vincent G. O'Bell ....Executive Vice President, Chief Lending Officer
Scott D. White ....President, Bank of Cooperstown
Steven R. Daniels .... Senior Vice President, Director of Consumer Banking
Ryan J. French .... Senior Vice President, Director of Human Resources
Joseph J. Mahon .... Senior Vice President, Finger Lakes Commercial Loan Team Leader
Diane M. Wylam .... Senior Vice President, Senior Trust Officer
Nancy A. Hart .... Senior Vice President, Controller, Director of Operations, & Assistant Secretary
Tracie A. Young..................................... Senior Vice President, Director of Risk
Thomas A. Byrne ....Senior Vice President
Joseph A. Castrogiovanni ....Senior Vice President
Kenneth C. Doolittle ....Senior Vice President
Paul Dunda ....Senior Vice President
John P. Ford ....Senior Vice President
Karen R. Gasper ....Senior Vice President
Donna R. Gizenski ....Senior Vice President
Amanda Hall ....Senior Vice President
James M. King ....Senior Vice President
Julie R. Kuen ....Senior Vice President
Linda D. Mader ....Senior Vice President
Scott C. Rickard....................................Senior Vice President
Barbara A. Ridd ....Senior Vice President & Assistant Secretary
Michael Rollison ....Senior Vice President
Kara R. Suchy..Senior Vice President
John D. Veleber ....Senior Vice President
Gerald R. Arnese .... Vice President
Douglas W. Atherton .... Vice President
John M. Baker .... Vice President
Derek C. Bellinger .... Vice President
Paul A. Catan .... Vice President
Francis E. Crowley .... Vice President
Ronald P. DePasquale .... Vice President
Jillian E. Guenther .... Vice President
Jill A. Hessling .... Vice President
Annette A. Jurkowski .... Vice President
John W. Karavis .... Vice President
John E. Koczwara .... Vice President
Paul J. Kosiba .... Vice President
Kristen E. Lancia .... Vice President
Steven P. Lauer .... Vice President
Kyle Liner .... Vice President
Bernyce A. Maltman .... Vice President
Gerry Moore .... Vice President
Matthew Murphy .... Vice President
Andrew B. Rice .... Vice President
Christine Routledge .... Vice President
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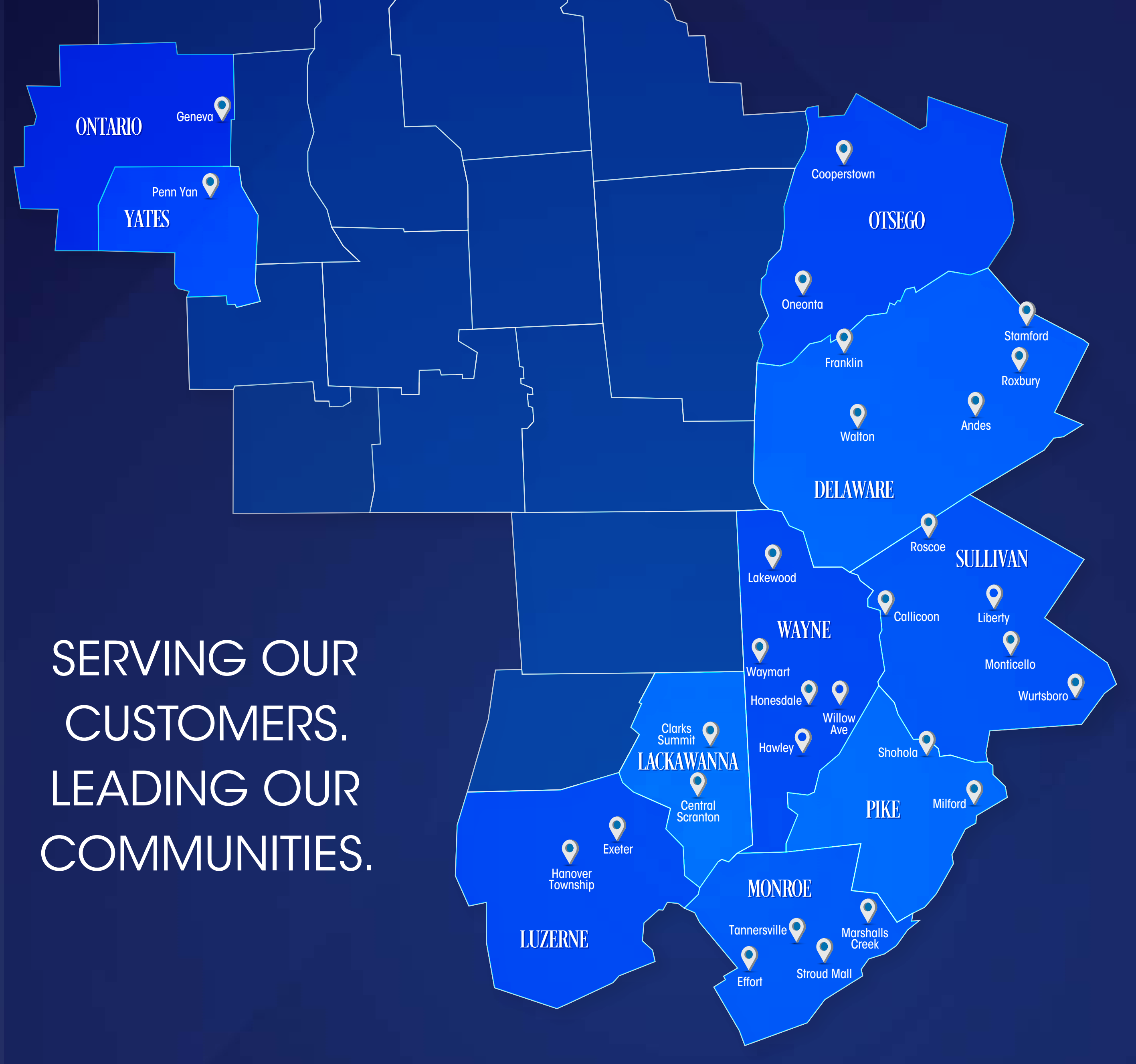
Tanyia Vannatta .... Vice President

NORWOOD INVESTMENT CORP

James O. Donnelly............President & Chief Executive Officer
William S. Lance ....Treasurer
Scott C. Rickard .... Investment Executive, LPL Financial



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Hawley, PA
Honesdale, PA
Lakewood, PA
Waymart, PA
Willow Avenue (Honesdale), PA

LACKAWANNA COUNTY
Central Scranton, PA
Clarks Summit, PA

MONROE COUNTY
Effort, PA
Marshalls Creek, PA
Stroud Mall (Stroudsburg), PA
Tannersville, PA

LUZERNE COUNTY
Hanover Township, PA
Exeter, PA

PIKE COUNTY
Milford, PA
Shohola, PA

DELAWARE COUNTY
Andes, NY
Franklin, NY
Roxbury, NY
Stamford, NY
Walton, NY

SULLIVAN COUNTY
Callicoon, NY
Liberty, NY
Monticello, NY
Roscoe, NY
Wurtsboro, NY

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