

**STRENGTH
STABILITY
COMMUNITY**

2023 ANNUAL REPORT



**EMBASSY
BANCORP, INC.**

Corporate Information

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President, zAxis Corporation*

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Member/Partner, Lesavoy Butz & Seitz LLC

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Embassy Bancorp, Inc. and
Embassy Bank for the Lehigh Valley*

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Owner, GatesSmith Consulting

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*CEO, The Yurconic Agency
President, Insurance Premium Financing, Inc.*

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Marketing, & Retail Banking*

Lynne M. Neel

*Sr. Executive Vice President & Assistant Secretary,
Deposit Operations, Electronic Banking, Finance,
Investor Relations, & Loan Operations*

Michael B. Macy

*Executive Vice President, Chief Lending Officer-
Business Banking*

Jeffrey C. Skumin

Executive Vice President, Finance

Brandi L. Stefanov

Executive Vice President, Branch Administration

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*Executive Vice President, Chief Lending Officer-
Retail Banking*

Officers

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Tracy A. Barker, Bank Secrecy Officer

Michelle L. Barron, Electronic Banking & Deposit Operations

Desty A. Bonstein, Private Banking

Taryn M. Burgess, Retail Lending

Mark A. Casciano, Strategic Initiatives

Antonio A. Dias, Deposit Operations & Electronic Banking

Scott A. Karwacki, Credit Analysis

Michael N. Lahanas, Business Lending

Tracy L. McCarthy, Loan Operations

Joellen D. Repsher, Business Solutions

Brian M. Sabol, Business Lending

Jason S. Sickels, Information Security & Technology

Laura A. Suplee, Controller-Finance

Kristin A. Wannisky, Marketing

Timothy P. Woodbridge, Business Lending

Vice Presidents

John Andronis, Business Lending

Sarah Bascuas, Assistant Bank Secrecy Officer

Gina P. Franco, Retail Lending

Michael Geiger, Branch Administration

Gary H. Guthrie, Business Lending

Mark Haldaman, Business Lending

Bryan D. Lobach, Business Development

Jill Miller, Branch Administration

Krystal A. Salce, Credit Analysis

Heather Seifert, Retail Lending

Maria P. Smith, Branch Administration

Amanda Tibak, Credit Analysis

Janelle D. Vasvari, Branch Administration

Cathy Yost, Business Lending

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Justen Bennett, Branch Administration

Megan Curry, Loan Operations

Steven M. Green, Team Culture

Shawna Haydt, Branch Administration

Brian Ladley, Business Lending

Lisa A. Rex, Retail Lending

Mirta Rodriguez, Retail Lending

Karissa Stewart, Business Lending

Debra A. Young, Business Solutions

Assistant Treasurers

Kristy Berger, Branch Administration

Melina Fasy, Electronic Banking

Sarah Frey, Branch Administration

Jennifer Mast, Deposit Operation

Maria McGill, Electronic Banking

Kevin Moralis, Retail Banking-Technology

Andrea Reinert, Finance

Terra Roper, Branch Administration

Marissa Williams, Branch Administration



May 6, 2024

Dear Shareholder,

On behalf of the Board of Directors and the leadership of Embassy Bancorp, Inc., I would like to share our 2023 results with you at our Annual Meeting of Shareholders on June 20, 2024. It is my privilege to serve as Chairman and Chief Executive Officer, and I appreciate the responsibility and trust you have placed in our team to lead the Bank's future growth and allow us to run the Bank for the long term.

We will once again host our annual meeting virtually via webcast to summarize our results and successes as in the past.

The virtual location for the online meeting/webcast is **meetnow.global/M94NQZ4**, hosted on Thursday, June 20, 2024, at 5:30 p.m. EDT. To access the webcast, you will need to enter your proxy card control number.

In order for management to thoroughly consider and answer any question that you may have about the Company or our annual meeting materials, including our financial statements, and to ensure an efficient meeting in light of our virtual format, **we invite you to submit your questions, in writing, by June 13, 2024.** Management will endeavor to address your questions within the presentation.

Please **submit questions by mail or email, clearly marked "Question for Annual Meeting," noting your full name and send to:**

Judith A. Hunsicker, Secretary
100 Gateway Drive, Suite 310
Bethlehem, Pennsylvania 18017
or jhunsicker@embassybank.com

We look forward to meeting with you virtually and genuinely appreciate your continued interest and investment in Embassy Bancorp.

Sincerely,

David M. Lobach, Jr.
Chairman, CEO and President



**EMBASSY
BANCORP, INC.**

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

FORM 10-K

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

For the fiscal year end 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 number 000-53528

Embassy Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State of incorporation)

26-3339011

(I.R.S. Employer Identification No.)

One Hundred Gateway Drive, Suite 100

Bethlehem, PA

(Address of principal executive offices)

18017

(Zip Code)

(610) 882-8800

(Registrant's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

None

(Title of each class)

None

(Trading symbol)

None

(Name of each exchange on which registered)

Securities registered under section 12(g) of the Exchange Act:

Common Stock, Par Value \$1.00 per share

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [] No [**X**]

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

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

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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 checkmark 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 or the Exchange Act.) Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant’s most recently completed second fiscal quarter was \$80,369,963.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant’s classes of common equity, as of the latest practicable date:

COMMON STOCK

Number of shares outstanding as of March 22, 2024	(\$1.00 Par Value)	7,615,079
	(Title Class)	(Outstanding Shares)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the 2024 annual meeting of shareholders are incorporated by reference into Part III of this report.

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PART I

Item 1. BUSINESS.

General

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the “Bank”) in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. The reorganization enabled the Company to better compete and grow in its competitive and rapidly changing marketplace. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

The Bank, which is the Company’s principal operating subsidiary, was originally incorporated as a Pennsylvania bank on May 11, 2001 and opened its doors on November 6, 2001. It was formed by a group of local business persons and professionals with significant prior experience in community banking in the Lehigh Valley area of Pennsylvania, the Bank’s primary market area.

Mission

The Company provides a traditional range of financial products and services to meet the depository and credit needs of individual consumers, small and medium sized businesses, and professionals in its market area. As a locally owned and operated community bank, there is a strong focus on service that is highly personalized, efficient, and responsive to local needs. It is the intention of the Company to deliver its products and services with the care and professionalism expected of a community bank and with a special dedication to personalized service. To create this environment, the Company employs an experienced, well-trained, and highly motivated staff, with interest in building quality client relationships using state-of-the-art delivery systems and client service facilities. The Company’s executive leadership has extensive banking experience and establishes the Company’s goal to serve the financial needs of its clients and provide a profitable return to its investors, consistent with safe and sound banking practices. The Company focuses on obtaining and retaining customer relationships by offering a broad range of financial services, competitively priced and delivered in a responsive manner, with an emphasis on understanding the financial needs of its customers.

Correspondent and third party vendor relationships are utilized where it is cost beneficial. The specific objectives of the Company are: 1) to provide individuals, professionals and local businesses with the highest standard of relationship banking in the local market; 2) to attract deposits and loans by offering state of the art products and services with competitive pricing; 3) to provide a reasonable return to shareholders on capital invested; and 4) to attract, train and retain a happy, motivated and team-oriented group of banking professionals dedicated to meeting the Company’s objectives.

Service/Market Area

The Company is headquartered in Hanover Township, Northampton County, Pennsylvania and draws its primary deposits and business from areas immediately surrounding its principal office and its branch offices in South Whitehall Township, Lower Macungie Township, the City of Bethlehem, Salisbury Township, Lower Saucon Township, Lower Nazareth Township, Borough of Nazareth, Borough of Macungie, and Allentown, Pennsylvania, as well as the remainder of Lehigh and Northampton Counties in Pennsylvania.

According to Federal Deposit Insurance Corporation (“FDIC”) data, as of June 30, 2023, the Company ranks 4th in bank market share in Northampton County with four (4) offices, and 6th in Lehigh County bank market share with six (6) offices, with a combined deposit market share of 8.53% for both counties, an increase from 8.11% as of June 30, 2022. The Company believes there is significant room for organic growth in its current market area of Lehigh and Northampton Counties.

The Company continually evaluates strategic locations for branch offices within the Lehigh Valley, which are supplemented by convenient access through electronic banking products and services, for both consumer and commercial customers. The Company currently has ten (10) offices.

Market “Niche”

The Company provides the traditional array of commercial banking products and services emphasizing a one-on-one, sit down approach, for the delivery of products and services to consumers and businesses located in Lehigh and Northampton Counties in Pennsylvania. In the Company’s primary market area, which is dominated by offices of large statewide, regional and interstate banking institutions, as well as non-bank financial service providers (such as credit unions, financial technology companies, brokerage firms, insurance companies and mortgage companies), the Company’s banking services that are furnished in a friendly and courteous manner with a timely response to customer needs fill a “niche” that arises due to the continued loss of local institutions through merger and acquisitions.

Deposits

In order for the Company to attract and retain stable deposit relationships, the Company offers business cash management solution services to help local companies better manage their cash flow. The expertise and experience of the Company’s management coupled with the latest technology accessed through third party providers enables the Company to maximize the growth of business-related deposits.

As for consumers, deposit growth is driven by a variety of factors including, but not limited to, population growth, bank and non-bank competition, local bank mergers and consolidations, increase in household income, interest rates, accessibility of location and the sales efforts of Company personnel. Time deposits can be attracted and increased by paying an interest rate higher than that offered by competitors, but are the costliest type of deposit. The most profitable type of deposits are non-interest bearing demand (checking) accounts, which can be attracted by offering free checking. However, both high interest rates and free checking accounts generate certain expenses for a bank and the desire to increase deposits must be balanced with the need to be profitable and the extent of banking relationships with the customers. The deposit services of the Company are generally comprised of demand deposits, savings deposits, money market deposits, time deposits and individual retirement accounts.

Loans

The loan portfolio of the Company consists primarily of secured fixed and variable rate loans, with a significant concentration in commercial real estate transaction, consumer residential real estate mortgage, and home equity loans. While most credit facilities are appropriately collateralized, major emphasis is placed upon the financial condition of the borrower and evaluating the borrower’s cash flow versus debt service requirements. The Company has an experienced lending and private banking team. The Company believes that the familiarity of its experienced leadership team and members of the Company’s Loan Committee, in regard to prospective local borrowers, enables the Company to better evaluate the character, integrity, and creditworthiness of the prospective borrowers.

Loan growth is driven by customer demand, which in turn is influenced by individual and business indebtedness and consumer demand for goods. The Company’s loan and private banking officers call upon accountants, financial planners, attorneys, local realtors, and others to generate loans and loan referrals. Again, a balance between growth, credit risk and pricing are required to maintain performing loans for the Company, as lending money will always entail some risk. A performing loan is a loan which is being repaid according to its original terms and is the most desirable type of loan that a bank seeks to make, to support the generation of enough earnings for a bank to be profitable. The risk involved in each loan must, therefore, be carefully evaluated before the loan is made. The interest rate at which the loan is made should always reflect the risk factors involved, including the term of the loan, the value of collateral, if any, the reliability of the projected source of repayment and the amount of the loan requested. Credit quality will always be the Company’s most important lending factor.

The Company does not sell its mortgages into the secondary market, has not been involved in any “sub-prime” mortgage lending or lending to fintech start-ups or crypto currency and related companies. The Company has not purchased or invested in any securities backed by or which include sub-prime, fintech start-ups, or crypto currency loans.

Commercial Lending

The Company typically targets businesses with annual revenues of less than \$15 million, including business owners, operators of real estate, legal, and medical professionals. The Company offers responsiveness, flexibility and local decision making for loan applications of small business owners, thereby eliminating delays caused by non-local management. The Company participates in various local, state, and federal loan programs.

Consumer Lending

The Company offers its retail customer base a product line of consumer loan services, including mortgage loans, first time home buyer mortgages, secured home equity loans, lines of credit, and, to a much lesser extent, auto loans and unsecured personal loans.

Residential Mortgage Loans

The Company offers a range of specialty home equity and mortgage products, including competitively priced first time homeowner loans, which are retained and serviced by the Company. The Company also offers limited mortgage escrow services. The Company seeks to capitalize on its policy of closing loans in a time frame that will meet the needs of its borrowers.

Commercial Mortgage/Construction Loans

The Company originates various types of loans secured by real estate, including, to a limited extent, construction loans. Construction loans are generally priced at floating rates tied to current market rates. Upon completion of construction, these loans may be converted into permanent commercial and residential loans. Construction lending is expected to constitute a minor portion of the Company’s loan portfolio.

In some cases, the Company originates loans larger than its lending limit and enters into participation arrangements for those loans with other banks.

As an independent community bank, the Company serves the special needs of legal, medical, accounting, financial service providers and other professionals. Commercial mortgages, lines of credit, term loans and demand loans are tailored to meet the needs of the Company’s customers in the professional community. In addition to the usual criteria for pricing credit-related products, the Company takes into consideration the overall customer relationship to establish credit pricing. Deposit relationships in demand, savings, money market, and certificate accounts are considered in loan pricing, along with the credit worthiness of the borrower.

Other Services

To further attract and retain customer relationships, the Company currently provides or expects to provide the standard array of financial services expected of a community bank, which include the following:

ACH Origination	Credit/Debit Card Merchant Processing	Person to Person Payments
ATM and Debit Cards	Direct Deposit/ACH Services	Personal Financial Management
Automated Teller Machines	Escrow Management Services	Positive Pay
Bank by Mail	Fraud Detection Services	Remote Deposit Capture
Cash Management Services	Gift Cards	Safe Deposit Boxes
Certified Checks	Mobile Banking	Savings Bond Redemptions
Commercial Credit Cards	Night Depository Services	Treasurer Checks
Consumer Credit Cards	On-Line Banking and Bill Pay	Wire Transfers

Fee Income

Fee income is non-interest related. The Company earns fee income by charging customers for banking services, credit card and merchant processing, treasurer's checks, overdrafts, wire transfers, check orders, and cash management services, as well as other deposit and loan related fees. The Company is subject to regulatory restrictions on the application of fees. Unlike many in the industry, the Company does not sell its mortgages on the secondary market, nor does it offer trust or investment/brokerage services to its customers, all of which would generate additional fee income.

Bank Premises

The Company currently leases nine (9) of its bank operations premises and leases the land only at the Borough of Macungie branch, with the building being owned by the Company. The ten (10) offices are situated at the following locations:

Northampton County:

- Hanover Township (includes administrative offices)
- Lower Saucon Township
- Lower Nazareth Township
- Borough of Nazareth

Lehigh County:

- South Whitehall Township
- Salisbury Township
- Lower Macungie Township
- City of Bethlehem
- Borough of Macungie
- City of Allentown

The Company pays certain additional expenses of occupying these spaces including, but not necessarily limited to, real estate taxes, insurance, utilities, and repairs. The Company is obligated under the leases to maintain the premises in good order, condition, and repair.

Employees

As of December 31, 2023, the Company had a total of 110 full-time equivalent employees.

Competition

The geographic market the Company serves is highly competitive for deposits and loans. The Company competes with local, regional and national traditional banking institutions, as well as non-bank financial service providers such as credit unions, financial technology companies, brokerage firms, insurance companies and mortgage companies. In the Company's primary market area, major regional and super-regional banks generally hold larger market share positions. By virtue of their larger capital bases, these institutions have significantly larger lending limits, more robust advertising campaigns, significantly larger branch networks, and can invest in technology on a larger scale. The industry, as a whole, competes primarily in the area of interest rates, products offered, customer service and convenience.

The Company believes it is able to compete within its market by offering competitive interest rates and a superior level of customer service, as reflected in our combined deposit market share percentage for Northampton and Lehigh Counties. The Company also continues to capitalize on opportunities created by competitive branch hour adjustments and/or closures in the Company's market area, recent merger announcements, and name changes, attracting customers looking to relocate to a local, reputable community bank.

Credit unions present a significant competitive challenge to the Company. As credit unions currently enjoy an exemption from income tax, they are able to offer higher deposit rates and lower loan rates than banks can on a comparable basis. Credit unions are also not currently subject to certain regulatory constraints imposed on banks, such as the Community Reinvestment Act ("CRA"), which require the Company to implement procedures to make and monitor loans throughout the communities served. Adhering to such regulatory requirements raises the Company's compliance costs associated with lending activities and reduces potential operating profits. Accordingly, the Company competes by focusing on building customer relationships and maintaining the commitment to customer service the community has come to expect.

Segments

The Company acts as an independent community financial services provider and offers traditional banking and related financial services to individual, business and government customers. 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, residential mortgage, and home equity loans; and the providing of other financial services.

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

Seasonality

Management does not feel that the deposits, loans, or the business of the Company are generally seasonal in nature. Deposit and loan generation may, however, vary with local and national economic and market conditions, which should not have a material effect on planning and policy making.

Supervision and Regulation

The Company is subject to extensive regulation under federal and Pennsylvania banking laws, regulations and policies, including prescribed standards relating to capital, earnings, dividends, the repurchase or redemption of shares, loans or extensions of credit to affiliates and insiders, internal controls, information systems, internal audit systems, loan documentation, credit underwriting, asset growth, impaired assets and loan-to-value ratios. The regulatory framework for banks is intended primarily for the protection of depositors, federal deposit insurance funds and the banking systems as a whole, and not for the protection of shareholders.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their bank subsidiaries and provides certain specific information about the Company and the Bank. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Company.

Dodd-Frank Wall Street Reform and Consumer Protection Act

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which became law on July 21, 2010, there is additional regulatory oversight and supervision of the Company and the Bank. The Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry, and includes provisions affecting large and small financial institutions alike, including several provisions that affect the regulation of community banks and bank holding companies.

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank’s average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to \$250,000; and expanded the FDIC’s authority to raise insurance premiums.

The Dodd-Frank Act also includes provisions that affect corporate governance and executive compensation at all publicly traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates. The Dodd-Frank Act also establishes the Financial Stability Oversight Council to identify threats to the financial stability of the U.S., promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (the “CFPB”) and the federal banking agencies continue to focus attention on consumer protection laws and regulations. The CFPB is responsible for promoting fairness and transparency for mortgages, credit cards, deposit accounts and other consumer financial products and services and for interpreting and enforcing the federal consumer financial laws that govern the provision of such products and services. Federal consumer financial laws enforced by the CFPB include, but are not limited to, the ECOA, the TILA, the Truth in Savings Act, the Home Mortgage Disclosure Act, the RESPA, the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act. The CFPB is also authorized to prevent any institution under its authority from engaging in an unfair, deceptive, or abusive act or practice in connection with consumer financial products and services. As a residential mortgage lender, we are subject to multiple federal consumer protection statutes and regulations, including, but not limited to, those statutes and regulations referenced above.

In particular, fair lending laws prohibit discrimination in the provision of banking services. Fair lending laws include the ECOA and the Fair Housing Act, both of which outlaw discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender, and religion. A lender may be liable for policies that result in a disparate treatment of, or have a disparate impact on, a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the Department of Justice for investigation. Failure to comply with these and similar statutes and regulations could subject us to formal or informal enforcement actions, the imposition of civil money penalties and litigation.

The CFPB has exclusive examination and primary enforcement authority with respect to compliance with federal consumer financial protection laws and regulations by institutions under its supervision and is authorized, individually or jointly with the federal banking agencies, to conduct investigations to determine whether any person is, or has, engaged in conduct that violates such laws or regulations. The CFPB may bring an administrative enforcement

proceeding or civil action in federal district court. In addition, in accordance with a memorandum of understanding entered into between the CFPB and the Department of Justice, the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations; however, the extent to which such coordination may actually occur is unpredictable and may change over time as the result of a number of factors, including changes in leadership at the Department of Justice and the CFPB, as well as changes in the enforcement policies and priorities of each agency. As an independent bureau funded by the Federal Reserve Board, the CFPB may impose requirements that are more stringent than those of the other bank regulatory agencies.

Capital Standards

The Company and the Bank are subject to the Basel III rules that are based upon the final framework of the Basel Committee for strengthening capital and liquidity regulations. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios.

The minimum capital requirements are:

- A new common equity Tier 1 capital ratio of 4.5%;
- A Tier 1 to risk-based assets capital ratio of 6%;
- A total capital ratio of 8%; and
- A Tier 1 leverage ratio of 4%.

The final rule also established a “capital conservation buffer” of 2.5%, that effectively results in the following minimum ratios:

- A common equity Tier 1 capital ratio of 7.0%;
- A Tier 1 to risk-based assets capital ratio of 8.5%; and
- A total capital ratio of 10.5%.

An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

The capital ratios to be considered “well capitalized” under current capital rules are: common equity of 6.5%, Tier 1 leverage of 5%, Tier 1 risk-based capital of 8%, and Total Risk-Based capital of 10%.

Effective in the third quarter of 2018, the Federal Reserve raised the consolidated asset limit to be considered a small bank holding company from \$1 billion to \$3 billion. A company that qualifies as a small bank holding company is not subject to the Federal Reserve’s consolidated capital rules, although a company that so qualifies may continue to file reports that include such capital amounts and ratios. The Company voluntarily elected to continue to report those amounts and ratios.

At December 31, 2023 and December 31, 2022, the Company qualified as “well-capitalized” under the foregoing regulatory capital standards and exceeded the capital conservation buffers. See Note 12 of the Notes to Consolidated Financial Statements included in Item 8 of this Report.

Capital Adequacy and Operations

Enacted in 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) contains provisions limiting activities and business methods of depository institutions. FDICIA required the primary federal banking regulators to promulgate regulations setting forth standards relating to, among other things, internal controls, and audit systems; credit underwriting and loan documentation; interest rate exposure and other off-balance sheet assets and liabilities; and compensation of directors and officers. FDICIA also provided for expanded regulation of depository institutions and their affiliates, including parent holding companies, by such institutions’ primary federal banking regulator. Each primary federal banking regulator is required to specify, by regulation, capital standards for measuring the capital adequacy of the depository institutions it supervises and, depending upon the extent to which a depository institution does not meet such capital adequacy measures, the primary federal banking regulator may prohibit such institution from paying dividends or may require such institution to take other steps to become adequately capitalized.

FDICIA established five capital tiers, ranging from “well capitalized” to “critically under-capitalized”. A depository institution is well capitalized if it significantly exceeds the minimum level required by regulation for each relevant capital measure. Under FDICIA, an institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market; in addition, “pass through” insurance coverage may not be available for certain employee benefit accounts. FDICIA also requires an undercapitalized depository institution to submit an acceptable capital restoration plan to the appropriate federal bank regulatory agency. One requisite element of such a plan is that the institution’s parent holding company must guarantee compliance by the institution with the plan, subject to certain limitations. In the event of the parent holding company’s bankruptcy, the guarantee, and any other commitments that the parent holding company has made to federal bank regulators to maintain the capital of its depository institution subsidiaries, would be assumed by the bankruptcy trustee and entitled to priority in payment.

At December 31, 2023, the Bank qualified as “well capitalized” under these regulatory capital standards. See Note 12 of the Notes to Consolidated Financial Statements included at Item 8 of this Report.

Federal Deposit Insurance (“FDI”) Act and Part 363 of the FDIC Regulations

Section 36 of the FDI Act and Part 363 of the FDIC's regulations require insured depository institutions with at least \$500 million in total assets to file a Part 363 Annual Report with the applicable bank regulatory agencies, which, among other things, requires that the Company establish and maintain an effective internal control structure over financial reporting and provide an assessment by management of the institution's compliance with the designated laws and regulations pertaining to insider loans and dividend restrictions.

Bank Holding Company Regulation

As a bank holding company, the Company is subject to regulation and examination by the Pennsylvania Department of Banking and Securities (the “Pennsylvania Department of Banking”) and the Federal Reserve Board. The Company is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

Pursuant to the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Company may only engage in or own companies that engage in activities deemed by the Federal Reserve Board to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto, and the holding company must obtain permission from the Federal Reserve Board prior to engaging in most new business activities.

A bank holding company and its subsidiaries are subject to certain restrictions imposed by the BHC Act on any extensions of credit to the bank or any of its subsidiaries, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Under the Dodd-Frank Act and Federal Reserve Board regulations, 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. In addition, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds 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 Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations or both. This doctrine is commonly known as the "source of strength" doctrine.

Regulation of Embassy Bank for the Lehigh Valley

Embassy Bank for the Lehigh Valley is a Pennsylvania-chartered banking institution and is subject to regulation, supervision and regular examination by the Pennsylvania Department of Banking and Securities and the FDIC. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations, the establishment of branches, and management practices and other aspects of banking operations.

Dividend Restrictions

The Company is a legal entity separate and distinct from the Bank. Declaration and payment of cash dividends depends upon cash dividend payments to the Company by the Bank, which is the Company's primary source of revenue and cash flow. Accordingly, the right of the Company, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Company in its capacity as a creditor may be recognized.

As a Pennsylvania chartered bank, the Bank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. See Note 12 to the consolidated financial statements included at Item 8 of this Report.

The payment of dividends by the Bank and the Company may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice.

Community Reinvestment Act

The Company's Directors and Officers are committed to reaching out to the community in which they live and work. The personal, business and community rewards for helping local residents and businesses are numerous. The Board is dedicated to recognizing an ongoing commitment and understanding of the Company's responsibility under the CRA. The Company is committed to providing access to credit and deposit products for all members of the communities that it serves.

The Company had its last CRA examination in 2022 and received a "satisfactory" rating.

Restrictions on Transactions with Affiliates and Insiders

The Bank also is subject to the restrictions of Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act and Regulation O adopted by the Federal Reserve Board. Section 23A requires that loans or extensions of credit to an affiliate, purchases of securities issued by an affiliate, purchases of assets from an affiliate (except as may be exempted by order or regulation), the acceptance of securities issued by an affiliate as collateral and the issuance of a guarantee or acceptance of letters of credit on behalf of an affiliate (collectively, "Covered Transactions") be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets to an affiliate and the payment of money or the furnishing of services to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

Section 22(g) and 22(h) of the Federal Reserve Act impose similar limitations on loans and extensions of credit from the Bank to its executive officers, directors, and principal shareholders and any of their related interests. The limitations restrict the terms and aggregate amount of such transactions. Regulation O implements the provisions of Sections 22(g) and 22(h) and requires maintenance of records of such transactions by the Bank and regular reporting of such transactions by insiders. The FDIC also requires the Bank, upon request, to disclose publicly loans and extensions of credit to insiders in excess of certain amounts.

Deposit Insurance and Premiums

As a FDIC member institution, the Bank's deposits are insured to the maximum of \$250,000 per depositor through the Deposit Insurance Fund ("DIF") that is administered by the FDIC and each institution is required to pay quarterly deposit insurance premium assessments to the FDIC. The Bank is not subject to the special assessments from the Silicon Bank failure.

Other Federal Laws and Regulations

State usury and credit laws limit the amount of interest and various other charges collected or contracted by a bank on loans. The Bank's loans are also subject to federal laws applicable to credit transactions, such as the following:

- Federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibitive factors in extending credit;
- Real Estate Settlement Procedures Act, which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;

- Fair Credit Reporting Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Various rules and regulations of various federal agencies charged with the implementation of such federal laws.

Additionally, the Company's operations are subject to additional federal laws and regulations applicable to financial institutions, including, without limitation:

- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require the Company to maintain privacy policies intended to safeguard customer financial information, to disclose the policies to the Company's customers and to allow customers to "opt out" of having their financial service providers disclose their confidential financial information to non-affiliated third parties, subject to certain exceptions;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Consumer protection rules for the sale of insurance products by depository institutions, adopted pursuant to the requirements of the Gramm-Leach-Bliley Act; and
- USA Patriot Act, which requires financial institutions to take certain actions to help prevent, detect, and prosecute international money laundering and the financing of terrorism.
- Under guidance issued by the federal banking agencies, the agencies have expressed concerns with institutions that ease commercial real estate underwriting standards and have directed financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks. The agencies have also issued guidance that requires a financial institution to employ enhanced risk management practices if the institution is exposed to significant concentration risk. Under that guidance, an institution is potentially exposed to significant concentration risk if: (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multi-family and non-farm residential properties, loans for construction, land development, and other land loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act represented a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, including publicly held bank holding companies such as the Company. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

Governmental Policies

The Company's earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect

on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company's business and earnings.

Other Legislative Initiatives

Proposals may be introduced in the United States Congress and in the Pennsylvania Legislature and before various bank regulatory authorities, which would alter the powers of, and restrictions on, different types of banking organizations and which would restructure part or all of the existing regulatory framework for banks, bank holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate, or restructure the financial services industry, including proposals to substantially reform the regulatory framework. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on the Company's business and earnings.

Human Capital Management

We believe that outstanding people are the key to the Company's growth and success. Through the efforts of our team, Embassy has established itself as a leading organization in our Lehigh Valley community. The Company's philosophy is to strive to maintain simplicity in our policies and efficiency in our procedures. We pride ourselves in creating an open, diverse, and transparent culture that celebrates teamwork and recognizes team members at all levels. We believe that diversity of cultures, thoughts, and experiences results in better outcomes and empowers our team members to make more meaningful contributions within our company and community. This in turn provides an environment in which our team will thrive. The majority of our team are full-time employees. We also employ part-time employees and some seasonal/temporary team members.

It is by design that the Company runs a very efficient operation, relying greatly on the knowledge and experience of its leadership team, and, where appropriate, the outsourcing of certain functions to high quality vendors, in order to do so. This level of efficiency requires that individual members of the Company's leadership team assume roles that are most often held by multiple individuals at banks within the Company's peer group. For example, David M. Lobach, Jr. serves as Chairman of the Board, as well as President and Chief Executive Officer, Judith A. Hunsicker serves as Chief Operating Officer, Chief Financial Officer and CRA Officer, Michael B. Macy serves as Chief Lending Officer of Business Banking and oversees business banking and business development, Diane M. Cunningham oversees retail banking and consumer lending, as well as marketing, and Lynne M. Neel oversees the finance department, deposit operations, loan operations and investor relations. This multidisciplinary approach is replicated throughout the Company.

The Company has created a group consisting of team members called the "Culture Club." The group is designed to keep our business culture in the forefront of all we do. This team provides new employees with their first look at the unique Embassy culture through an orientation program created with the individual in mind. In addition, the team actively works on creative activities and educational events to enhance our existing culture for the entire Embassy team. Our culture is truly defined by "us." The Company family is made up of a diverse group of professionals who share the common goal of making our bank succeed by providing superior customer service through sales, education, technology, and teamwork. Our experience has shown that when employees communicate openly and directly with supervisors, the work environment can be excellent, expectations can be clear, and attitudes will be positive. We believe that the Company amply demonstrates its commitment to employees by responding effectively to employee concerns.

Annually, every team member is asked to complete a team member commitment form, in which they describe duties and responsibilities they may face in their day to day work. The Company maintains these forms and uses them to aid in orienting new employees to their jobs, identifying the requirements of each position, balancing responsibilities amongst the team, establishing hiring criteria, setting standards for employee performance evaluations, and establishing a basis for making reasonable accommodations for individuals with disabilities. They are also used for discussion in connection with an existing employee's review process. Supervisors and employees are strongly

encouraged to discuss job performance and goals on an informal, day-to-day basis. Employees are also asked to annually participate in the Company's self-assessment process, which includes their Personal Team Member Commitment (which describes positions) and Personal Balance Sheet. Additionally, this Balance Sheet is a formal performance evaluation conducted to provide both supervisors and employees the opportunity to discuss job tasks, identify and correct weaknesses, encourage and recognize strengths, and discuss positive, purposeful approaches for efficiently carrying out the responsibility of each position.

The salary and benefits program at the Company was created to achieve consistent pay practices, comply with federal and state laws, mirror our commitment to Equal Employment Opportunity, and offer competitive salaries and benefits within our labor market. Because recruiting and retaining talented and diverse employees is critical to our success, the Company is committed to paying its team members equitable wages that reflect the requirements and responsibilities of their positions and are competitive with the pay received by similarly situated employees in other banks in the area. Compensation for every position is determined by several factors, including the essential duties and responsibilities of the job, and knowledge of pay practices of other employers. The Company periodically reviews its salary and benefits program and restructures it as necessary.

Eligible employees at the Company are provided a wide range of benefits. A number of the programs (such as Social Security, workers' compensation, state disability, and unemployment insurance) cover all employees in the manner prescribed by law. Benefits eligibility is dependent upon a variety of factors, primarily whether the employee is full time or part time.

The Company's CEO speaks to the entire Team monthly during the Team meeting, which provides training and general information. The officers of the Bank meet quarterly and these meetings are focused on training and development of future leadership.

Available Information

The Company's common stock is registered under Section 12(g) of the Securities Exchange Act of 1934. Trades in Company common stock made by certain brokerage firms are reported on the OTCQX Market Tier of the OTC Markets under the symbol "EMYB". The Company is subject to the informational requirements of the Exchange Act, and, accordingly, electronically files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and other information with the U.S. Securities and Exchange Commission ("SEC"). You may obtain these reports and statements, and any amendments, from the SEC's website at www.sec.gov. You may obtain copies of these reports, and any amendments, through our website at www.embassybank.com. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC.

The Company's headquarters are located at 100 Gateway Drive, in Hanover Township, Bethlehem, Pennsylvania 18017, and its telephone number is 1-610-882-8800. The Company has adopted a Code of Conduct/Ethics that applies to all directors and officers of the Company. This document is available in the Investor Relations section on the Company's website. The information included on the website and the Investor Relations page is not considered a part of this document.

Caution About Forward-looking Statements

This report contains forward-looking statements, including statements of goals, intentions, and expectations as to future trends, plans, events or results of Company operations and policies and regarding general economic conditions. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements are based upon current and anticipated economic conditions, nationally and in the Company's market, interest rates and interest rate policy, competitive factors, and other conditions that, by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainty.

Such forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “intends”, “will”, “should”, “anticipates”, or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy.

No assurance can be given that the future results covered by forward-looking statements will be achieved. Such statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could impact the Company’s operating results include, but are not limited to:

- the impact of adverse conditions in the economy and financial markets, including increasing or elevated interest rates, on the performance of the Company's loan portfolio and demand for the Company's products and services;
- the potential impacts of recent events affecting the financial services industry on the Company, including increased competition for, and costs of, deposits and other funding sources, more stringent regulatory requirements relating to liquidity and interest rate risk management and capital adequacy and increased FDIC insurance expenses;
- the effects of actions by the federal government, including those of the Federal Reserve Board and other government agencies, that impact the money supply and market interest rates;
- the effects of market interest rates, and the relative balances of interest rate-sensitive assets to interest rate-sensitive liabilities, on net interest margin and net interest income;
- the composition of the Company's loan portfolio, including commercial real estate and residential real estate, which collectively represent a majority of the loan portfolio, may expose the Company to increased credit risk;
- the effects of changes in interest rates on demand for the Company's products and services;
- investment securities gains and losses, including declines in the fair value of securities which may result in changes to earnings or shareholders' equity;
- the effects of changes in interest rates or disruptions in liquidity markets on the Company's sources of funding;
- capital and liquidity strategies, including the Company's ability to comply with applicable capital and liquidity requirements, and the Company's ability to generate capital internally or raise capital on favorable terms;
- the effects of competition on deposit rates and growth, loan rates and growth and net interest margin;
- the impact of operational risks, including the risk of human error, inadequate or failed internal processes and systems, computer and telecommunications systems failures, faulty or incomplete data and an inadequate risk management framework;
- the loss of, or failure to safeguard, confidential or proprietary information;
- the Company's failure to identify and adequately and promptly address cybersecurity risks, including data breaches and cyberattacks;
- the impact of failures from third-party vendors upon which the Company relies to perform in accordance with contractual arrangements and the effects of concerns about other financial institutions on the Company;
- the potential effects of increases in non-performing assets, which may require the Company to increase the allowance for credit losses, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets;
- the determination of the allowance for credit losses, which depends significantly upon assumptions and judgments with respect to a variety of factors, including the performance of the loan portfolio, the weighted-average remaining lives of different classifications of loans within the loan portfolio and current and forecasted economic conditions, among other factors;
- the effects of the extensive level of regulation and supervision to which the Company and Bank are subject;
- changes in regulation and government policy, which could result in significant changes in banking and financial services regulation;
- the continuing impact of the Dodd-Frank Act on the Company’s business and results of operations;
- the potential for negative consequences resulting from regulatory violations, investigations and examinations, including potential supervisory actions, the assessment of fines and penalties, the imposition of sanctions, the need to undertake remedial actions and possible damage to the Company’s reputation;
- the effects of adverse outcomes in litigation and governmental or administrative proceedings;
- the effects of changes in U.S. federal, state or local tax laws;

- the effects of the significant amounts of time and expense associated with regulatory compliance and risk management;
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, including the war between Russia and Ukraine and escalating conflict in the Middle East, which could impact business and economic conditions in the United States and abroad;
- public health crises and pandemics and their effects on the economic and business environments in which the Company operates, including on the Company's credit quality and business operations, as well as the impact on general economic and financial market conditions;
- the Company's ability to achieve its growth plans;
- the Company's ability to attract and retain talented personnel;
- the effects of competition from financial service companies and other companies offering bank services;
- the Company's ability to keep pace with technological changes;
- the effects of negative publicity on the Company's reputation; and
- other factors that may affect future results of the Company.

Item 1A. RISK FACTORS.

Before investing in Embassy Bancorp, Inc. common stock, an investor should carefully consider the risk factors described below, which are not intended to be all inclusive, and review other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that we are not aware of, or that we currently deem less significant, or that we otherwise are not specifically focused on, may also impact our business, results of operations, and our common stock. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and an investor could lose all or part of his or her investment in the Company.

Unless the context otherwise requires, references to "we," "us," "our," "Embassy," or "Embassy Bancorp, Inc.," collectively refer to Embassy Bancorp, Inc. and its banking subsidiary, and specific references to the "Bank" refer to Embassy Bank for the Lehigh Valley, the wholly-owned banking subsidiary of Embassy Bancorp, Inc.

Risks Related to Our Business

Changes in interest rates may adversely affect our earnings and financial condition.

Our ability to make a profit, like that of most financial institutions, substantially depends upon our net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or reduce net interest income and net income.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. When interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. Changes in market interest rates are affected by many factors beyond our control, including inflation, unemployment, money supply, international events, and events in the United States and other financial markets.

We attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact and a substantial, unexpected, prolonged, or rapid change in interest rates could adversely affect our financial condition and results of operations.

Interest rate volatility could negatively affect our net interest income, lending activities, deposits, and profitability.

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

Changes in the estimated fair value of our securities portfolio may reduce shareholders' equity and net income.

At December 31, 2023, the Company maintained an available for sale securities portfolio of \$276.1 million. The estimated fair value of the available for sale securities portfolio may change depending on the credit quality of the underlying issuer, market liquidity, changes in interest rates and other factors. Shareholders' equity is increased or decreased by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of the available for sale securities portfolio, net of the related tax expense or benefit, under the category of accumulated other comprehensive income (loss). During the year ended December 31, 2023, we incurred other comprehensive gains of \$9.4 million related to net changes in unrealized holding losses in the available for sale investment securities portfolio. A decline in the estimated fair value of this portfolio would result in a decline in shareholders' equity, as well as book value per common share. This decrease would occur even though the securities are not sold.

Effects of inflation may adversely affect our profitability.

The majority of assets and liabilities of the Company are monetary in nature, and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. The precise impact of inflation upon the Company is difficult to measure. Inflation may affect the borrowing needs of consumers, thereby impacting the growth rate of the Company's assets, as well as the expense paid on our deposits and borrowings. Inflation may also affect the general level of interest rates, which can have a direct bearing on the profitability of the Company.

The Company is subject to lending risk.

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans and the value of the associated collateral. Various laws and regulations also affect our lending activities, and failure to comply with such applicable laws and regulations could subject the Company to enforcement actions and civil monetary penalties.

At December 31, 2023, 47.1% of our loan portfolio consisted of commercial real estate, commercial construction and commercial loans, which are generally perceived as having more risk of default than residential real estate loans. Commercial business, commercial real estate and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties and the successful operation of the borrower's business, as well as the factors affecting residential real estate borrowers.

Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants and lower lease rates needed to attract new tenants.

Commercial business loans are typically affected by the borrowers' ability to repay the loans from the cash flows of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends

substantially on the success of the business itself. The collateral securing the loans and leases often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business. If interest rates rise, the borrower's debt service requirement may increase, negatively impacting the borrower's ability to service their debt.

An increase in nonperforming loans and leases from these types of loans could result in an increase in the provision for credit losses and an increase in loan and lease charge-offs. The risk of credit losses on loans and leases increases if the economy worsens.

Our allowance for credit losses may be insufficient.

The FASB issued a new accounting standard on allowance for credit losses “ACL”, which became effective for us beginning on January 1, 2023. This standard, referred to as CECL, requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. The allowance, in the judgment of management, is necessary to reserve for estimated credit losses and risks inherent in the loan portfolio. The level of the allowance reflects management’s continuing evaluation of industry concentrations; forecasts; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political, and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem credits and other factors, both within and outside of our control, may require an increase in the allowance. In addition, bank regulatory agencies periodically review our allowance for possible credit losses and may require an increase in the provision for possible credit losses or the recognition of further loan charge-offs, based on information unavailable to, or judgments different than those of, management. In addition, if charge-offs in future periods exceed the allowance, we may need additional provisions to increase the allowance for possible credit losses. Any increases in the allowance resulting from credit loss provisions will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our financial condition and results of operations.

Our profitability depends significantly on economic conditions in Pennsylvania.

Unlike larger or regional financial institutions that are more geographically diversified, our success is dependent to a significant degree on economic conditions in Pennsylvania, especially in Lehigh and Northampton Counties, which are the counties and markets primarily served by us in the years up to and including 2023. The banking industry is affected by general economic conditions, including the effects of inflation, recession, unemployment, real estate values, trends in national and global economics, and other factors beyond our control. An economic recession or a delayed recovery over a prolonged period of time in Pennsylvania, or more specific to the areas served by us, could cause an increase in the level of the Bank’s non-performing assets and credit losses, thereby causing operating losses, impairing liquidity, and eroding capital. We can give no assurance that adverse changes in the local economy would not have a material adverse effect on our consolidated financial condition, results of operations, and cash flows.

Strong competition within our market area may limit our growth and profitability.

Competition in the banking and financial services industry is intense. The geographic market the Company serves is highly competitive for deposits and loans. The Company competes with local, regional, and national traditional banking institutions, as well as non-bank financial service providers such as credit unions, brokerage firms, insurance companies and mortgage companies. In the Company’s primary market area, major regional and super-regional banks generally hold larger market share positions. By virtue of their larger capital bases and greater financial resources, these institutions have significantly larger lending limits, more robust advertising campaigns, larger branch networks, and can invest in technology on a larger scale. The industry, as a whole, competes primarily in the area of interest rates, products offered, customer service and convenience. Our profitability depends upon our ability to successfully compete in our market area.

A lack of liquidity could adversely affect the Company's financial condition and results of operations.

Liquidity is essential to the Company's business. The Company relies on its ability to generate deposits and effectively manage the repayment of its liabilities to ensure that there is adequate liquidity to fund operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. The Company's most important source of funds is its deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk adjusted return, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as negative trends in the banking sector, the level of and/or composition of our uninsured deposits, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the FRB or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Company would lose a relatively low-cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Other primary sources of funds consist of cash flows from operations, maturities of investment securities and/or loans and borrowings from the FHLB and/or FRB discount window. The Company also may borrow funds from third-party lenders, such as other financial institutions. The Company's access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Company's business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company or the financial sector in general. Any decline in available funding could adversely impact the Company's ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

The Basel III capital rules require us to maintain higher levels of capital, which could reduce our profitability.

Basel III targets higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital. Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. In the future, we may be required to maintain higher levels of capital, thus potentially reducing opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to us, and adversely impact our financial condition and results of operations.

If our information systems are interrupted or sustain a breach in security, those events may negatively affect our financial performance and reputation.

In conducting our business, we rely heavily on our information systems. Maintaining and protecting those systems and data is difficult and expensive, as is dealing with any failure, interruption, or breach in security of these systems, whether due to acts or omissions by us or by a third party, and whether intentional or not. Any such failure, interruption, or breach could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. A breach of our information security may result from fraudulent activity committed against us or our customers, resulting in financial loss to us or our customers, or privacy breaches against our customers. Such fraudulent activity may consist of check fraud, electronic fraud, wire fraud, "phishing", social engineering, identity theft, or other deceptive acts. Such fraudulent activity could be heightened by geopolitical events, including the Russia/Ukraine and Middle East conflict. The policies, procedures, and technical safeguards put in place by us to prevent or limit the effect of any failure, interruption, or security breach of our information systems and data may be insufficient to prevent or remedy the effects of any such occurrences. The occurrence of any failures, interruptions, or security breaches of our information systems, or those of our third party vendors, and data could damage our reputation, cause us to incur additional expenses, result in online services or other businesses becoming inoperable, subject us to regulatory sanctions or additional regulatory scrutiny, or expose us to civil litigation and

possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Our business operations and interaction with customers are increasingly done via electronic means, and this has increased risks related to cyber security.

We are exposed to the risk of cyber-attacks in the ordinary course of our business. In general, cyber incidents can result from deliberate attacks or unintentional events. An increased level of attention in the industry is focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, we have policies and procedures in place to prevent or limit the effect of the possible security breach of our information systems and we have insurance against some cyber-risks and attacks. While we have not incurred any material losses related to cyber-attacks, nor are we aware of any specific or threatened cyber-incidents as of the date of this report, we may incur substantial costs and suffer other negative consequences if we fall victim to successful cyber-attacks. Such negative consequences could include remediation costs, which may include liability for stolen assets or information and repairing system damage; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

The Bank does not engage in cryptocurrency transactions for itself or its customers.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by federal and state banking authorities. Any change in applicable regulations or federal, state, or local legislation could have a substantial impact on us and our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our results of operations and financial condition.

We are required to make a number of judgments in applying generally accepted accounting principles and different estimates and assumptions in the application of these standards could result in a decrease in capital and/or other material changes to our reports of financial condition and results of operations.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans and off-balance sheet commitments, and the fair value of certain financial instruments (securities). While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these standards could result in a decrease to net income and, possibly, capital and may have a material adverse effect on our financial condition and results of operations. From time to time, the FASB and the SEC issues changes to or updated interpretations of the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes are beyond our control, can be difficult to predict, and could materially impact how we report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior financial statements by material amounts. The implementation of new or revised guidance could also result in material adverse effects to our reported capital.

Prior levels of market volatility were unprecedented and future volatility may have materially adverse effects on the market price of our common stock, our liquidity and financial condition.

Starting in March 2020, the capital and credit markets have experienced extreme volatility and disruption related to the COVID-19 pandemic and, also, as a result of the failures of First Republic Bank, Silicon Valley Bank (“SVB”), and Signature Bank. In many cases, the markets exerted downward pressure on stock prices, security prices, and credit availability for certain issuers without regard to their underlying financial strength. If such levels of market disruption and volatility continue, there can be no assurance that we will not experience adverse effects, which may materially affect the market price of our common stock and/or our liquidity, financial condition, and profitability.

Our banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect our earnings.

Poor economic conditions and the resulting bank failures from the most recent recession have stressed the Deposit Insurance Fund and increased the costs of our FDIC insurance assessments. Promptly following the failures of SVB and Signature Bank in March 2023 and First Republic Bank in May 2023, the federal banking regulators announced that the FDIC will use funds from the Deposit Insurance Fund to ensure that all depositors in SVB, Signature Bank, and First Republic Bank are made whole, at no cost to taxpayers. Additional bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments. We are generally unable to control the amount of premiums or special assessments that our banking subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on our results of operations, financial condition, and our ability to continue to pay dividends on our common stock at the current rate or at all.

If we conclude that the decline in the value of any of our investment securities is from a credit loss, we are required to write down the value of that security through a charge to earnings.

We review our investment securities portfolio at each quarter-end reporting period to determine whether the fair value of individual securities or the portfolio as a whole is below the current carrying value. For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security, prior to the recovery of its amortized cost basis. If either of the above criteria is met, the security’s amortized cost basis is written down to fair value through earnings. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, the impairment disclosed, or lack thereof, may not accurately reflect the actual impairment in the future.

Our financial performance may suffer if our information technology is unable to keep pace with our growth or industry developments.

Effective and competitive delivery of our products and services is increasingly dependent upon information technology resources and processes, both those provided internally as well as those provided through third party vendors. In addition to better serving customers, the effective use of technology increases efficiency and enables us to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services to enhance customer convenience, as well as to create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements. Additionally, as technology in the financial services industry changes and evolves, keeping pace becomes increasingly complex and expensive for us. Our failure to timely and effectively implement technological advances could adversely affect our financial condition and results of operations.

We are highly reliant on third party vendors and our ability to manage the operational risks associated with outsourcing those services.

We rely on third parties to provide services that are integral to our operations. These vendors provide services that support our operations, including the storage and processing of sensitive consumer and business customer data, as

well as our sales efforts. A cybersecurity breach of a vendor's system may result in theft of our data or disruption of business processes. In most cases, we will remain primarily liable to our customers for losses arising from a breach of a vendor's data security system. We rely on our outsourced service providers to implement and maintain prudent cybersecurity controls. We have procedures in place to assess a vendor's cybersecurity controls prior to establishing a contractual relationship and to periodically review assessments of those control systems; however, these procedures are not infallible, and a vendor's system can be breached despite the procedures we employ. We cannot be sure that we will be able to maintain these relationships on favorable terms. The loss of these vendor relationships could disrupt the services we provide to our customers and cause us to incur expense in connection with replacing these services.

The soundness of other financial institutions may adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be readily realized or liquidated at prices sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Risks Related to Our Common Stock

The trading volume in our common stock is less than that of larger public companies, which can contribute to volatility in our stock price and adversely affect the liquidity of an investment in our common stock.

Our common stock is not traded on a security exchange. Trades in our stock made by certain brokerage firms are reported on the OTCQX Market Tier of the OTC Markets, but trading in our stock is sporadic. The trading history of our common stock has been characterized by relatively low trading volume. This lack of an active public market means that the value of a shareholder's investment in our common stock may be subject to sudden fluctuations, as individual trades have a greater effect on our reported trading price than would be the case in a broad public market with significant daily trading volume.

The market price of our common stock may also be subject to fluctuations in response to numerous other factors, including the factors discussed in this report, regardless of our actual operating performance. The possibility of such fluctuations occurring is increased due to the illiquid nature of the trading market of our common stock. Therefore, a shareholder may be unable to sell our common stock at or above the price at which it was purchased, at or above the current market price, or at the time of his, her or its choosing.

Our insiders control a substantial percentage of our stock and therefore have the ability to exercise significant control over our affairs.

As of December 31, 2023, our directors and executive officers beneficially owned in excess of 28% of our issued and outstanding common stock on a fully diluted basis. Such persons, as a group, will have sufficient votes to strongly influence the outcome of all matters submitted to our shareholders, including the election of directors. This concentration of ownership might also have the effect of delaying or preventing a change in control of our company.

Our ability to pay dividends on our common stock, and principal and interest on our debt, depends primarily on dividends from our banking subsidiary, which is subject to regulatory limits.

Embassy Bancorp, Inc. is a bank holding company and its operations are conducted by its direct and indirect subsidiaries, primarily the Bank. Our ability to pay dividends on our common stock and principal and interest on our debt depends on our receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of the Bank to pay dividends is also subject to profitability, financial condition, liquidity, and

capital management limits. There is no assurance that our subsidiary will be able to pay dividends in the future or that we will generate adequate cash flow to pay dividends in the future. Federal Reserve policy, which applies to us as a registered bank holding company, also provides that dividends by bank holding companies should generally be paid out of earnings from both the current period and a designated look-back period. Our failure to pay dividends on our common stock could have a material adverse effect on the market price of our common stock.

Provisions of our articles of incorporation and bylaws, Pennsylvania law, state and federal banking regulations, and our significant percentage of insider ownership, could act to delay or prevent a takeover by a third party.

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire us, even if the acquisition would be advantageous to our shareholders. By incorporating under Pennsylvania law, our board of directors owes its fiduciary duty solely to the Company. As such, Pennsylvania law does not require a director to act solely because of the effect such action might have on an acquisition or potential acquisition of control of the corporation or the consideration that might be offered or paid to shareholders in such an acquisition.

Additionally, Pennsylvania law:

- expands the factors and groups which a corporation’s board of directors can consider in determining whether an action is in the best interests of the corporation, including the effect of such action on its shareholders, employees, suppliers, customers, creditors and communities;
- provides that a corporation’s board of directors need not consider the interests of any particular group (including the shareholders) as dominant or controlling;
- provides that a corporation’s directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof with respect to actions relating to an acquisition or potential acquisition of control; and
- provides that actions relating to acquisitions of control that are approved by a majority of “disinterested directors” are presumed to satisfy the directors’ standard, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation.

In addition, we have various anti-takeover measures in place under our articles of incorporation and bylaws, including a supermajority vote requirement for mergers, advance notice requirements for nominations for election of directors and the presentation of shareholder proposals at meetings of shareholders, a staggered Board of Directors, and the absence of cumulative voting.

Further, federal and state banking laws and regulations generally require filings and approvals prior to certain transactions that would result in a party acquiring control of our company.

Any one or more of these laws or measures, particularly when coupled with the fact that our insiders hold approximately 28% of our voting shares, may impede the takeover of the Company and may prevent our shareholders from taking part in a transaction in which they could realize a premium over the current market price of our common stock.

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

Federal banking regulators require us and our bank subsidiary to maintain adequate levels of capital to support our operations. These capital levels are determined and dictated by law, regulation, and bank regulatory agencies. In addition, capital levels are also determined by our management and board of directors based on capital levels that they believe are necessary to support our business operations. As of December 31, 2023, all three capital ratios for us and our banking subsidiary were above “well capitalized” levels under current bank regulatory guidelines.

Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital on terms and time frames acceptable to us or to raise additional capital at all. If we cannot raise additional capital in sufficient amounts when needed, our ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial condition, and results of operating. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by recent turmoil in the domestic and worldwide credit markets. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of current investors and could dilute the per share book value and earnings per share of our common stock. Furthermore, a capital raise through issuance of additional shares of common stock may have an adverse impact on our stock price.

Our common stock is equity and is subordinate to all of our existing and future indebtedness.

Shares of our common stock are equity interests in our Company and do not constitute indebtedness. As such, shares of our common stock rank junior to all indebtedness and other non-equity claims on us with respect to assets available to satisfy claims on us, including in a liquidation of the Company. Also, the Company's right to participate in a distribution of assets upon the Bank's liquidation or reorganization is subject to the prior claims of the Bank's creditors, including the preferred claims of the Bank's depositors.

Our common stock is not insured by any governmental entity.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section. As a result, if you acquire our common stock, you may lose some or all of your investment.

General Risk Factors

Our controls and procedures may fail or could be circumvented.

Management has implemented a series of internal controls, disclosure controls and procedures, and corporate governance policies and procedures in order to ensure accurate financial control and reporting. However, any system of controls, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the objectives of the system are met. Any failure or circumvention of our controls and/or procedures could have a material adverse effect on our business and results of operation and financial condition.

Loss of our senior executive officers or other key employees could impair our relationship with our customers and adversely affect our business.

We have assembled a leadership management team which has substantial background and experience in banking and financial services in the markets we serve. Loss of these key personnel could negatively impact our earnings because of their skills, customer relationships and/or the potential difficulty of promptly replacing them.

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

Acts of war or terrorism, natural disasters, global climate change, pandemics, global conflicts, geopolitical events, or a combination of these factor or other factors, could have a negative impact on our business and operations. While we have in place business continuity plans, such events could still damage our facilities, disrupt or delay the normal operations of our business (including communications and technology), result in harm to or cause travel limitations on our employees, and have a similar impact on our clients, suppliers, third-party vendors and counterparties. These

events also could impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations, and may have other adverse effects on us in ways that we are unable to predict.

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

Reputational risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including banking operations, our management of actual or potential conflicts of interest and ethical issues, and our protection of confidential client information. Negative public opinion can adversely affect our ability to keep and attract customers and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in the way we conduct our business activities and deal with our customers, communities and vendors, these steps may not be effective.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 1C. CYBERSECURITY.

Our operations are dependent on our information technology systems, and the systems of our third party partners, upon which we rely, to maintain our ability to access, store, and transmit sensitive information in a secure manner. One of the primary risks to which we are exposed is the risk that our information systems are compromised, either deliberately or unintentionally, and that sensitive information is disclosed, misused or corrupted, or our operations are disrupted. Such an incident could result in a number of adverse consequences, including disruptions in customer relationship management, system damage, remediation costs, litigation, and reputational damage. We maintain an information security and governance program that is designed to protect our information systems against such risks.

Risk Management and Strategy

The Company recognizes the significance of such risks and cybersecurity is a critical component of our overall risk management program. In order to combat against and mitigate the impact of any unauthorized access to or attack on our information systems, we have implemented policies and procedures designed to assess, identify, and manage material risks arising from cybersecurity threats. Additionally, because we rely on third parties to provide services that are integral to our operations, we have procedures in place to assess a technology provider's cybersecurity controls prior to establishing a contractual relationship and to periodically review assessments of those systems. Whenever possible, we include cybersecurity requirements in our contracts with such providers, which typically include agreed-upon security standards and protocols and our right to obtain periodic reports or assessments of such provider's compliance therewith.

Our cybersecurity program provides a program for compliance with applicable cybersecurity and data protection laws. Our program is designed to ensure the security and confidentiality of customer, employee and Company information, protect against known or evolving threats to the security or integrity of customer records and personal information and protect against unauthorized access to or use of such information. We work with third party reviews of cyber security programs, regulators, and third-party service providers to ensure that these policies are adequately designed to appropriately safeguard such information. The Company's policies and procedures include, and are not limited to:

- Information Systems and Cyber Security Policy
- Cyber Incident Response Policy and Testing
- Business Continuity and Disaster Recovery Plans and Testing
- Vendor Risk Management Policies
- Remote Access Policy
- Customer Facing Technology Risk Assessments
- Cyber Security Awareness Training
- Vulnerability Assessments
- Patch and Change Management
- Annual NIST Risk Assessments
- Annual CIS Benchmarks Assessments
- Access to Threat Intelligence
- Dark Web Monitoring
- Cyber Risk Insurance Policy
- Physical Security Policy

The Company uses a layered security structure of processes and technologies to detect, prevent, mitigate, monitor and respond to cybersecurity threats.

Employees undergo cybersecurity training during orientation. Employees and board members receive annual training to promote cybersecurity awareness. All employees are required to abide by our cybersecurity and data protection policies.

To date, the Company has not experienced a material cybersecurity incident.

Governance

Cybersecurity and data protection is essential for the Company to maintain the trust of our customers, team members and stakeholders. The Board of Directors is ultimately responsible for overseeing the Company's management of cybersecurity risk, including oversight into appropriate risk mitigation, strategies, processes, systems, and controls.

The Company has an IT Team and Cyber Incident Response Team made up of senior managers of the bank and led by the Chief Operating Officer (COO), the Information Security Officer (ISO) and the Security Officer (SO). The COO, ISO and SO are primarily responsible for assessing and managing material risks from cybersecurity threats and are responsible for designing, implementing and maintaining our cybersecurity environment and incident response procedures. The IT Team is responsible for ensuring the Board of Directors and employees are trained annually on cybersecurity and information security awareness and apprised of any emerging threats. Additionally, the IT Team ensures employees are adequately trained on our incident response procedures.

The ISO and SO report to the COO and monthly written Cybersecurity reports are presented to the Board of Directors. At least annually the IT Team leadership and members of the Audit Committee and Board meet strategically to review, and as appropriate, adapt our cybersecurity program to an evolving landscape of emerging threats, evaluate effectiveness of key security controls, assess cybersecurity best practices, and to adopt the annual cybersecurity strategy. A written cybersecurity report and briefing to the full Board is conducted on an annual basis. These reports cover, but are not limited to, the Company's cybersecurity environment, threats, material cybersecurity risks and events, improvements and effectiveness, the results of periodic testing (both internal and external), and other material matters related to the cybersecurity program.

Item 2. PROPERTIES.

The Company, through the Bank, occupies ten (10) full-service banking offices in the Lehigh Valley:

Northampton County:

- Hanover Township (includes administrative offices)
- Lower Saucon Township
- Lower Nazareth Township
- Borough of Nazareth

Lehigh County:

- South Whitehall Township
- Salisbury Township
- Lower Macungie Township
- City of Bethlehem
- Borough of Macungie
- City of Allentown

Of the ten (10) offices, the Company currently leases nine (9) of its premises and leases the land at Borough of Macungie branch. The Borough of Macungie branch building is owned by the Company. The Company's headquarters is located in Bethlehem, PA.

Item 3. LEGAL PROCEEDINGS.

The Company and the Bank are an occasional party to legal actions arising in the ordinary course of its business. In the opinion of management, the Company has adequate legal defenses and/or insurance coverage respecting any and each of these actions and does not believe that they will materially affect the Company's operations or financial position.

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) Shares of Company common stock are traded over-the-counter and in privately negotiated transactions. The Company’s common stock is not listed on any national securities exchange.

Trades in Company common stock made by certain brokerage firms are reported on the OTCQX Market Tier of the OTC Markets under the symbol “EMYB”. The following table reflects high and low bid prices for shares of the Company’s common stock for the periods indicated, based upon information derived from www.otcm Markets.com.

	2023		2022	
	High	Low	High	Low
First Quarter	\$ 18.70	\$ 16.05	\$ 21.00	\$ 20.01
Second Quarter	\$ 17.00	\$ 12.50	\$ 21.30	\$ 19.00
Third Quarter	\$ 18.00	\$ 14.05	\$ 21.40	\$ 18.80
Fourth Quarter	\$ 15.38	\$ 13.90	\$ 20.36	\$ 18.50

The above quotations may not reflect inter-dealer prices and should not be considered over-the-counter market quotations as that term is customarily used.

- (b) As of March 22, 2024, there are approximately 828 owners of record of the common stock of the Company.
- (c) On July 14, 2023, the Company paid \$3,041,266 or \$0.40 per share, in an annual cash dividend on its common stock. On July 15, 2022, the Company paid \$2,643,640 or \$0.35 per share, in an annual cash dividend on its common stock. As a general matter, cash available for dividend distribution to shareholders of the Company may come from dividends paid to the Company by the Bank, depending upon existing cash levels at the Company. See “Supervision and Regulation – Dividend Restrictions” in Item 1 of this report for a description of restrictions that may limit the Company’s ability to pay dividends on its common stock.
- (d) The following table sets forth information about options outstanding under the Company’s shareholder approved Stock Incentive Plan, as of December 31, 2023:

	Number of Shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of Shares remaining available for future issuance
Equity Compensation Plans and Individual Employment Agreements	-	N/A	393,998

- (e) Sales of Securities.
None.

(f) Repurchase of Equity Securities.

The following table sets forth the number of shares of common stock repurchased by the Company, and the average price paid for such shares, during the fourth quarter of 2023. The Company has not publicly announced any purchase plan or program.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - 31, 2023	N/A	N/A	N/A	N/A
November 1 - 30, 2023	4,644	\$ 14.00	N/A	N/A
December 1 - 31, 2023	4,573	\$ 14.66	N/A	N/A

Item 6. [Reserved]

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis provides an overview of the consolidated financial condition and results of operations of the Company for the years ended December 31, 2023 and 2022. This discussion should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements appearing elsewhere in this report.

Critical Accounting Estimates and Judgements

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which require the Company to make estimates and assumptions. The Company believes that its determination of the allowance for credit losses “ACL” involves a higher degree of judgment and complexity than the Company’s other significant accounting policies. Further, this estimate can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Company’s borrowers, subjecting the Company to significant volatility of earnings.

A material estimate that is particularly susceptible to significant change is the determination of the allowance for credit losses. The allowance for credit losses represents the estimated amount considered necessary to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable and securities measured at amortized cost. It also applies to off-balance sheet credit exposures such as loan commitments and unused lines of credit. The allowance is established through a provision for credit losses that is charged against income. The methodology for determining the allowance for credit losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded allowance for credit losses. Management believes the allowance for credit losses is adequate and reasonable. For additional discussion concerning the Company’s allowance for credit losses and related matters, see “Provision for Credit Losses” and “Allowance for Credit Losses” in Notes 1 and 3 to the consolidated financial statements. Given the very subjective nature of identifying and valuing credit losses, it is likely that well-informed individuals could make materially different assumptions, and could, therefore calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for credit losses. Such

agencies may require the Company to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

GENERAL

The Company is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the BHC Act. The Company was formed for purposes of acquiring the Bank in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

The Bank, which is the Company's primary operating subsidiary, was originally incorporated as a Pennsylvania bank on May 11, 2001 and opened its doors on November 6, 2001. It was formed by a group of local business persons and professionals with significant prior experience in community banking in the Lehigh Valley area of Pennsylvania, the Bank's primary market area.

Since its inception, the Board's philosophy has been that, by running the Bank with a view toward the long term, only good things will happen for the Bank's customers, team members, shareholders, and the Lehigh Valley community.

OVERVIEW

The Company's assets increased by \$16.3 million from \$1.64 billion at December 31, 2022 to \$1.66 billion at December 31, 2023. The increase was due to a \$11.6 million increase in cash and cash equivalents, an increase of \$45.4 million in net loans receivable (excluding PPP loans), offset by a decrease of \$40.9 million in securities available for sale. The increase in cash and cash equivalents was primarily due to the increase in short term borrowings of \$35.0 million and \$55.7 million in principal pay downs on mortgage-backed securities, calls, and maturities within the securities available for sale portfolio, offset by a decrease of \$44.9 million in deposits, the purchases of available for sale securities of \$4.9 million, and net loan growth (excluding PPP) of \$45.4 million. The \$40.9 million decrease in securities was net of a decrease in unrealized losses of \$9.4 million. The current unrealized loss position of the securities portfolio is due to increasing market interest rates in response to economic conditions since purchase and not due to the credit quality of the investment portfolio.

Net loans receivable (excluding PPP loans) increased by \$45.4 million to \$1.24 billion at December 31, 2023, as compared to \$1.20 billion at December 31, 2022. The market continues to be very competitive and the Company is committed to maintaining a high-quality portfolio that returns a reasonable market rate. While the past and current economic and competitive conditions in the marketplace have created more competition for loans to credit-worthy customers, the Company continues to expand its market presence and pipeline, and continues to focus on developing a reputation as being a market leader in both commercial and consumer/mortgage lending. Management believes that this combination of relationship building, cross marketing and responsible underwriting will translate into continued long-term growth of a portfolio of quality loans and core deposit relationships, although there can be no assurance of this. The Company continues to monitor the interest rate exposure of its interest-bearing assets and liabilities. See expanded discussion under the *Financial Condition: Loans* section below.

The Company's deposits decreased by \$44.9 million from \$1.52 billion at December 31, 2022 to \$1.48 billion at December 31, 2023. The decrease in deposits was due to a \$53.1 million decrease in non-interest bearing deposits, offset by an increase of \$8.3 million in interest bearing deposits. The shift out of non-interest bearing deposits and savings into time deposits is primarily due to time deposits currently yielding higher rates due to the current rate environment. The Company continues to seek deposits using a highly effective relationship building, sales and marketing effort, which serves to further increase the Company's overall presence in the market it serves, along with deposit relationships developed as a result of cross-marketing efforts to its loan and other non-depository banking service customers. Even with a year to year shift in overall deposit balances, the Company continues to attract new deposit relationships. Also contributing to the Company's success to attract new deposit relationships is the increased usage of the Company's online banking platform, competitively offered rates, and the continued convenience and

efficiency of our branch network and branch personnel. The Company continues to gain new deposit opportunities created by mergers in prior years, name changes, competitive branch hour and service adjustments and/or closures in the Company's market area, and attracting new customers looking to relocate to a local, reputable community bank.

The Company's net income decreased \$5.0 million, or 28.5%, to \$12.7 million in 2023 from \$17.7 million in 2022. Basic and diluted earnings per share decreased to \$1.67 in 2023, as compared to \$2.34 in 2022. The difference in net income for the year ended December 31, 2023 and December 31, 2022 resulted primarily from an increase in interest expense of \$14.0 million, or 341.6%, due to the rapid increased rate environment, and an increase in non-interest expenses; offset, to a lesser degree, by an increase in interest income, an increase in non-interest income, and a decrease in the (credit) provision for credit losses.

The Company believes that there may be future compressions to the net interest margin over the next six to nine months as older time deposits mature at higher interest rates, although this compression could be less significant than prior compression experienced. The Company continues to evaluate and consider implementing various strategies to mitigate the potential impact of future market rate increases or no future market rate decreases. This includes interest rate swaps, adjustments to the investment portfolio, and BOLI transactions. In addition, in order to mitigate against rising non-interest expenses, management is in the process of evaluating the availability and feasibility of various potential operational efficiencies.

Subsequent to the December 31, 2023 balance sheet date, in January 2024, the Company purchased \$9.0 million in BOLI policies, and converted \$2.0 million in previous BOLI policies to higher yielding BOLI products through a 1035 exchange transaction.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

The majority of the Company's earnings derives from net interest income, which is the difference between income earned on assets and the cost supporting those assets. The net interest margin is the ratio of net interest income to average earning assets. Earning assets are composed primarily of loans and investments, along with interest-bearing deposits with other banks. Interest-bearing deposits and borrowings make up the cost of funds. Non-interest bearing deposits and capital are other components representing funding sources. Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income and net interest margin. The timing of deposit and loan growth also impacts net interest income.

Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Interest rate spread is the mathematical difference between the average interest earned on earning assets and interest paid on interest bearing liabilities. Interest margin represents the net interest yield on earning assets. The interest margin gives a reader a better indication of asset earning results when compared to peer groups or industry standards.

The Company determines interest rate spread and margin on both US GAAP and tax equivalent basis. The use of tax equivalent basis in determining interest rate spread and margin is considered a non-US GAAP measure. The Company believes use of this measure provides meaningful information to the reader of the consolidated financial statements when comparing taxable and non-taxable assets. However, it is supplemental to US GAAP which is used to prepare the Company's consolidated financial statements and should not be read in isolation or relied upon as a substitute for US GAAP measures. In addition, the non-US GAAP measure may not be comparable to non-US GAAP measures reported by other companies. The tax rate used to calculate the tax equivalent adjustments was 21% for 2023 and 2022.

2023 Compared to 2022

Total interest income for the year ended December 31, 2023 increased \$6.8 million to \$57.2 million, as compared to \$50.4 million for the year ended December 31, 2022. Average earning assets were \$1.56 billion for the year ended

December 31, 2023, as compared to \$1.58 billion for the year ended December 31, 2022. The tax equivalent yield on average earning assets was 3.69% for the year ended December 31, 2023, compared to 3.22% for the year ended December 31, 2022.

Total interest expense for the year ended December 31, 2023 increased \$14.0 million to \$18.1 million, as compared to \$4.1 million for the year ended December 31, 2022. Average interest bearing liabilities were \$1.17 billion for the year ended December 31, 2023, as compared to \$1.16 billion for the year ended December 31, 2022. The yield on average interest bearing liabilities was 1.55% and 0.35% for the years ended December 31, 2023 and December 31, 2022, respectively.

Net interest income for the year ended December 31, 2023 was \$39.0 million, compared to \$46.3 million for the year ended December 31, 2022. The decrease in net interest income is, in part, the result of a decrease in the interest and fee income from PPP loans, a decrease in the average balances of taxable and non-taxable investments, a decrease in the average balance of interest bearing deposits with banks and fed funds sold, an increase in the balance of certificates of deposit, an increase in the balance of money markets, and an increase in short-term FHLB borrowings, along with an increase in the rates of interest bearing demand deposits, NOW, money market, savings, and certificates of deposit. The decrease in net interest income was offset by an increase in the balances and rates of taxable and non-taxable loans, along with an increase in the rate of taxable and non-taxable loans, taxable and non-taxable investments, federal funds sold, and interest bearing deposits with banks. Also, offsetting the decrease in net interest income was a decrease in the balance of interest bearing demand deposits, NOW, savings, and long term FHLB borrowings. The Company's net interest margin is 2.50% on a US GAAP basis and 2.53% on a tax equivalent (non-US GAAP) basis for the year ended December 31, 2023, as compared to 2.94% on a US GAAP basis and 2.96% on a tax equivalent (non-US GAAP) basis for the year ended December 31, 2022.

The following table includes the average balances, interest income and expense and the average rates earned and paid for assets and liabilities for the periods presented. All average balances are daily average balances.

Average Balances, Rates and Interest Income and Expense

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Average Balance	Interest	Tax Equivalent Yield	Average Balance	Interest	Tax Equivalent Yield
(Dollars in Thousands)						
ASSETS						
Loans - taxable (2)	\$ 1,211,559	\$ 47,976	3.96%	\$ 1,145,441	\$ 41,813	3.65%
Loans - Paycheck Protection Program	86	1	1.16%	1,852	184	9.94%
Loans - non-taxable (1)	22,413	744	4.20%	6,451	209	4.10%
Investment securities - taxable	267,098	6,127	2.29%	290,357	5,921	2.04%
Investment securities - non-taxable (1)	40,255	1,223	3.84%	41,854	1,196	3.62%
Federal funds sold	827	42	5.11%	1,000	17	1.72%
Interest bearing deposits with banks	21,032	1,044	4.96%	88,996	1,045	1.17%
TOTAL INTEREST EARNING ASSETS	1,563,270	57,157	3.69%	1,575,951	50,385	3.22%
Less allowance for credit losses	(12,622)			(11,869)		
Other assets	74,801			71,313		
TOTAL ASSETS	\$ 1,625,449			\$ 1,635,395		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing demand deposits, NOW and money market	\$ 241,524	\$ 1,791	0.74%	\$ 247,379	\$ 184	0.07%
Savings	567,686	3,283	0.58%	751,101	2,189	0.29%
Certificates of deposit	342,387	12,540	3.66%	148,661	1,687	1.13%
Securities sold under agreements to repurchase and other borrowings	16,394	504	3.07%	15,437	43	0.27%
TOTAL INTEREST BEARING LIABILITIES	1,167,991	18,118	1.55%	1,162,578	4,103	0.35%
Non-interest bearing demand deposits	342,746			357,184		
Other liabilities	21,521			17,801		
Stockholders' equity	93,191			97,832		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,625,449			\$ 1,635,395		
Net interest income		\$ 39,039			\$ 46,282	
Tax equivalent adjustments:						
Loans		198			56	
Investments		325			318	
Total tax equivalent adjustments		523			373	
Net interest income on a tax equivalent basis		\$ 39,562			\$ 46,655	
Net interest spread (US GAAP basis)			2.10%			2.84%
Net interest margin (US GAAP basis)			2.50%			2.94%
Net interest spread (non-US GAAP basis) (3)			2.14%			2.87%
Net interest margin (non-US GAAP basis) (3)			2.53%			2.96%

(1) Yields on tax exempt assets have been calculated on a fully tax equivalent basis at a tax rate of 21% as of December 31, 2023 and 2022, respectively.

(2) The average balance of taxable loans includes loans in which interest is no longer accruing.

(3) Non-US GAAP net interest spread and net interest margin are calculated on a fully tax equivalent basis at a tax rate of 21% as of December 31, 2023 and 2022, respectively.

The table below demonstrates the relative impact on net interest income of changes in the volume of interest-earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities.

	2023 vs. 2022		
	Increase (decrease) due to changes in:		
	(In Thousands)		
	Volume	Rate	Total
Interest-earning assets:			
Loans - taxable	\$ 2,414	\$ 3,749	\$ 6,163
Loans - Paycheck Protection Program	(175)	(8)	(183)
Loans - non-taxable	517	18	535
Investment securities - taxable	(474)	680	206
Investment securities - non-taxable	(46)	73	27
Federal funds sold	(3)	28	25
Interest bearing deposits with banks	(798)	797	(1)
Total net change in income on interest-earning assets	1,435	5,337	6,772
Interest-bearing liabilities:			
Interest bearing demand deposits, NOW and money market	(4)	1,611	1,607
Savings	(535)	1,629	1,094
Certificates of deposit	2,198	8,655	10,853
Total deposits	1,659	11,895	13,554
Securities sold under agreements to repurchase and other borrowings	3	458	461
Total net change in expense on interest-bearing liabilities	1,662	12,353	14,015
Change in net interest income	\$ (227)	\$ (7,016)	\$ (7,243)

Provision for Credit Losses

The Company adopted ASC Topic 326 on January 1, 2023, and applied the standard's provisions as a cumulative-effect adjustment to retained earnings, as of January 1, 2023 (i.e., modified retrospective approach). Upon adoption of the standard, the Company recorded a \$188 thousand increase to the allowance for credit losses, which resulted in a \$148 thousand after-tax decrease to retained earnings as of January 1, 2023. The tax effect resulted in a \$40 thousand increase to deferred tax assets.

The allowance for credit losses is established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is maintained at a level management considers to be adequate to provide for losses that can be reasonably anticipated over the expected life of the loans. Management's periodic evaluation of the adequacy of the allowance is based on 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

and forecasted economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change.

The allowance consists of a collectively evaluated component and an individually evaluated component. The collectively evaluated component covers non-classified loans and classified loans not considered loans individually evaluated for credit losses, and is based on historical loss experience adjusted for forecasting factors and qualitative factors. The individually evaluated component relates to loans that are classified as loans individually evaluated for credit losses and/or restructured. For loans that are classified as loans individually evaluated for credit losses, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loans individually evaluated for credit losses is lower than the carrying value of that loan.

For additional information on ASC Topic 326, see Note 1 “Summary of Significant Accounting Policies.”

For the year ended December 31, 2023, the credit for credit losses was \$178 thousand, compared to the provision for credit losses of \$895 thousand for the year ended December 31, 2022. In the year ended December 31, 2023, there were no charge-offs and \$2 thousand in recoveries, compared to no charge-offs and \$70 thousand in recoveries for the year ended December 31, 2022. The (credit) provision for credit losses is a function of the allowance for credit loss methodology that the Company uses to determine the appropriate level of the allowance for inherent credit losses after net charge-offs have been deducted. See the discussion below under “*Credit Risk and Loan Quality*” regarding the Company’s considerations of its December 31, 2023 allowance for credit loss levels. The allowance for credit losses is \$12.5 million as of December 31, 2023, which is 0.99% of total loans receivable, compared to \$12.4 million or 1.03% of total loans receivable as of December 31, 2022. Based principally on loan growth, economic conditions, asset quality, and loan-loss experience, including that of comparable institutions in the Company’s market area, the allowance is believed to be adequate to absorb any losses expected in the portfolio. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for credit losses is adequate, or that material increases will not be necessary should the quality of the loans deteriorate. The Company has not participated in any sub-prime lending activity.

Non-interest Income

Non-interest income is derived from the Company’s operations and represents primarily merchant and credit card processing fees, debit card interchange fees, service fees on deposit and loan relationships and income from bank owned life insurance. Non-interest income also may include net gains and losses from the sale of available for sale securities, loans, and other real estate owned.

Total non-interest income was \$2.6 million for the year ended December 31, 2023, compared to \$2.3 million for the same period in 2022. The increase is, in part, attributable to an increase in bank owned life insurance of \$212 thousand primarily due to an increase in separate account life insurance assets driven by the effect market conditions had on underlying life insurance assets, offset by death benefit proceeds during the year ended December 31, 2022. Also, contributing to the increase in non-interest income is an increase of \$6 thousand in merchant and credit card processing, an increase of \$8 thousand in debit card interchange fees, and an increase of \$60 thousand in other service fees due, in part, to an expanding customer base, overdraft fees, and early withdrawal time deposit penalties.

As the deposit customer account base continues to grow and the Company continues to mature and develop additional sources of fee income, non-interest income is expected to become a larger contributor to the overall profitability of the Company. Currently, and unlike many in the industry, the Company does not derive additional non-interest fee income by selling its mortgages in the secondary market, nor does it offer trust or investment/brokerage services to its customers, that traditionally increase non-interest income.

Non-interest Expense

Non-interest expenses represent the normal operating expenses of the Company. These expenses include salaries, employee benefits, occupancy, equipment, data processing, advertising and other expenses related to the overall operation of the Company.

Non-interest expenses for the year ended December 31, 2023 was \$26.4 million, compared to \$25.7 million for the year ended December 31, 2022. The increase in non-interest expenses is, in part, attributable to a \$369 thousand increase in salaries and employee benefits due to annual increases in salaries and benefits, retirement contributions, employee taxes, health insurance cost, and stock grant expenses, offset by a decrease in non-qualified pension expense. Additional increases in non-interest expenses are attributable to an increase of \$139 thousand in occupancy and equipment, an increase of \$177 thousand in advertising and promotion expenses, an increase of \$139 thousand in professional fees, and an increase of \$292 thousand in FDIC insurance. These increases in non-interest expenses were offset, in part, by a \$266 thousand decrease in data processing due to switching to a new online platform provider in August 2022 and a decrease in data communication costs, offset by an increase in escrow management services due to the implementation costs from migration to a new vendor and an increase in data processing maintenance contracts. Additional decreases in non-interest expenses were due to a decrease of \$192 thousand in other expenses due to telephone expenses, copier expense, correspondent bank fees, key man life insurance expense, and bank shares taxes, offset by increases in other operating expenses, debit card production expense, debit card fraud, check fraud, and wire fraud losses. The Company's efficiency ratio was 63.3% and 52.9% for the year ending December 31, 2023 and 2022, respectively.

A breakdown of other non-interest expenses is included in the Consolidated Statements of Income included in Item 8 of this Report.

Income Taxes

The provision for income taxes was \$2.8 million and \$4.3 million for December 31, 2023 and December 31, 2022. The effective rate on income taxes for the years ended December 31, 2023 and 2022 was 18.1% and 19.5%, respectively. The decrease in the tax rate is, in part, the result of an increase in income on bank owned life insurance and the result of the change in the mix of taxable and tax free loans and investments.

FINANCIAL CONDITION

Securities

The Company's securities portfolio continues to be classified, in its entirety, as "available for sale." Management believes that a portfolio classification of available for sale allows complete flexibility in the investment portfolio. Using this classification, the Company intends to hold these securities for an indefinite amount of time, but not necessarily to maturity. Such securities are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity. The portfolio is generally structured to provide maximum return on investments while providing a consistent source of liquidity and meeting strict risk standards. Investment securities consist primarily of mortgage-backed securities issued by FHLMC or FNMA, taxable and non-taxable municipal bonds, government agency bonds, and Treasury bonds. The Company holds no high-risk or direct internationally exposed securities or derivatives as of December 31, 2023. The Company has not made any investments in non-U.S. government agency mortgage backed securities or sub-prime loans. The liquidity of the portfolio has been impacted by the increase in market interest rates. Selling of securities would not be a primary source of short term liquidity needs given the unrealized losses currently in the portfolio.

The Company's securities portfolio was \$276.1 million at December 31, 2023, a \$40.9 million decrease from securities of \$317.0 million at December 31, 2022. The decrease in the investment portfolio resulted from principal pay downs on mortgage-backed securities, the maturity of one (1) taxable municipal bond, the maturity of six (6) Treasury bonds, the maturity of five (5) government agency bonds, and the call of one (1) non-taxable municipal bond

totaling \$55.7 million; offset by the purchase of four (4) Treasury bonds totaling \$4.9 million, as well as a decrease in unrealized losses of \$9.4 million. The carrying value of the securities portfolio as of December 31, 2023 includes a net unrealized loss of \$55.3 million, which is recorded as accumulated other comprehensive loss in stockholders' equity net of income tax effect. This compares to a net unrealized loss of \$64.7 million at December 31, 2022. The current unrealized loss position of the securities portfolio is due to increasing market interest rates in 2022 through 2023 in response to economic conditions since initial purchase. Management determined the Company does not have the intent to sell, nor is it more likely than not that it will be required to sell securities in an unrealized loss position at December 31, 2023. Further, management reviewed the Company's securities as of December 31, 2023 and concluded there were no credit-related declines in fair value. The effective duration of the securities portfolio is between 7 to 8 years at December 31, 2023.

The following table sets forth the composition of the securities portfolio at fair value as of December 31, 2023 and December 31, 2022.

	2023	2022
	(In Thousands)	
U.S. Treasury securities	\$ 14,590	\$ 16,771
U.S. Government agency obligations	2,339	32,551
Municipal securities	60,796	58,617
U.S. Government sponsored enterprise (GSE)		
- Mortgage-backed securities - commercial	442	434
U.S. Government sponsored enterprise (GSE)		
- Mortgage-backed securities - residential	197,893	208,619
Total Securities Available for Sale	\$ 276,060	\$ 316,992

The following table presents the maturities and average weighted yields of the debt securities portfolio as of December 31, 2023. Maturities of mortgage-backed securities are based on estimated life. Yields are based on amortized cost.

Securities by Maturities

	1 year or Less		1-5 Years		5-10 Years		Over 10 Years		Total	
	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield	Amount	Average Yield
	(Dollars In Thousands)									
U.S. Treasury securities	\$ 4,893	3.05%	\$ 9,697	2.88%	\$ -	-	\$ -	-	\$ 14,590	2.94%
U.S. Government agency obligations	-	-	2,339	1.28%	-	-	-	-	2,339	1.28%
Municipal securities	370	5.06%	2,256	2.65%	5,254	3.63%	52,916	2.99%	60,796	3.04%
U.S. GSE - Mortgage-backed securities-commercial	-	-	-	-	442	2.39%	-	-	442	2.39%
U.S. GSE - Mortgage-backed securities-residential	-	-	4,942	2.71%	64,109	1.92%	128,842	1.77%	197,893	1.84%
Total Debt Securities	\$ 5,263	3.19%	\$ 19,234	2.61%	\$ 69,805	2.05%	\$ 181,758	2.12%	\$ 276,060	2.16%

Loans

The loan portfolio comprises a major component of the Company's earning assets. All of the Company's loans are to domestic borrowers. Total net loans receivable (excluding PPP loans) increased by \$45.4 million to \$1.24 billion at December 31, 2023 from \$1.20 billion at December 31, 2022. The gross loan-to-deposit ratio increased to 85% at December 31, 2023, compared to 79% at December 31, 2022. The Company's loan portfolio at December 31, 2023 was comprised of residential real estate and consumer loans of \$663.7 million, an increase of \$18.9 million from December 31, 2022, and commercial loans of \$589.8 million, an increase of \$26.2 million from December 31, 2022. The Company has not originated, nor does it intend to originate, sub-prime mortgage loans. The Company was a participant in the SBA PPP to support the needs of its small business clients. PPP loans receivable at December 31, 2022 was \$286 thousand. There was no outstanding PPP loans as of December 31, 2023.

The following table sets forth information on the composition of the loan portfolio by type at December 31, 2023 and 2022. All of the Company's loans are to domestic borrowers.

	December 31, 2023		December 31, 2022	
	Balance	Percentage of total Loans	Balance	Percentage of total Loans
(Dollars in Thousands)				
Commercial real estate	\$ 539,034	43.00%	\$ 507,300	41.98%
Commercial construction	16,840	1.34%	16,761	1.39%
Commercial	33,951	2.71%	39,520	3.27%
Residential real estate	663,127	52.90%	643,975	53.30%
Consumer	565	0.05%	782	0.06%
Gross loans	1,253,517	100.00%	1,208,338	100.00%
Unearned origination costs	522		275	
Allowance for credit losses	(12,461)		(12,449)	
Net Loans	\$ 1,241,578		\$ 1,196,164	

The following table shows the maturities of the commercial and consumer loan portfolios and the loans subject to interest rate fluctuations at December 31, 2023.

	One Year or Less	After One Year Through Five Years	After Five Years Through Fifteen Years	After Fifteen Years	Total
(In Thousands)					
Commercial real estate	\$ 36,714	\$ 336,405	\$ 165,112	\$ 803	\$ 539,034
Commercial construction	7,148	9,692	-	-	16,840
Commercial	9,683	20,466	3,596	206	33,951
Residential Real Estate	6,505	26,346	395,188	235,088	663,127
Consumer	72	431	22	40	565
	\$ 60,122	\$ 393,340	\$ 563,918	\$ 236,137	\$ 1,253,517
Fixed Rates	\$ 43,751	\$ 389,808	\$ 563,896	\$ 222,572	\$ 1,220,027
Variable Rates	16,371	3,532	22	13,565	33,490
	\$ 60,122	\$ 393,340	\$ 563,918	\$ 236,137	\$ 1,253,517

Credit Risk and Loan Quality

The Company's allowance for credit losses increased slightly to \$12.5 million at December 31, 2023 from \$12.4 million at December 31, 2022. At December 31, 2023 and December 31, 2022, the allowance for credit losses represented 0.99% and 1.03% of total loans receivable, respectively. The Company's non-performing loans to total loans receivable were 0.03% at December 31, 2023, compared to 0.20% at December 31, 2022. At December 31, 2023, approximately 96% of the Company's loan portfolio is collateralized by real estate.

The aggregate balances on non-performing loans are included in the following table. Troubled debt restructurings for periods prior to January 1, 2023, included in the following table, represent loans where the Company, for economic or legal reasons related to the debtor's financial difficulties, has granted a concession to the debtor that it would not otherwise consider. At December 31, 2023, the Company had no foreclosed assets and had one (1) recorded investment in a mortgage loan collateralized by residential real estate property in the process of foreclosure in the amount of \$121 thousand, compared to none at December 31, 2022, the Company had no foreclosed assets or recorded investment in mortgage loans collateralized by residential real estate property in the process of foreclosure.

The Company had no charge-offs in 2023 and 2022 and had recoveries of \$2 thousand and \$70 thousand in 2023 and 2022, respectively.

Our loan portfolio includes a large amount of commercial real estate loans. Management believes the commercial real estate loan portfolio is well-diversified. At December 31, 2023 and 2022, high volatility commercial real estate exposures were \$7.4 million and \$6.6 million, respectively. Commercial real estate loans are originated primarily within Lehigh and Northampton counties, are within the Company's underwriting criteria, and generally include the guarantee of one or more of the borrowers' affiliates. At December 31, 2023, the Company's office space portfolio included no exposure to properties in major metropolitan markets. Commercial real estate loans have drawn the attention of the regulators in recent years as a potential source of risk. The Company monitors these types of loans closely, obtaining updated appraisals on loans when required. As detailed in the Allowance for Credit Losses table, the Company had no charge-offs in this category in 2023 or 2022. The Company believes it has taken the appropriate steps to implement appropriate risk management practices for its commercial real estate loan portfolio, which are subject to regulatory examination.

The details for the non-performing loans and assets are included in the following table:

	December 31,	
	2023	2022
	(Dollars In Thousands)	
Non-accrual - commercial	\$ -	\$ -
Non-accrual - consumer	366	192
Restructured, accruing interest	-	2,182
Loans past due 90 or more days, accruing interest	-	-
Total nonperforming loans	366	2,374
Foreclosed assets	-	-
Total nonperforming assets	\$ 366	\$ 2,374
Nonperforming loans to total loans (excluding PPP loans)	0.03%	0.20%
Nonperforming assets to total assets	0.02%	0.14%
Non-accrual loans to total loans (excluding PPP loans)	0.03%	0.02%
Allowance to non-accrual loans	3404.64%	6483.85%
Net charge-offs (recoveries) to average loans (excluding PPP loans)	0.00%	0.00%

Allowance for Credit Losses

The Company adopted the ASU 2016-13 “Financial Instruments – Credit Losses (Topic 326)” (“CECL”) on January 1, 2023. The cumulative effect from the adoption of CECL was a \$188 thousand increase to the allowance for credit losses. Based upon current economic conditions, the composition of the loan portfolio, the perceived credit risk in the portfolio and loan-loss experience of the Company and comparable institutions in the Company’s market area, management feels, as of December 31, 2023, the allowance is adequate to absorb reasonably anticipated losses. The Company will continue to evaluate the allowance for credit losses as new information becomes available.

As of December 31, 2023, the Company had \$3.3 million of individually evaluated loans (defined as those loans that do not share the same risk characteristics as the remaining pooled portfolio and legacy debt restructurings) compared to \$3.2 million at December 31, 2022. Most of the Company’s individually evaluated loans required no specific reserves due to adequate collateral. As of December 31, 2023, the Company had individually evaluated loans of \$778 thousand requiring a specific reserve of \$195 thousand. As of December 31, 2022, the Company had impaired loans of \$1.0 million requiring a specific reserve of \$169 thousand.

The activity in the allowance for credit losses is shown in the following table, as well as period end loans receivable and the allowance for credit losses as a percent of the total loans receivable (excluding PPP loans) portfolio:

	December 31,	
	2023	2022
	(Dollars In Thousands)	
Loans receivable at end of year	\$ 1,254,039	\$ 1,208,613
Allowance for credit losses:		
Balance, beginning	\$ 12,449	\$ 11,484
Cumulative effect of change in accounting principle	188	-
(Credit) provision for credit losses	(178)	895
Loans charged off:		
Commercial real estate	-	-
Commercial construction	-	-
Commercial	-	-
Residential real estate	-	-
Consumer	-	-
Total charged off	-	-
Recoveries of loans previously charged-off:		
Commercial real estate	-	-
Commercial construction	-	-
Commercial	-	-
Residential real estate	2	70
Consumer	-	-
Total recoveries	2	70
Net charged off	2	70
Balance at end of year	\$ 12,461	\$ 12,449
Allowance for credit losses to loans receivable at end of year	0.99%	1.03%

Allocation of the Allowance for Credit Losses

The following table details the allocation of the allowance for credit losses to various loan categories (excluding PPP loans). While allocations have been established for particular loan categories, management considers the entire allowance to be available to absorb losses in any category.

	<u>December 2023</u>	<u>December 2022</u>
	(Dollars in Thousands)	
Commercial real estate	\$ 6,108	\$ 5,113
Commercial construction	195	200
Commercial	920	1,289
Residential real estate	5,224	4,960
Consumer	14	13
Unallocated	-	874
Total Allowance for Credit Losses	<u>\$ 12,461</u>	<u>\$ 12,449</u>

Deposits

As growth continues, the Company expects that the principal sources of its funds will be deposits, consisting of demand deposits, NOW accounts, money market accounts, savings accounts, and certificates of deposit from the local market areas surrounding the Company’s offices. These accounts provide the Company with a source of fee income and a relatively stable source of funds.

Total deposits at December 31, 2023 were \$1.48 billion, a decrease of \$44.9 million, or 3.0%, from total deposits of \$1.52 billion as of December 31, 2022. The decrease in the Company’s deposits was due to a decrease of \$53.1 million in non-interest bearing demand and a \$188.3 million decrease in savings deposits; offset by an increase of \$188.8 million in time deposits and a \$7.8 million increase in interest bearing demand, NOW and money market deposits. The shift from savings and non-interest bearing demand deposits to time deposits is primarily due to higher yielding rates on time deposits, due to the current rate environment. Included in the above mentioned decrease was a \$16.1 million decrease in non-interest bearing demand personal deposits and a \$37.0 million decrease in non-interest bearing demand business deposits. Included in total deposits at December 31, 2023 were personal deposits of \$1.09 billion, business deposits of \$293.6 million, and municipal deposits of \$89.5 million. Included in total deposits at December 31, 2022 were personal deposits of \$1.09 billion, business deposits of \$324.1 million, and municipal deposits of \$102.6 million. The estimated amount of uninsured assessable deposits, including related interest accrued and unpaid, at December 31, 2023 and December 31, 2022 was \$464.3 million and \$578.8 million, respectively.

The following table reflects the Company's deposits by category for the periods indicated. All deposits are domestic deposits.

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
(In Thousands)		
Demand, non-interest bearing	\$ 328,669	\$ 381,811
Demand, NOW and money market, interest bearing	252,400	244,629
Savings	493,129	681,394
Time, \$250 and over	138,765	82,916
Time, other	263,270	130,357
Total deposits	\$ 1,476,233	\$ 1,521,107

The following table sets forth the average balance of the Company's deposits and the average rates paid on those deposits:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Average</u> <u>Amount</u>	<u>Average</u> <u>Rate</u>	<u>Average</u> <u>Amount</u>	<u>Average</u> <u>Rate</u>
(Dollars In Thousands)				
Demand, NOW and money market, interest bearing deposits	\$ 241,524	0.74%	\$ 247,379	0.07%
Savings	567,686	0.58%	751,101	0.29%
Certificates of deposit	342,387	3.66%	148,661	1.13%
Total interest bearing deposits	1,151,597	1.53%	1,147,141	0.35%
Non-interest bearing demand deposits	342,746		357,184	
Total	\$ 1,494,343		\$ 1,504,325	

The following table displays the maturities and the amounts of the Company's certificates of deposit of \$250,000 or more:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
(In Thousands)		
3 months or less	\$ 52,882	\$ 16,648
Over 3 through 6 months	31,818	13,303
Over 6 through 12 months	44,253	33,269
Over 12 months	9,812	19,696
Total	\$ 138,765	\$ 82,916

As a FDIC member institution, the Company's deposits are insured to a maximum of \$250,000 per depositor through the DIF that is administered by the FDIC and each institution is required to pay quarterly deposit insurance premium assessments to the FDIC.

Liquidity

Liquidity is a measure of the Company's ability to meet the demands required for the funding of loans and to meet depositors' requirements for use of their funds. The Company's sources of liquidity are cash balances, due from banks, and federal funds sold. Cash and cash equivalents were \$78.9 million at December 31, 2023, compared to \$67.3 million at December 31, 2022. There are other sources of liquidity that are available to the Company, as well, including those described below.

Additional asset liquidity sources include principal and interest payments from investment securities, unpledged investment securities, and loan portfolios. Long-term liquidity needs may be met by selling unpledged securities available for sale, selling or participating loans, or raising additional capital. Currently, selling of securities would not be a primary source of short term liquidity needs given the unrealized losses in the portfolio. At December 31, 2023, the Company had \$276.1 million of available for sale securities, compared to \$317.0 million at December 31, 2022. Securities with carrying values of approximately \$145.7 million and \$147.2 million at December 31, 2023 and December 31, 2022, respectively, were pledged as collateral to secure securities sold under agreements to repurchase, public deposits, and for other purposes required or permitted by law.

At December 31, 2023, the Bank had a maximum borrowing capacity for short-term and long-term advances of approximately \$785.7 million, of which \$750.5 million is available for borrowing at December 31, 2023 due to an outstanding short-term FHLB advance of \$35.0 million with an interest rate of 5.719% which matured and was repaid on January 2, 2024, as well as an outstanding letter of credit in amount of \$135 thousand still outstanding. This borrowing capacity with the FHLB includes a line of credit of \$150.0 million. There were no long term FHLB advances outstanding as of December 2023. There were no short-term or long-term FHLB advances outstanding as of December 31, 2022. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank also has a federal funds line of credit with the ACBB of \$10.0 million, of which none was outstanding at December 31, 2023 and December 31, 2022. Advances from this line are unsecured.

The Bank is also eligible to borrow under the Federal Reserve Bank's discount window borrowing programs.

The Bank is a member of the Certificate of Deposit Account Registry Services (CDARS) program and the Insured Cash Sweep (ICS) program offered by Promontory Interfinancial Network, LLC. CDARS is a funding and liquidity management tool used by banks to access funds and manage their balance sheet. ICS provides liquidity similar to a money market or savings account. Both programs enable financial institutions to provide customers with full FDIC insurance on deposits over \$250 thousand that are placed in the program. The Bank also has access to other brokered deposits as a source of liquidity.

The Company has a revolving line of credit facility with the ACBB of \$7.5 million, of which none was outstanding at December 31, 2023 and December 31, 2022. Advances from this line are unsecured. Under the terms of this facility, availability under the revolving line of credit would be reduced to \$5.0 million should the Company's net tangible ratio drop below 5% and availability would be reduced to \$2.0 million should the Company's net tangible ratio drop below 2%. If the Company's net tangible ratio drops below 0%, the commitment is cancelled.

Because of the composition of the Company's balance sheet, its strong capital base, ability to attract new deposit relationships, access to brokered deposits, and borrowing capacity, the Company believes that it remains well positioned with respect to liquidity. The majority of the Company's funds are invested in loans with a portion invested in investment securities that generally carry a lower yield. While it is desirable to be liquid, it has the effect of a lower interest margin. The Company has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or capital resources.

Off-Balance Sheet Arrangements

The Company's consolidated financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk. These commitments consist of unfunded loans and commitments, lines of credit, and letters of credit made under the same standards as on-balance sheet loan instruments. These off-balance sheet arrangements at December 31, 2023 and December 31, 2022 totaled \$191.6 million and \$198.4 million, respectively. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. For further information see Note 4, in Item 8 of this report. Management is of the opinion that the Company's liquidity is sufficient to meet its anticipated needs.

Capital Resources and Adequacy

Total stockholders' equity was \$105.7 million as of December 31, 2023, representing a net increase of \$17.4 million from December 31, 2022. The increase in capital was the result of net income of \$12.7 million, a decrease of \$7.4 million in accumulated other comprehensive loss from unrealized losses on available for sale securities, an increase in common stock of \$18 thousand, and an increase in surplus of \$619 thousand due to stock grants and employee stock purchases with compensation expense, offset by a decrease in retained earnings of \$148 thousand from the cumulative effect of the adoption of the CECL accounting principle, a decrease in retained earnings from dividends paid of \$3.0 million, and treasury stock purchases of \$132 thousand. The accumulated other comprehensive losses are excluded from both the Bank's and the Company's Tier 1 regulatory capital calculations.

The Company's tangible book value per share, calculated as total stockholders' equity divided by outstanding common stock shares, was \$13.91 and \$11.64 at December 31, 2023 and December 31, 2022, respectively. The Company's tangible book value per share not including accumulated other comprehensive loss in the total stockholders' equity numerator (a non-GAAP measure) was \$19.66 and \$18.37 at December 31, 2023 and December 31, 2022, respectively. The Company believes this non-GAAP measurement enhances the overall understanding of Company performance and increases comparability of period to period results, but should not be viewed as a substitute for the measure as determined in accordance with GAAP or an inference that future results will be unaffected by similar adjustments to be determined in accordance with GAAP.

The following table presents the computation of this non-GAAP based measure shown together with its most directly comparable GAAP measure:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
	(Dollars In Thousands Except Per Share Data)	
<u>Tangible Book Value Per Share</u>		
Total stockholders' equity	\$ 105,655	\$ 88,276
Addback: accumulated other comprehensive loss ("AOCL")	43,700	51,107
Total stockholders' equity not included AOCL (non-GAAP)	\$ 149,355	\$ 139,383
Common stock shares outstanding	7,596,236	7,586,991
Book value per share (most directly comparable GAAP based measure)	\$ 13.91	\$ 11.64
AOCL per share	5.75	6.74
Book value per share not including AOCL (non-GAAP)	\$ 19.66	\$ 18.37

The Company and the Bank are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material adverse effect on the consolidated financial statements.

The regulations require that banks maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and Tier 1 capital to average assets (as defined). As of December 31, 2023, the Bank met the minimum requirements. In addition, the Bank's capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

The following table provides a comparison of the Bank's risk-based capital ratios and leverage ratios:

	December 31, 2023	December 31, 2022
	(Dollars In Thousands)	
Tier 1, common stockholders' equity	\$ 149,299	\$ 139,175
Tier 2, allowable portion of allowance for credit losses	12,461	12,449
Total capital	\$ 161,760	\$ 151,624
Common equity tier 1 capital ratio	13.3%	12.9%
Tier 1 risk based capital ratio	13.3%	12.9%
Total risk based capital ratio	14.5%	14.1%
Tier 1 leverage ratio	8.9%	8.3%

Note: Unrealized gains and losses on securities available for sale are excluded from regulatory capital components of risk-based capital and leverage ratios.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

The capital ratios to be considered "well capitalized" under the new capital rules are:

- Common equity of 6.5%;
- Tier 1 leverage of 5%;
- Tier 1 risk-based capital of 8%; and
- Total Risk-Based capital of 10%.

The Company qualifies as a small bank holding company and is not subject to the Federal Reserve's consolidated capital rules, although an institution that so qualifies may continue to file reports that include such capital amounts and ratios. The Company has elected to continue to report those amounts and ratios.

The following table provides the Company's risk-based capital ratios and leverage ratios:

	December 31, 2023	December 31, 2022
	(Dollars In Thousands)	
Tier 1, common stockholders' equity	\$ 149,355	\$ 139,383
Tier 2, allowable portion of allowance for credit losses	12,461	12,449
Total capital	\$ 161,816	\$ 151,832
Common equity tier 1 capital ratio	13.3%	12.9%
Tier 1 risk based capital ratio	13.3%	12.9%
Total risk based capital ratio	14.5%	14.1%
Tier 1 leverage ratio	8.9%	8.3%

Note: Unrealized gains and losses on securities available for sale are excluded from regulatory capital components of risk-based capital and leverage ratios.

Interest Rate Risk Management

A principal objective of the Company's asset/liability management policy is to minimize the Company's exposure to changes in interest rates by an ongoing review of the maturity and repricing of interest-earning assets and interest-bearing liabilities. The Asset Liability Committee (ALCO), which meets as part of the Board of Directors meeting, oversees this review, which establishes policies to control interest rate sensitivity. Interest rate sensitivity is the volatility of a company's earnings resulting from a movement in market interest rates. The Company monitors rate sensitivity in order to reduce vulnerability to interest rate fluctuations while maintaining adequate capital levels and acceptable levels of liquidity. The Company's asset/liability management policy, monthly and quarterly financial reports, along with simulation modeling, supplies management with guidelines to evaluate and manage rate sensitivity.

GAP, a measure of the difference in volume between interest bearing assets and interest bearing liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indicator of the rate sensitivity of the Company. NOW and savings accounts are categorized by their respective estimated decay rates. The Company is liability sensitive, which means that if interest rates fall, interest income will fall slower than interest expense and net interest income will likely increase. If interest rates rise, interest income will rise slower than interest expense and net interest income will likely decrease. The Company continues to monitor interest rate exposure of its interest bearing assets and liabilities and believes that it is well positioned for any future market rate adjustments.

	0 to 3 Months	Over 3 Months to 12 Months	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 Years	Total
(In Thousands)						
Interest-earning assets						
Federal funds sold and interest-bearing deposits	\$ 62,790	\$ -	\$ -	\$ -	\$ -	62,790
Investment securities	6,418	14,414	39,920	31,338	186,428	278,518
Loans receivable, gross	83,439	137,266	295,196	226,594	511,544	1,254,039
Total interest-earning assets	152,647	151,680	335,116	257,932	697,972	1,595,347
Interest-bearing liabilities						
NOW and money market accounts	28,665	65,077	88,348	36,220	34,090	252,400
Savings	38,395	98,092	169,794	88,705	98,143	493,129
Certificates of deposit	123,075	228,026	48,263	2,671	-	402,035
Other borrowed funds	35,000	-	-	-	-	35,000
Repurchase agreements and federal funds purchased	15,237	-	-	-	-	15,237
Total interest-bearing liabilities	240,372	391,195	306,405	127,596	132,233	1,197,801
GAP	\$ (87,725)	\$ (239,515)	\$ 28,711	\$ 130,336	\$ 565,739	\$ 397,546
CUMULATIVE GAP	\$ (87,725)	\$ (327,240)	\$ (298,529)	\$ (168,193)	\$ 397,546	
GAP TO INTEREST EARNING ASSETS	-5.50%	-15.01%	1.80%	8.17%	35.46%	
CUMULATIVE GAP TO INTEREST EARNING ASSETS	-5.50%	-20.51%	-18.71%	-10.54%	24.92%	

Based on a twelve-month forecast of the balance sheet, the following table sets forth our interest rate risk profile at December 31, 2023. For income simulation purposes, personal and business savings accounts reprice every two months, personal and business NOW accounts reprice every two months and personal and business money market accounts reprice every month. Management reviews all assumptions on a periodic basis and believe current assumptions support market conditions. The impact on net interest income, illustrated in the following table, would vary if different assumptions were used or if actual experience differs from that indicated by the assumptions.

Change in Interest Rates	Percentage Change in Net Interest Income
Down 100 basis points	2.4%
Down 200 basis points	3.5%
Up 100 basis points	-3.6%
Up 200 basis points	-7.8%

Return on Assets and Equity

For the year ended December 31, 2023, the return on average assets was 0.78%, the return on average equity was 13.58%, and the ratio of average shareholders' equity to average total assets was 5.73%.

For the year ended December 31, 2022, the return on average assets was 1.08%, the return on average equity was 18.09%, and the ratio of average shareholders' equity to average total assets was 5.98%.

Dividend Payout Ratio

For the years ended December 31, 2023 and 2022, the dividend payout ratio was 24.03% and 14.94%, respectively.

Effects of Inflation

The majority of assets and liabilities of the Company are monetary in nature, and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. The precise impact of inflation upon the Company is difficult to measure. Inflation may affect the borrowing needs of consumers, thereby impacting the growth rate of the Company's assets. Inflation may also affect the general level of interest rates, which can have a direct bearing on the Company.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Management Report on Internal Controls Over Financial Reporting

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in SEC Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2023, the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of 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 the Company's internal control over financial reporting as of December 31, 2023, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework (2013). Based on this assessment, management concluded that, as of December 31, 2023, the Company's internal control over financial reporting is effective based on those criteria.

/s/ David M. Lobach, Jr.

David M. Lobach, Jr.
Chairman, President and
Chief Executive Officer
March 28, 2024

/s/ Judith A. Hunsicker

Judith A. Hunsicker
First Executive Officer, Chief Operating
Officer, Secretary and Chief Financial
Officer
March 28, 2024

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Embassy Bancorp, Inc. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Embassy Bancorp, Inc. and Subsidiary (Company) as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated 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 described in Note 1 to the Company's consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of the allowance for credit losses effective January 1, 2023 due to the adoption of ASC 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated 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 the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Allowance for Credit Losses – Loans – Qualitative Factors

Critical Audit Matter Description

As discussed in Notes 1 and 3 to the Company’s consolidated financial statements, the Company accounts for credit losses under ASC 326, Financial Instruments – Credit Losses. ASC 326 requires the measurement of expected credit losses over the estimated life of the existing portfolio of loans. As described in the notes, the allowance for credit losses is measured on a pool basis when similar risk characteristics exist. For the loans collectively evaluated on a pool basis, the allowance for credit losses is estimated via a quantitative analysis which considers relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts.

The qualitative factors used by the Company include factors such as changes in lending policies and procedures, national and local economic conditions, experience, ability and depth of lenders and staff, quality of the loan review system and Board oversight, the volume and severity of past due loans and non-accrual loans, business conditions, portfolio concentrations, and the effect of external factors such as competition, and legal and regulatory requirements. The adjustments for qualitative factors require a significant amount of judgment by management and involve a high degree of estimation uncertainty.

We identified the qualitative factor component of the allowance for credit losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management involve a high degree of subjectivity.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included, among others:

- Obtaining an understanding of the relevant controls related to the allowance for credit losses, including controls related to management’s determination and review of the qualitative factors, and the completeness and accuracy of data used in determining qualitative factors.
- Testing of the completeness and accuracy of data used by management in determining qualitative factor adjustments by agreeing to internal and external source data.
- Testing of the mathematical accuracy of the allowance calculation.
- Evaluating the reasonableness of management’s conclusions regarding the appropriateness of the qualitative factor adjustments when compared to the underlying internal and external source data.

/s/ Baker Tilly US, LLP

We have served as the Company’s auditor since 2001.

Allentown, Pennsylvania
March 28, 2024

Consolidated Balance Sheets

ASSETS	December 31, 2023	December 31, 2022
	(In Thousands, Except Share Data)	
Cash and due from banks	\$ 16,133	\$ 21,927
Interest bearing demand deposits with banks	61,790	44,368
Federal funds sold	1,000	1,000
Cash and Cash Equivalents	78,923	67,295
Securities available for sale	276,060	316,992
Restricted investment in bank stock	2,458	995
Loans receivable, net of allowance for credit losses of \$12,461 in 2023; \$12,449 in 2022	1,241,578	1,196,164
Paycheck Protection Program loans receivable	-	286
Premises and equipment, net of accumulated depreciation	3,734	3,843
Bank owned life insurance	26,310	25,603
Accrued interest receivable	3,298	2,926
Other assets	24,135	26,123
Total Assets	\$ 1,656,496	\$ 1,640,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 328,669	\$ 381,811
Interest bearing	1,147,564	1,139,296
Total Deposits	1,476,233	1,521,107
Securities sold under agreements to repurchase	15,237	13,384
Short-term borrowings	35,000	-
Accrued interest payable	7,844	986
Other liabilities	16,527	16,474
Total Liabilities	1,550,841	1,551,951
Stockholders' Equity:		
Common stock, \$1 par value; authorized 20,000,000 shares;		
2023 issued 7,758,247 shares; outstanding 7,596,236 shares;		
2022 issued 7,739,785 shares; outstanding 7,586,991 shares	7,758	7,740
Surplus	28,246	27,627
Retained earnings	116,018	106,551
Accumulated other comprehensive loss	(43,700)	(51,107)
Treasury stock, at cost: 162,011 and 152,794 shares at December 31, 2023 and December 31, 2022, respectively	(2,667)	(2,535)
Total Stockholders' Equity	105,655	88,276
Total Liabilities and Stockholders' Equity	\$ 1,656,496	\$ 1,640,227

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year Ended December 31,	
	2023	2022
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Loans, including fees	\$ 48,720	\$ 42,022
Paycheck Protection Program loans, including fees	1	184
Securities, taxable	6,127	5,921
Securities, non-taxable	1,223	1,196
Short-term investments, including federal funds sold	1,086	1,062
Total Interest Income	57,157	50,385
INTEREST EXPENSE		
Deposits	17,614	4,060
Securities sold under agreements to repurchase and federal funds purchased	292	24
Short-term borrowings	212	-
Long-term borrowings	-	19
Total Interest Expense	18,118	4,103
Net Interest Income	39,039	46,282
(CREDIT) PROVISION FOR CREDIT LOSSES	(178)	895
Net Interest Income after (Credit) Provision for Credit Losses	39,217	45,387
OTHER NON-INTEREST INCOME		
Merchant and credit card processing fees	362	356
Debit card interchange fees	895	887
Other service fees	636	576
Bank owned life insurance	736	524
Total Other Non-Interest Income	2,629	2,343
OTHER NON-INTEREST EXPENSES		
Salaries and employee benefits	13,772	13,403
Occupancy and equipment	3,894	3,755
Data processing	2,954	3,220
Advertising and promotion	986	809
Professional fees	1,073	934
FDIC insurance	760	468
Loan & real estate	215	214
Charitable contributions	931	936
Other	1,806	1,998
Total Other Non-Interest Expenses	26,391	25,737
Income before Income Taxes	15,455	21,993
INCOME TAX EXPENSE	2,799	4,291
Net Income	\$ 12,656	\$ 17,702
BASIC EARNINGS PER SHARE	\$ 1.67	\$ 2.34
DILUTED EARNINGS PER SHARE	\$ 1.67	\$ 2.34
DIVIDENDS PER SHARE	\$ 0.40	\$ 0.35

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

	Year Ended December 31,	
	2023	2022
	(In Thousands)	
Net Income	\$ 12,656	\$ 17,702
Change in Accumulated Other Comprehensive Loss:		
Unrealized holding gain (loss) on securities available for sale	9,376	(63,181)
Less: reclassification adjustment for realized gains	-	-
	<u>9,376</u>	<u>(63,181)</u>
Income tax effect	(1,969)	13,268
Net unrealized gain (loss)	7,407	(49,913)
Other comprehensive income (loss), net of tax	<u>7,407</u>	<u>(49,913)</u>
Comprehensive Income (Loss)	\$ <u>20,063</u>	\$ <u>(32,211)</u>

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
(In Thousands, Except Share and Per Share Data)						
BALANCE - DECEMBER 31, 2021	\$ 7,688	\$ 26,963	\$ 91,493	\$ (1,194)	\$ (2,435)	\$ 122,515
Net income	-	-	17,702	-	-	17,702
Other comprehensive loss, net of tax	-	-	-	(49,913)	-	(49,913)
Dividend declared and paid, \$0.35 per share	-	-	(2,644)	-	-	(2,644)
Exercise of stock options, 33,890 shares	34	242	-	-	-	276
Stock tendered for funding exercise of stock options, 8,046 shares	(8)	(146)	-	-	-	(154)
Common stock grants to directors, 10,701 shares	11	212	-	-	-	223
Common stock grants to officers, 11,931 shares and compensation expense recognized on stock grants, net of unearned compensation expense of \$642	12	292	-	-	-	304
Shares issued under employee stock purchase plan, 3,390 shares	3	64	-	-	-	67
Purchase treasury stock, 883 shares at \$20.79 per share, 4,060 shares at \$18.79 per share, and 293 at \$18.67 per share	-	-	-	-	(100)	(100)
BALANCE - DECEMBER 31, 2022	<u>\$ 7,740</u>	<u>\$ 27,627</u>	<u>\$ 106,551</u>	<u>\$ (51,107)</u>	<u>\$ (2,535)</u>	<u>\$ 88,276</u>
BALANCE - DECEMBER 31, 2022	\$ 7,740	\$ 27,627	\$ 106,551	\$ (51,107)	\$ (2,535)	\$ 88,276
Net income	-	-	12,656	-	-	12,656
Other comprehensive income, net of tax	-	-	-	7,407	-	7,407
Dividend declared and paid, \$0.40 per share	-	-	(3,041)	-	-	(3,041)
Common stock grants to directors, 13,877 shares	14	243	-	-	-	257
Compensation expense recognized on stock grants, net of unearned compensation expense of \$332	-	311	-	-	-	311
Shares issued under employee stock purchase plan, 4,587 shares	4	65	-	-	-	69
Purchase treasury stock, 4,644 shares at \$14.00 per share and 4,573 shares at \$14.66 per share	-	-	-	-	(132)	(132)
Cumulative effect from change in accounting principle – CECL (See Note 1)	-	-	(148)	-	-	(148)
BALANCE - DECEMBER 31, 2023	<u>\$ 7,758</u>	<u>\$ 28,246</u>	<u>\$ 116,018</u>	<u>\$ (43,700)</u>	<u>\$ (2,667)</u>	<u>\$ 105,655</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2023	2022
(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,656	\$ 17,702
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) Provision for credit losses	(178)	895
Amortization of deferred loan costs	234	182
Accretion of deferred Paycheck Protection Program loan fees	-	(165)
Depreciation	915	883
Net accretion of investment security premiums and discounts	(559)	(405)
Stock compensation expense	568	527
Income on bank owned life insurance	(736)	(524)
Deferred income taxes	(84)	(348)
Increase in accrued interest receivable	(372)	(323)
Decrease in other assets	1,054	1,778
Increase in accrued interest payable	6,858	334
Decrease in other liabilities	(858)	(625)
Net Cash Provided by Operating Activities	19,498	19,911
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(4,874)	(93,347)
Maturities, calls and principal repayments of securities available for sale	55,741	23,843
Net increase in loans	(45,658)	(100,686)
Net decrease in Paycheck Protection Program loans	286	8,447
Net (purchase) redemption of restricted investment in bank stock	(1,463)	429
Purchases of premises and equipment	(806)	(719)
Death benefit proceeds on bank owned life insurance	29	717
Net Cash Provided by (Used in) Investing Activities	3,255	(161,316)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(44,874)	54,082
Net increase in securities sold under agreements to repurchase	1,853	2,132
Proceeds from Employee Stock Purchase Plan	69	67
Increase in short-term borrowed funds	35,000	-
Repayment of long-term borrowed funds	-	(14,651)
Purchase of treasury stock	(132)	(100)
Exercise of stock options, net of payment for stock tendered	-	122
Dividends paid	(3,041)	(2,644)
Net Cash (Used in) Provided by Financing Activities	(11,125)	39,008
Net Increase (Decrease) in Cash and Cash Equivalents	11,628	(102,397)
CASH AND CASH EQUIVALENTS - BEGINNING	67,295	169,692
CASH AND CASH EQUIVALENTS - ENDING	\$ 78,923	\$ 67,295
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$ 11,260	\$ 3,769
Income taxes paid	\$ 3,352	\$ 4,268
Non-cash Investing and Financing Activities:		
Right of use assets obtained in exchange for new operating lease liabilities	\$ 911	\$ -

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

Principles of Consolidation and Nature of Operations

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation organized in 2008 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the “BHC Act”). The Company was formed for purposes of acquiring Embassy Bank For The Lehigh Valley (the “Bank”) in connection with the reorganization of the Bank into a bank holding company structure, which was consummated on November 11, 2008. Accordingly, the Company owns all of the capital stock of the Bank, giving the organization more flexibility in meeting its capital needs as the Company continues to grow.

The Bank, which is the Company’s principal operating subsidiary, was originally incorporated as a Pennsylvania bank on May 11, 2001 and opened its doors on November 6, 2001. It was formed by a group of local business persons and professionals with significant prior experience in community banking in the Lehigh Valley area of Pennsylvania, the Bank’s primary market area.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) 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 consolidated financial statements and the reported amounts of income 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.

Concentrations of Credit Risk

Most of the Company’s activities are with customers located in the Lehigh Valley area of Pennsylvania. Note 2 discusses the types of securities in which the Company invests. The concentrations of credit by type of loan are set forth in Note 3. The Company does not have any significant concentrations to any one specific industry or customer, with the exception of lending activity to a broad range of lessors of residential and non-residential real estate within the Lehigh Valley. Although the Company has a diversified loan portfolio, its debtors’ ability to honor their contracts is influenced by the region’s economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing demand deposits with banks, and federal funds sold. Generally, federal funds are purchased or sold for less than one week periods.

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. Securities available for sale are carried at fair value. 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. Unrealized gains and losses are reported as increases or decreases in other comprehensive income (loss). 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 the interest method over the terms of the securities.

Restricted Investments in Bank Stock

Restricted investments in bank stock consist of FHLBank Pittsburgh (“FHLB”) stock and Atlantic Community Bankers Bank (“ACBB”) stock. The restricted stocks have no quoted market value and are carried at cost. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula.

Management evaluates the FHLB and ACBB restricted 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 issuer as compared to the capital stock amount for the issuer and the length of time this situation has persisted, (2) commitments by the issuer to make payments required by law or regulation and the level of such payments in relation to the operating performance of the issuer, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the issuer.

Management believes no impairment charge is necessary related to the FHLB or ACBB restricted stock as of December 31, 2023. No impairment charge was taken related to the FHLB or ACBB restricted stock as of December 31, 2022.

Loans Receivable

Loans 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 any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield using the effective interest method. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective interest method. Delinquency fees are recognized in income when collected.

As described in Note 3, the Company has presented Paycheck Protection Program (“PPP”) loans separately from loans receivable on the Consolidated Balance Sheets. The non-PPP loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial real estate, commercial construction and commercial. Consumer loans consist of the following classes: residential real estate and other consumer loans.

The Company makes commercial loans for real estate development and other business purposes required by the customer base. The Company’s credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversion of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayments of these loans are dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower’s residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying interest rates (fixed or variable) depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages may have amortizations up to 30 years and home equity loans may have maturities up to 25 years. Other consumer loans include installment loans, car loans, and overdraft lines of credit. Some of these loans may be unsecured.

For all classes of loans receivable, the accrual of interest may be 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, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans, including impaired loans, generally is applied against 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 (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The Company adopted ASU 2016-13 using a modified retrospective approach. Results for reporting periods beginning after January 1, 2023 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. At adoption, the Company increased its allowance for credit losses by \$188 thousand, comprised of \$113 thousand for loans receivable and \$75 thousand for unfunded commitments. Upon adoption the Company recorded a cumulative effect adjustment that reduced stockholders’ equity by \$148 thousand, net of tax.

The allowance for credit losses represents the estimated amount considered necessary to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable and securities measured at amortized cost. It also applies to off-balance sheet credit exposures such as loan commitments and unused lines of credit. The allowance is established through a provision for credit losses that is charged against income. The methodology for determining the allowance for credit losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded allowance for credit losses. The allowance for credit losses is reported separately as a contra-asset on the Consolidated Balance Sheets. The expected credit loss for unfunded lending commitments and unfunded loan commitments, if required, is reported on the Consolidated Balance Sheets in other liabilities while the provision for credit losses related to unfunded commitments is reported in other non-interest expense.

Federal regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for credit losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is adequate.

Allowance for Credit Losses on Loans Receivable

The allowance for credit losses on loans is deducted from the amortized cost basis of the loan to present the net amount expected to be collected. Expected losses are evaluated and calculated on a collective, or pooled, basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether loans within a pool continue to exhibit similar risk characteristics. If the risk characteristics of a loan change, such that they are no longer similar to other loans in the pool, the Company will evaluate the loan with a different pool of loans that share similar risk characteristics. If the loan does not share risk characteristics with other loans, the Company will evaluate the loan on an individual basis. The Company evaluates the pooling methodology at least annually. Loans are charged off against the allowance for credit losses when the Company believes the balances to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off or expected to be charged off.

The Company has chosen to segment its portfolio consistent with the manner in which it manages credit risk. Such segments include commercial real estate, commercial construction, commercial, residential real estate and consumer.

The Company estimates the allowance for credit losses on loans via a quantitative analysis which considers relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts. The Company utilizes the Open Pool method in determining expected future credit losses. This technique considers losses over the full life cycle of loan pools. The loss rate method measures the amount of loan charge-offs, net of recoveries (“credit losses”), recognized over the life of a pool by loan segment and vintage and compares those credit losses to the original loan balance of that pool as of a similar vintage. A vintage is a group of loans originated in the same annual time period. To estimate a CECL loss rate for the pool, management first identifies the credit losses recognized between the pool date and the reporting date for the pool and determines which credit losses were related to loans outstanding at the pool date. The loss rate method then divides the credit losses recognized on loans outstanding as of the pool date by the outstanding loan balance as of the pool date. The Company’s expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data.

The Company evaluates a variety of factors including third party economic forecasts, industry trends and other available published economic information in arriving at its forecasts. Also included in the allowance for credit losses on loans are qualitative reserves to cover losses that are expected but, in the Company’s assessment, may not be adequately represented in the quantitative analysis or the forecasts described above. Factors that the Company considers include changes in lending policies and procedures, national and local economic conditions, experience, ability and depth of lenders and staff, quality of the loan review system and Board oversight, the volume and severity of past due loans and non-accrual loans, business conditions, portfolio concentrations, and the effect of external factors such as competition, legal and regulatory requirements, among others. Furthermore, the Company considers the inherent uncertainty in quantitative models that are built upon historical data.

Individually Evaluated Loans

On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. Collateral dependent loans are those for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. If the fair value of the collateral is less than the amortized cost basis of the loan, the Company will charge off the difference between the fair value of the collateral, less costs to sell at the reporting date and the amortized cost basis of the loan.

Allowance for Credit Losses on Off-Balance Sheet Commitments

The Company is required to include unfunded commitments that are expected to be funded in the future within the allowance calculation, other than those that are unconditionally cancelable. To arrive at that reserve, the reserve percentage for each applicable segment is applied to the unused portion of the expected commitment balance and is multiplied by the expected funding rate. To determine the expected funding rate, the Company uses a historical utilization rate for each segment. As noted above, the allowance for credit losses on unfunded loan commitments, if required, is included in other liabilities on the Consolidated Balance Sheets and the related credit expense is recorded in other non-interest expense in the Consolidated Statements of Income. There was no allowance required for credit losses on off-balance sheet commitments as of December 31, 2023.

Allowance for Credit Losses on Available for Sale Securities

For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more than 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 securities available for sale (“AFS”) that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this

assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating by a rating agency, and adverse conditions related to the security, among other factors. If this assessment 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 the 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, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. The Company did not record an allowance for AFS securities on January 1, 2023 or December 31, 2023 as the investment portfolio consists primarily of mortgage-backed securities issued by FHLMC or FNMA, taxable and non-taxable municipal bonds, government agency bonds and Treasury bonds in which credit risk is deemed minimal. The securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major agencies and have a long history of no credit losses. The impact going forward will depend on the composition, characteristics, and credit quality of the loan and securities portfolios, as well as the economic conditions at future reporting periods. See *Note 2 – Securities Available For Sale*.

Changes in the allowance for credit losses are recorded as provision for, or reversal of, credit loss expense. Losses are charged against the allowance when management believes the collectability of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued Interest Receivable

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans and available for sale securities. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the Consolidated Balance Sheets, totaled \$2.3 million at December 31, 2023 and is excluded from the estimate of credit losses. Accrued interest receivable on available for sale securities, also a component of accrued interest receivable on the Consolidated Balance Sheets, totaled \$968 thousand at December 31, 2023 and is excluded from the estimate of credit losses.

Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Other real estate owned is recorded at fair value less cost to sell at the time of acquisition. Any excess of the loan balance over the recorded value is charged to the allowance for credit losses at the time of acquisition. After foreclosure, valuations are periodically performed and the assets are carried at the lower of cost or fair value less cost to sell. Changes in the valuation allowance on foreclosed assets are included in other non-interest income. Costs to maintain the assets are included in other non-interest expenses. Any gain or loss realized upon disposal of other real estate owned is included in other non-interest income. There were no foreclosed assets as of December 31, 2023 and 2022.

Bank Owned Life Insurance

The Company invests in bank owned life insurance (“BOLI”) as a tax deferred investment and a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on certain of its employees and directors. The Company is the owner and primary beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from increases in cash surrender value of the policies is included in non-interest income and is not subject to income taxes unless surrendered. The Company does not intend to surrender these policies, and accordingly, no deferred taxes have been recorded on the earnings from these policies.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the related assets: furniture, fixtures and equipment for five years to ten years, leasehold improvements for the life of the lease, building for forty years, computer equipment and data processing software for one year to five years, and automobiles for five years.

Transfers of Financial Assets

Transfers of financial assets, including sales of loan participations, 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.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income. Deferred income taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry forwards and their tax basis. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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, as adjusted for stock dividends and splits. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments 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.

	Year Ended December 31,	
	2023	2022
	(Dollars In Thousands, Except Per Share Data)	
Net income	\$ 12,656	\$ 17,702
Weighted average shares outstanding	7,599,729	7,554,790
Dilutive effect of potential common shares, stock options	-	16,438
Diluted weighted average common shares outstanding	7,599,729	7,571,228
Basic earnings per share	\$ 1.67	\$ 2.34
Diluted earnings per share	\$ 1.67	\$ 2.34

There were no stock options not considered in computing diluted earnings per common share for the years ended December 31, 2023 and December 31, 2022.

Employee Benefit Plan

The Company has a 401(k) Plan (the “Plan”) for employees. All employees are eligible to participate after they have attained the age of 21 and have also completed 6 consecutive months of service during which at least 500 hours of service are completed. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan, and the Company provides a match of fifty percent of the first 8% percent to eligible participating employees. Full vesting in the Plan is prorated equally over a four year period. The Company’s contributions to the Plan for the years ended December 31, 2023 and 2022 were \$316 thousand and \$284 thousand, respectively.

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 and letters of credit. Such financial instruments are recorded in the consolidated balance sheet when they are funded.

Comprehensive Income (Loss)

US GAAP requires that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income (loss).

Stock-Based Compensation

The Company measures and records compensation expense for share-based payments based on the instrument's fair value on the date of grant. The fair value of each stock option grant is measured using the Black-Scholes option pricing model. The fair value of stock awards is based on the Company's stock price. Share-based compensation expense is recognized over the service period, generally defined as the vesting period.

Non-Interest Income

The majority of the Company’s revenue-generating transactions are not subject to Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, including revenue generated from financial instruments, such as its loans and investment securities, as these activities are subject to other US GAAP discussed elsewhere within the Company’s disclosures. Descriptions of the Company’s revenue-generating activities that are within the scope of Topic 606, which are presented in the consolidated statement of income as components of non-interest income, are merchant processing and credit card processing fees, debit card interchange fees, other service fees on deposit accounts, and gains and losses on other real estate owned. Credit card processing fees include income from consumer and commercial credit cards and merchant processing income. Income for such performance obligations are generally received at the time the performance obligations are satisfied or within the monthly service period. Service fees on deposit accounts represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the Company’s performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). The Company recognizes debit card interchange fees daily from debit cardholder transactions conducted through the MasterCard payment network. The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price

is probable. Once these criteria are met, the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction prices and related gain or loss on the sale if a significant financing component is present. The Company does not sell its mortgages on the secondary market, nor does it offer trust or investment brokerage services to its customers to generate fee income.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023 through the date these consolidated financial statements were available for issuance for items that should potentially be recognized or disclosed in these consolidated financial statements. Subsequent to year end, in January 2024 the Company purchased \$9.0 million of new bank owned life insurance policies, and in February 2024 converted \$2.0 million in previous BOLI policies to higher yielding BOLI products through a 1035 exchange transaction. Also subsequent to year end, in January 2024 the Company paid off the FHLB short-term borrowings of \$35.0 million, as described in Note 8.

Reclassification

Certain amounts in the 2022 consolidated financial statements may have been reclassified to conform to 2023 presentation. These reclassifications had no effect on 2022 net income.

Note 2 – Securities Available For Sale

The amortized cost and approximate fair values of securities available-for-sale were as follows at December 31, 2023 and 2022, respectively:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In Thousands)			
December 31, 2023 :				
U.S. Treasury securities	\$ 14,867	\$ -	\$ (277)	\$ 14,590
U.S. Government agency obligations	2,463	-	(124)	2,339
Municipal bonds	73,128	73	(12,405)	60,796
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	509	-	(67)	442
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	240,409	2	(42,518)	197,893
Total	<u>\$ 331,376</u>	<u>\$ 75</u>	<u>\$ (55,391)</u>	<u>\$ 276,060</u>
December 31, 2022 :				
U.S. Treasury securities	\$ 17,217	\$ -	\$ (446)	\$ 16,771
U.S. Government agency obligations	34,069	-	(1,518)	32,551
Municipal bonds	73,958	112	(15,453)	58,617
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	510	-	(76)	434
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	255,930	2	(47,313)	208,619
Total	<u>\$ 381,684</u>	<u>\$ 114</u>	<u>\$ (64,806)</u>	<u>\$ 316,992</u>

The amortized cost and fair value of 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 any penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In Thousands)	
Due in one year or less	\$ 5,324	\$ 5,263
Due after one year through five years	14,724	14,292
Due after five years through ten years	5,487	5,254
Due after ten years	64,923	52,916
	<u>90,458</u>	<u>77,725</u>
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	509	442
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	240,409	197,893
	<u>\$ 331,376</u>	<u>\$ 276,060</u>

There were no sales of securities for the years ended December 31, 2023 and December 31, 2022.

Securities with a carrying value of \$145.7 million and \$147.2 million at December 31, 2023 and December 31, 2022, respectively, were subject to agreements to repurchase, pledged to secure public deposits, or pledged for other purposes required or permitted by law.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and December 31, 2022, respectively:

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2023 :	(In Thousands)					
U.S. Treasury securities	\$ -	\$ -	\$ 14,590	\$ (277)	\$ 14,590	\$ (277)
U.S. Government agency obligations	-	-	2,339	(124)	2,339	(124)
Municipal bonds	5,561	(201)	52,267	(12,204)	57,828	(12,405)
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	-	-	442	(67)	442	(67)
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	-	197,796	(42,518)	197,796	(42,518)
Total Temporarily Impaired Securities	\$ 5,561	\$ (201)	\$ 267,434	\$ (55,190)	\$ 272,995	\$ (55,391)
December 31, 2022 :						
U.S. Treasury securities	\$ 16,771	\$ (446)	\$ -	\$ -	\$ 16,771	\$ (446)
U.S. Government agency obligations	-	-	32,551	(1,518)	32,551	(1,518)
Municipal bonds	32,103	(6,308)	22,099	(9,145)	54,202	(15,453)
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	434	(76)	-	-	434	(76)
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	32,203	(3,166)	176,281	(44,147)	208,484	(47,313)
Total Temporarily Impaired Securities	\$ 81,511	\$ (9,996)	\$ 230,931	\$ (54,810)	\$ 312,442	\$ (64,806)

The Company had one hundred eighty nine (189) securities in an unrealized loss position at December 31, 2023 and one hundred ninety four (194) securities in an unrealized loss position at December 31, 2022. The Company reviews its investment portfolio on a quarterly basis for indications of impairment due to credit-related factors or noncredit-related factors and the Company does not intend to sell the securities and has the intent and ability to hold them for a period of time sufficient for recovery of their amortized cost basis. This review includes analyzing the extent to which the fair value has been lower than the cost, the market liquidity for the investment, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the unrealized loss only represents temporary impairment of the securities, which are predominantly backed by credit of government agencies, and are a result of the increased market interest rates due to the current economic conditions, and not the credit quality of the issuer. As such, no allowance for credit losses was required on securities available for sale in an unrealized loss position at December 31, 2023.

Note 3 – Loans Receivable and Credit Quality

At December 31, 2023 the Company had no outstanding PPP loans and \$286 thousand of PPP loans at December 31, 2022 presented separately from loans receivable on the Consolidated Balance Sheets.

The following table presents the composition of loans receivable:

	December 31,	
	2023	2022
	(In Thousands)	
Commercial real estate	\$ 539,034	\$ 507,300
Commercial construction	16,840	16,761
Commercial	33,951	39,520
Residential real estate	663,127	643,975
Consumer	565	782
Total Loans	1,253,517	1,208,338
Unearned net loan origination costs	522	275
Allowance for Credit Losses	(12,461)	(12,449)
Net Loans	\$ 1,241,578	\$ 1,196,164

The following tables detail the activity in the allowance for credit losses at December 31, 2023 and the allowance for loan losses at December 31, 2022:

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for credit losses							
Year Ending December 31, 2023							
Beginning Balance - December 31, 2022	\$ 5,113	\$ 200	\$ 1,289	\$ 4,960	\$ 13	\$ 874	\$ 12,449
January 1, 2023 adoption of ASU 2016-13	492	77	(172)	522	19	(750)	188
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	2	-	-	2
Provisions (credits)	503	(82)	(197)	(260)	(18)	(124)	(178)
Ending Balance - December 31, 2023	\$ 6,108	\$ 195	\$ 920	\$ 5,224	\$ 14	\$ -	\$ 12,461
Allowance for loan losses							
Year Ending December 31, 2022							
Beginning Balance - December 31, 2021	\$ 4,400	\$ 71	\$ 1,328	\$ 4,718	\$ 14	\$ 953	\$ 11,484
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	70	-	-	70
Provisions (credits)	713	129	(39)	172	(1)	(79)	895
Ending Balance - December 31, 2022	\$ 5,113	\$ 200	\$ 1,289	\$ 4,960	\$ 13	\$ 874	\$ 12,449

The following tables represent the allocation for credit losses (December 31, 2023) and for loan losses (December 31, 2022) and the related loan portfolio disaggregated based on impairment methodology at December 31, 2023 and December 31, 2022:

	Commercial Real Estate	Commercial Construction	Commercial	Residential Real Estate	Consumer	Unallocated	Total
(In Thousands)							
December 31, 2023							
Allowance for Credit Losses							
Ending Balance	\$ 6,108	\$ 195	\$ 920	\$ 5,224	\$ 14	\$ -	\$ 12,461
Ending balance: individually evaluated for impairment - real estate collateral dependent	\$ -	\$ 22	\$ -	\$ 152	\$ -	\$ -	\$ 174
Ending balance: individually evaluated for impairment - non-collateral dependent	\$ -	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ 21
Ending balance: collectively evaluated for impairment	\$ 6,108	\$ 173	\$ 899	\$ 5,072	\$ 14	\$ -	\$ 12,266
Loans receivables:							
Ending balance	\$ 539,034	\$ 16,840	\$ 33,951	\$ 663,127	\$ 565		\$ 1,253,517
Ending balance: individually evaluated for impairment - real estate collateral dependent	\$ 1,303	\$ 296	\$ -	\$ 1,718	\$ -		\$ 3,317
Ending balance: individually evaluated for impairment - non-collateral dependent	\$ -	\$ -	\$ 21	\$ -	\$ -		\$ 21
Ending balance: collectively evaluated for impairment	\$ 537,731	\$ 16,544	\$ 33,930	\$ 661,409	\$ 565		\$ 1,250,179
December 31, 2022							
Allowance for Loan Losses							
Ending Balance	\$ 5,113	\$ 200	\$ 1,289	\$ 4,960	\$ 13	\$ 874	\$ 12,449
Ending balance: individually evaluated for impairment	\$ -	\$ 29	\$ 33	\$ 107	\$ -	\$ -	\$ 169
Ending balance: collectively evaluated for impairment	\$ 5,113	\$ 171	\$ 1,256	\$ 4,853	\$ 13	\$ 874	\$ 12,280
Loans receivables:							
Ending balance	\$ 507,300	\$ 16,761	\$ 39,520	\$ 643,975	\$ 782		\$ 1,208,338
Ending balance: individually evaluated for impairment	\$ 1,371	\$ 303	\$ 240	\$ 1,317	\$ -		\$ 3,231
Ending balance: collectively evaluated for impairment	\$ 505,929	\$ 16,458	\$ 39,280	\$ 642,658	\$ 782		\$ 1,205,107

The following table presents the carrying value and related allowance for credit losses of individually analyzed loans as of December 31, 2023:

December 31, 2023

	Recorded Investment	Unpaid Principal Balance	Related Allowance for Credit Losses
	(In Thousands)		
With no related allowance recorded:			
Commercial real estate (1)	\$ 1,303	\$ 1,543	
Commercial construction (1)	55	55	
Commercial	-	-	
Residential real estate (1)	1,202	1,206	
Consumer	-	-	
With an allowance recorded:			
Commercial real estate	\$ -	\$ -	\$ -
Commercial construction (1)	241	241	22
Commercial (2)	21	21	21
Residential real estate (1)	516	516	152
Consumer	-	-	-
Total:			
Commercial real estate	\$ 1,303	\$ 1,543	\$ -
Commercial construction	296	296	22
Commercial	21	21	21
Residential real estate	1,718	1,722	152
Consumer	-	-	-
	<u>\$ 3,338</u>	<u>\$ 3,582</u>	<u>\$ 195</u>

1. All loans are real estate collateral dependent.
2. All loans are non-collateral dependent loans.

The following table, presented under previously applicable US GAAP, summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2022:

	<u>Year to Date</u>				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance for Loan Losses</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
(In Thousands)					
With no related allowance recorded:					
Commercial real estate	\$ 1,371	\$ 1,611		\$ 1,395	\$ 66
Commercial construction	55	55		55	3
Commercial	-	-		-	-
Residential real estate	768	772		719	30
Consumer	-	-		-	-
With an allowance recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial construction	248	248	29	251	8
Commercial	240	240	33	243	10
Residential real estate	549	549	107	560	20
Consumer	-	-	-	-	-
Total:					
Commercial real estate	\$ 1,371	\$ 1,611	\$ -	\$ 1,395	\$ 66
Commercial construction	303	303	29	306	11
Commercial	240	240	33	243	10
Residential real estate	1,317	1,321	107	1,279	50
Consumer	-	-	-	-	-
	<u>\$ 3,231</u>	<u>\$ 3,475</u>	<u>\$ 169</u>	<u>\$ 3,223</u>	<u>\$ 137</u>

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention (potential weakness), substandard (well defined weakness) and doubtful (full collection unlikely) within the Company's internal risk rating system as of December 31, 2023 by year of origination:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>Prior</u>	<u>Revolving</u>	<u>Total</u>
(In Thousands)								
Commercial real estate								
Pass	\$ 62,467	\$ 160,257	\$ 58,094	\$ 64,146	\$ 26,835	\$ 157,888	\$ 8,094	\$ 537,781
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,253	-	1,253
Total	62,467	160,257	58,094	64,146	26,835	159,141	8,094	539,034
Commercial construction								
Pass	2,071	8,591	5,412	-	440	30	-	16,544
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	241	55	296
Total	2,071	8,591	5,412	-	440	271	55	16,840
Commercial								
Pass	2,236	4,851	2,260	3,312	5,388	9,311	6,572	33,930
Special Mention	-	-	-	-	21	-	-	21
Substandard	-	-	-	-	-	-	-	-
Total	2,236	4,851	2,260	3,312	5,409	9,311	6,572	33,951
Residential real estate								
Pass	75,372	96,032	158,135	142,318	46,035	122,252	21,423	661,567
Special Mention	-	-	-	-	-	443	-	443
Substandard	-	-	-	-	173	944	-	1,117
Total	75,372	96,032	158,135	142,318	46,208	123,639	21,423	663,127
Consumer								
Pass	130	118	22	1	13	11	270	565
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total	130	118	22	1	13	11	270	565
Total								
Loans Receivable	\$ 142,276	\$ 269,849	\$ 223,923	\$ 209,777	\$ 78,905	\$ 292,373	\$ 36,414	\$ 1,253,517

The Company had no loans that were charged off during the year ended December 31, 2023 and therefore no gross charge-off information is presented in the above table.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention (potential weaknesses), substandard (well defined weaknesses) and doubtful (full collection unlikely) within the Company's internal risk rating system as of December 31, 2022.

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
	(In Thousands)				
December 31, 2022					
Commercial real estate	\$ 505,983	\$ -	\$ 1,317	\$ -	\$ 507,300
Commercial construction	16,458	-	303	-	16,761
Commercial	39,498	22	-	-	39,520
Residential real estate	642,913	467	595	-	643,975
Consumer	782	-	-	-	782
Total	<u>\$ 1,205,634</u>	<u>\$ 489</u>	<u>\$ 2,215</u>	<u>\$ -</u>	<u>\$ 1,208,338</u>

The following table presents nonaccrual loans by classes of the loan portfolio:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	(In Thousands)	
Commercial real estate	\$ -	\$ -
Commercial construction	-	-
Commercial	-	-
Residential real estate	366	192
Consumer	-	-
Total	<u>\$ 366</u>	<u>\$ 192</u>

As of December 31, 2023, there were three (3) loans in non-accrual status in the amount of \$366 thousand. There was a required related allowance of \$66 thousand for these collateral dependent non-accrual loans. Interest income was recognized of \$7 thousand for the year ended December 31, 2023.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable 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 past due status as of December 31, 2023 and 2022, respectively:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loan Receivables	Loan Receivables > 90 Days and Accruing
(In Thousands)							
December 31, 2023							
Commercial real estate	\$ 630	\$ -	\$ -	\$ 630	\$ 538,404	\$ 539,034	\$ -
Commercial construction	-	-	-	-	16,840	16,840	-
Commercial	-	-	-	-	33,951	33,951	-
Residential real estate	344	-	193	537	662,590	663,127	-
Consumer	-	-	-	-	565	565	-
Total	\$ 974	\$ -	\$ 193	\$ 1,167	\$ 1,252,350	\$ 1,253,517	\$ -
December 31, 2022							
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ 507,300	\$ 507,300	\$ -
Commercial construction	-	-	-	-	16,761	16,761	-
Commercial	32	-	-	32	39,488	39,520	-
Residential real estate	138	-	192	330	643,645	643,975	-
Consumer	-	-	-	-	782	782	-
Total	\$ 170	\$ -	\$ 192	\$ 362	\$ 1,207,976	\$ 1,208,338	\$ -

At December 31, 2023, the Company had no foreclosed assets and had one (1) recorded investment in a mortgage loan collateralized by residential real estate property in the process of foreclosure in the amount of \$121 thousand. At December 31, 2022, the Company had no foreclosed assets or recorded investment in mortgage loans collateralized by residential real estate property in the process of foreclosure.

The Company adopted ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023. The amendments in the ASU were applied prospectively, and therefore, loan modification and charge off information is provided for only those items occurring after the January 1, 2023 adoption date.

Based on the guidance in ASU 2022-02, a loan modification or refinancing results in a new loan if the terms of the new loan are at least as favorable to the lender as the terms with customers with similar collection risks that are not refinancing or restricting their loans and the modification to the terms of the loan are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification.

There are additional disclosures for modification of loans with borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other than insignificant payment delays, term extensions, or a combination of any of these items. If the Company modifies any loans to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off against the allowance for credit losses.

The following table presents new loan modifications for credit concerns during the year ended December 31, 2023:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Balance</u>	<u>Post- Modification Outstanding Balance</u>
		(Dollars In Thousands)	
Year Ending December 31, 2023			
Residential real estate	1	\$ 62	\$ 62
	<u>1</u>	<u>\$ 62</u>	<u>\$ 62</u>

The loan modification listed above had no reserve recorded in the allowance for credit losses at December 31, 2023. The above loan was not past due at December 31, 2023. The borrower was experiencing financial distress and the modification included terming out a home equity line of credit. The home equity line of credit had a rate of 9.00%. The term out home equity line has a rate of 6.49% and a maturity date of December 2038. The above loan represents less than 0.01% of the total residential real estate loans outstanding at December 31, 2023. There is no commitment to lend additional amounts on this modified loan. The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. There were no modifications to borrowers experiencing financial difficulties that were outstanding at December 31, 2023.

Note 4 - Financial Instruments with Off-Balance Sheet Risk

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

The Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Commitments to grant loans, fixed	\$ 13,825	\$ 4,302
Commitments to grant loans, variable	2,650	1,500
Unfunded commitments under lines of credit, fixed	20,850	50,359
Unfunded commitments under lines of credit, variable	145,351	133,065
Standby letters of credit	8,956	9,124
Total	\$ 191,632	\$ 198,350

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each

customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

At December 31, 2023 there was no allowance for credit losses required for off-balance sheet arrangements.

Outstanding letters of credit written are conditional commitments issued by the Company 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 Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2023 and 2022 was \$9.0 million and \$9.1 million, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$7.7 million and \$7.6 million, respectively. The current amount of the liability as of December 31, 2023 and 2022 for guarantees under standby letters of credit issued is not considered material.

Note 5 - Bank Premises and Equipment

The components of premises and equipment are as follows:

	December 31,	
	2023	2022
	(In Thousands)	
Furniture, fixtures and equipment	\$ 4,536	\$ 4,226
Leasehold improvements	4,329	4,266
Buildings	1,169	1,169
Computer equipment and data processing software	2,157	2,015
Automobiles	170	170
	12,361	11,846
Accumulated depreciation	(8,627)	(8,003)
	<u>\$ 3,734</u>	<u>\$ 3,843</u>

Note 6 – Deposits

The components of deposits:

	December 31,	
	2023	2022
	(In Thousands)	
Demand, non-interest bearing	\$ 328,669	\$ 381,811
Demand, NOW and money market, interest bearing	252,400	244,629
Savings	493,129	681,394
Time, \$250 and over	138,765	82,916
Time, other	263,270	130,357
Total deposits	<u>\$ 1,476,233</u>	<u>\$ 1,521,107</u>

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

2024	\$	353,237
2025		35,074
2026		11,074
2027		985
2028		1,665
	\$	<u>402,035</u>

Note 7 - Securities Sold under Agreements to Repurchase and Offsetting Assets and Liabilities

Securities sold under agreements to repurchase generally mature within a few days from the transaction date and are reflected at the amount of cash received in connection with the transaction. The securities are retained under the Company's control at its safekeeping agent. The Company adjusts collateral based on the fair value of the underlying securities, on a monthly basis. Information concerning securities sold under agreements to repurchase is summarized as follows:

	<u>2023</u>	<u>2022</u>
	(Dollars In Thousands)	
Balance outstanding at December 31	\$ 15,237	\$ 13,384
Weighted average interest rate at the end of the year	2.659%	1.038%
Average daily balance during the year	\$ 12,711	\$ 12,879
Weighted average interest rate during the year	2.299%	0.182%
Maximum month-end balance during the year	\$ 15,237	\$ 14,947

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third-party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement.

The following table presents the liabilities subject to an enforceable master netting arrangement or repurchase agreements as of December 31, 2023 and December 31, 2022:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Pledged	Net Amount
(In Thousands)						
December 31, 2023						
Repurchase Agreements:						
Corporate Institutions	\$ 15,237	\$ -	\$ 15,237	\$ (15,237)	\$ -	\$ -
December 31, 2022						
Repurchase Agreements:						
Corporate Institutions	\$ 13,384	\$ -	\$ 13,384	\$ (13,384)	\$ -	\$ -

As of December 31, 2023 and December 31, 2022, the fair value of securities pledged was \$31.7 million and \$26.0 million, respectively.

Note 8 – Short-term and Long-term Borrowings

Federal funds purchased and FHLB short term advances generally represent overnight or less than twelve month borrowings. Long term advances from the FHLB are for periods of twelve months or more and are generally less than sixty months. The Bank has an agreement with the FHLB, which allows for borrowings up to a percentage of qualifying assets. At December 31, 2023, the Bank had a maximum borrowing capacity for short-term and long-term advances of approximately \$785.7 million, of which \$750.5 million is available for borrowing at December 31, 2023 due to an outstanding short-term FHLB advance of \$35.0 million with an interest rate of 5.719% which matured and was repaid on January 2, 2024, as well as an outstanding letter of credit in amount of \$135 thousand. This borrowing capacity with the FHLB includes a line of credit of \$150.0 million. There were no long term FHLB advances outstanding as of December 2023. There were no short-term or long-term FHLB advances outstanding as of December 31, 2022. All FHLB borrowings are secured by qualifying assets of the Bank.

The Bank also has a federal funds line of credit with the ACBB of \$10.0 million, of which none was outstanding at December 31, 2023 and December 31, 2022. Advances from this line are unsecured.

The Bank is also eligible to borrow under the Federal Reserve Bank’s discount window borrowing programs.

The Company has a revolving line of credit facility with the ACBB of \$7.5 million, of which none was outstanding at December 31, 2023 and December 31, 2022. Advances from this line are unsecured. Under the terms of this facility, availability under the revolving line of credit would be reduced to \$5.0 million should the Company’s net tangible ratio drop below 5% and availability would be reduced to \$2.0 million should the Company’s net tangible ratio drop below 2%. If the Company’s net tangible ratio drops below 0%, the commitment is canceled.

Note 9 - Employment Agreements and Supplemental Executive Retirement Plans

The Company has entered into employment agreements with its Chief Executive Officer and Chief Financial Officer.

The Company has an unfunded, non-qualified Supplemental Executive Retirement Plan (“SERP”) for certain executive officers that provides for payments upon retirement, death, or disability. As of December 31, 2023 and 2022, other liabilities include \$7.8 million and \$7.3 million, respectively, accrued under these plans. For the years

ended December 31, 2023 and 2022, \$575 thousand and \$637 thousand, respectively, were expensed under these plans.

Note 10 - Stock Incentive Plan and Employee Stock Purchase Plan

Stock Incentive Plan:

At the Company's annual meeting on June 20, 2019, the shareholders approved the amendment and restatement of the Embassy Bancorp, Inc. 2010 Stock Incentive Plan (the "SIP"), which was originally adopted by the Company's shareholders effective June 16, 2010, to replenish the number of shares of common stock available for issuance under the SIP and extend the term of the SIP for another ten (10) years. The SIP authorizes the Board of Directors, or a committee authorized by the Board of Directors, to award a stock based incentive to (i) designated officers (including officers who are directors) and other designated employees at the Company and its subsidiaries, and (ii) non-employee members of the Board of Directors and advisors and consultants to the Company and its subsidiaries. The SIP provides for stock based incentives in the form of incentive stock options as provided in Section 422 of the Internal Revenue Code of 1986, non-qualified stock options, stock appreciation rights, restricted stock, and deferred stock awards. The term of the option, the amount of time for the option to vest after grant, if any, and other terms and limitations will be determined at the time of grant. Options granted under the SIP may not have an exercise period that is more than ten years from the time the option is granted. The maximum number of shares of common stock authorized for issuance under the SIP increased from 500,000 to 756,356 (in order to replenish the shares that were previously issued). The SIP provides for appropriate adjustments in the number and kind of shares available for grant or subject to outstanding awards under the SIP to avoid dilution in the event of merger, stock splits, stock dividends or other changes in the capitalization of the Company. The SIP expires on June 20, 2029. At December 31, 2023, there were 393,998 shares available for issuance under the SIP.

The Company grants shares of restricted stock, under the SIP, to certain members of its Board of Directors as compensation for their services, in accordance with the Company's Non-employee Directors Compensation program adopted in October 2010. The Company also grants restricted stock to certain officers under individual agreements with these officers. Some of these restricted stock awards vest immediately, while the remainder vest over a service period of two years to nine years. Management recognizes compensation expense for the fair value of the restricted stock awards on a straight-line basis over the requisite service period. Since inception of the SIP and through the Company's restricted stock grants activity for the year ended December 31, 2023, there have been 246,115 awards granted. During the years ended December 31, 2023 and 2022 there were 13,877 and 22,632 awards granted, respectively. During the years ended December 31, 2023 and 2022 the Company recognized \$568 thousand and \$527 thousand in compensation expense for the restricted stock awards.

Information regarding the Company's restricted stock grants activity for the years ended December 31, 2023 and 2022 are as follows:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Non-Vested at December 31, 2021	53,724	\$ 14.38
Granted	22,632	17.60
Vested	(20,590)	13.77
Forfeited	(1,415)	14.55
Non-Vested at December 31, 2022	54,351	\$ 14.38
Granted	13,877	18.50
Vested	(46,793)	15.48
Forfeited	-	-
Non-Vested at December 31, 2023	21,435	\$ 15.26

Historically, the Company has granted stock options to purchase shares of stock to certain executive officers under individual agreements and/or in accordance with their respective employment agreements. There were no stock options granted and no outstanding options as of December 31, 2023 and December 31, 2022.

Employee Stock Purchase Plan:

On January 1, 2017, the Company implemented the Embassy Bancorp, Inc. Employee Stock Purchase Plan, which was approved by the Company's shareholders at the annual meeting held on June 16, 2016. Under the plan, each employee of the Company and its subsidiaries who is employed on an offering date and customarily is scheduled to work at least twenty (20) hours per week and more than five (5) months in a calendar year is eligible to participate. The purchase price for shares purchased under the plan shall initially equal 95% of the fair market value of such shares on the date of purchase. The purchase price may be adjusted from time to time by the Board of Directors; provided, however, that the discount to fair market value shall not exceed 15%. The Company has authorized 350,000 shares of its common stock for the plan, of which 26,492 shares have been issued as of December 31, 2023. The Company recognized discount expense in relation to the employee stock purchase plan of \$3 thousand during the years ending December 31, 2023 and 2022.

Note 11 – Other Comprehensive Income (Loss)

The components of other comprehensive income (loss), both before tax and net of tax, are as follows:

	Year Ended December 31.					
	2023			2022		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in accumulated other comprehensive loss:			(In Thousands)			
Unrealized holding gains (losses) on securities available for sale	\$ 9,376	\$ (1,969)	\$ 7,407	\$ (63,181)	\$ 13,268	\$ (49,913)
Reclassification adjustments for gains on securities transactions included in net income (A),(B)	-	-	-	-	-	-
Total other comprehensive income (loss)	<u>\$ 9,376</u>	<u>\$ (1,969)</u>	<u>\$ 7,407</u>	<u>\$ (63,181)</u>	<u>\$ 13,268</u>	<u>\$ (49,913)</u>

(A) Realized gains on securities transactions included in gain on sales of securities in the accompanying Consolidated Statements of Income, as applicable.

(B) Tax effect included in income tax expense in the accompanying Consolidated Statements of Income.

There were no realized gains on securities available for sale for the years ended December 31, 2023 and 2022.

A summary of the accumulated other comprehensive loss, net of tax, is as follows:

	Securities Available for Sale
	(In Thousands)
Year Ended December 31, 2023 and 2022	
Balance January 1, 2023	\$ (51,107)
Other comprehensive income before reclassifications	7,407
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive income during the period	7,407
Balance December 31, 2023	\$ (43,700)
Balance January 1, 2022	\$ (1,194)
Other comprehensive loss before reclassifications	(49,913)
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive loss during the period	(49,913)
Balance December 31, 2022	\$ (51,107)

Note 12 - Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Under the BASEL III rules the Company and the Bank must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The net unrealized gain or losses on available-for-sale securities are not included in computing regulatory capital amounts. Failure to meet the 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, both the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The 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 below) of total, Tier 1 common capital, and 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, the Company and the Bank meet all capital adequacy requirements to which they are subject.

Effective in 2018, the Federal Reserve raised the consolidated asset limit to be considered a small bank holding company from \$1 billion to \$3 billion. A company that qualifies as a small bank holding company is not subject to the Federal Reserve's consolidated capital rules, although a company that so qualifies may continue to file reports that include such capital amounts and ratios. The Company has elected to continue to report those amounts and ratios.

As of December 31, 2023, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2023 and 2022 are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar Amounts in Thousands)						
December 31, 2023:						
Total capital (to risk-weighted assets)	\$ 161,760	14.5 %	\$ ≥ 89,523	≥ 8.0 %	\$ ≥ 111,904	≥ 10.0 %
Tier 1 common capital (to risk-weighted assets)	149,299	13.3	≥ 50,357	≥ 4.5	≥ 72,738	≥ 6.5
Tier 1 capital (to risk-weighted assets)	149,299	13.3	≥ 67,142	≥ 6.0	≥ 89,523	≥ 8.0
Tier 1 capital (to average assets)	149,299	8.9	≥ 66,787	≥ 4.0	≥ 83,483	≥ 5.0
December 31, 2022:						
Total capital (to risk-weighted assets)	\$ 151,624	14.1 %	\$ ≥ 86,159	≥ 8.0 %	\$ ≥ 107,699	≥ 10.0 %
Tier 1 common capital (to risk-weighted assets)	139,175	12.9	≥ 48,465	≥ 4.5	≥ 70,004	≥ 6.5
Tier 1 capital (to risk-weighted assets)	139,175	12.9	≥ 64,619	≥ 6.0	≥ 86,159	≥ 8.0
Tier 1 capital (to average assets)	139,175	8.3	≥ 66,976	≥ 4.0	≥ 83,720	≥ 5.0

The Company's actual capital amounts and ratios at December 31, 2023 and 2022 are presented below:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
(Dollar Amounts in Thousands)				
December 31, 2023:				
Total capital (to risk-weighted assets)	\$ 161,816	14.5 %	\$ ≥ 89,512	≥ 8.0 %
Tier 1 common capital (to risk-weighted assets)	149,355	13.3	≥ 50,350	≥ 4.5
Tier 1 capital (to risk-weighted assets)	149,355	13.3	≥ 67,134	≥ 6.0
Tier 1 capital (to average assets)	149,355	8.9	≥ 66,789	≥ 4.0
December 31, 2022:				
Total capital (to risk-weighted assets)	\$ 151,832	14.1 %	\$ ≥ 86,142	≥ 8.0 %
Tier 1 common capital (to risk-weighted assets)	139,383	12.9	≥ 48,455	≥ 4.5
Tier 1 capital (to risk-weighted assets)	139,383	12.9	≥ 64,606	≥ 6.0
Tier 1 capital (to average assets)	139,383	8.3	≥ 66,978	≥ 4.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

Note 13 - Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Description	(Level 1)	(Level 2)	(Level 3)	Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(In Thousands)			
U.S. Treasury securities	\$ -	\$ 14,590	\$ -	\$ 14,590
U.S. Government agency obligations	-	2,339	-	2,339
Municipal bonds	-	60,796	-	60,796
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	-	442	-	442
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	197,893	-	197,893
December 31, 2023 Securities available for sale	\$ -	\$ 276,060	\$ -	\$ 276,060
U.S. Treasury securities	\$ -	\$ 16,771	\$ -	\$ 16,771
U.S. Government agency obligations	-	32,551	-	32,551
Municipal bonds	-	58,617	-	58,617
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - commercial	-	434	-	434
U.S. Government Sponsored Enterprise (GSE) - Mortgage-backed securities - residential	-	208,619	-	208,619
December 31, 2022 Securities available for sale	\$ -	\$ 316,992	\$ -	\$ 316,992

The fair value of securities available for sale are determined by 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 these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

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:

Description	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total
	(In Thousands)			
December 31, 2023 Loans individually evaluated for credit losses	\$ -	\$ -	\$ 583	\$ 583
December 31, 2022 Impaired loans	\$ -	\$ -	\$ 868	\$ 868

Loans individually evaluated for credit losses are those that are accounted for under existing Financial Accounting Standards Board (“FASB”) guidance, in which the Bank has measured 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 expected proceeds. Fair values may also include qualitative adjustments by management based on economic conditions and liquidation expenses. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

At December 31, 2023, of the loans individually evaluated for credit losses having an aggregate balance of \$3.3 million, \$2.6 million did not require a valuation allowance because the value of the collateral, including estimated selling costs, securing the loan was determined to meet or exceed the balance owed on the loan. Of the remaining \$778 thousand in loans individually evaluated for credit losses, an aggregate valuation allowance of \$195 thousand was required to reflect what was determined to be a shortfall in the value of the collateral as compared to the balance on such loans.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets would be included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement. At December 31, 2023 and December 31, 2022, the Company had no real estate properties acquired through, or in lieu of, foreclosure.

The following table presents 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:

Description	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
(Dollars In Thousands)				
December 31, 2023:				
Loans individually evaluated for credit losses	\$ 583	Appraisal of real estate collateral and pending agreement of sale	Appraisal adjustments (1) Liquidation expenses (2)	0% to -25% (-24.8%) 0% to -10.0% (-7.5%)
December 31, 2022:				
Impaired loans	\$ 868	Appraisal of collateral and pending agreement of sale	Appraisal adjustments (1) Liquidation expenses (2)	0% to -25% (-25.0%) 0% to -7.5% (-7.5%)

- (1) Appraisals may be adjusted by management for qualitative factors including economic conditions and the age of the appraisal. The range and weighted average of appraisal adjustments are presented as a percent of the appraisal.
- (2) Appraisals and pending agreements of sale are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal or pending agreement of sale.

The estimated fair values of the Company's financial instruments were as follows at December 31, 2023 and 2022:

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)					
December 31, 2023:					
Financial assets:					
Cash and cash equivalents	\$ 78,923	\$ 78,923	\$ 78,923	\$ -	\$ -
Securities available-for-sale	276,060	276,060	-	276,060	-
Loans receivable, net of allowance	1,241,578	1,150,233	-	-	1,150,233
Restricted investments in bank stock	2,458	2,458	-	2,458	-
Accrued interest receivable	3,298	3,298	-	3,298	-
Financial liabilities:					
Deposits	1,476,233	1,472,497	-	1,472,497	-
Securities sold under agreements to repurchase and federal funds purchased	15,237	15,237	-	15,237	-
Short-term borrowings	35,000	35,000	-	35,000	-
Accrued interest payable	7,844	7,844	-	7,844	-
Off-balance sheet financial instruments:					
Commitments to grant loans	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-
December 31, 2022:					
Financial assets:					
Cash and cash equivalents	\$ 67,295	\$ 67,295	\$ 67,295	\$ -	\$ -
Securities available-for-sale	316,992	316,992	-	316,992	-
Loans receivable, net of allowance	1,196,164	1,163,947	-	-	1,163,947
Paycheck Protection Program loans receivable	286	255	-	-	255
Restricted investments in bank stock	995	995	-	995	-
Accrued interest receivable	2,926	2,926	-	2,926	-
Financial liabilities:					
Deposits	1,521,107	1,516,911	-	1,516,911	-
Securities sold under agreements to repurchase and federal funds purchased	13,384	13,384	-	13,384	-
Accrued interest payable	986	986	-	986	-
Off-balance sheet financial instruments:					
Commitments to grant loans	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

Note 14 - Transactions with Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families, and affiliated companies (commonly referred to as related parties).

Related parties were indebted to the Company for loans totaling \$15.1 million and \$15.3 million at December 31, 2023 and 2022, respectively. During 2023, loans totaling \$947 thousand were disbursed and loan repayments totaled \$974 thousand. During 2023, loan balances of \$467 thousand were added to the totals due to the promotion of two executive officers, offset by the deletion of \$644 thousand from the loan balances due to the retirement of the Senior Loan Officer.

Deposits with related parties were \$14.3 million and \$15.4 million at December 31, 2023 and 2022, respectively.

Fees paid to related parties for legal services for the years ended December 31, 2023 and 2022 were approximately \$54 thousand and \$51 thousand, respectively. The Company leases its main banking office from an investment group comprised of related parties and its West Broad Street office also from a related party, as disclosed in Note 15.

Note 15 - Lease Commitments

The Company's leases are all classified as operating leases. Currently, many of these leases contain renewal options. The Company has reviewed and based the right of use assets and lease liabilities on the present value of unpaid future minimum lease payments. Additionally, the amounts for the branch leases were impacted by assumptions around renewals and/or extensions and the interest rate used to discount those future lease obligations. The Company used the FHLB advance rates to calculate the discount rate in their review because none of the Company's leases provided an implicit rate. At December 31, 2023 and 2022 the weighted average discount rate for all operating leases was 3.27% and 2.89%, respectively, with branch leases having a weighted average discount rate of 3.30% and 2.91%, respectively, and equipment leases having a weighted average discount rate of 0.83% and 0.89%, respectively. These leases expire at various dates through July 2031. All operating equipment leases do not have renewal language in their contracts and therefore use the current term. As of December 31, 2023 and 2022, the operating leases overall had a weighted average lease term of 4.50 and 4.95 years, respectively, with the branch leases having a weighted average life of 4.53 and 4.98 years, respectively, and equipment leases having a weighted average life of 1.56 and 2.52 years, respectively.

At December 31, 2023, the Company had right of use assets of \$6.5 million (included in other assets) and lease liabilities of \$6.6 million (included in other liabilities) and at December 31, 2022, the Company had right of use assets of \$7.2 million (included in other assets) and lease liabilities of \$7.3 million (included in other liabilities), respectively. The cost for operating leases was \$1.8 million for the years ended December 31, 2023 and December 31, 2022, respectively. Operating cash flow paid for lease liabilities was \$1.9 million and \$1.8 million for the years ended December 31, 2023 and December 31, 2022, respectively.

In addition to fixed rentals, the leases require the Company to pay certain additional expenses of occupying these spaces, including real estate taxes, insurance, utilities, and repairs. These additional expenses, along with depreciation on leasehold improvements, are included in occupancy and equipment expense in the Consolidated Statements of Income. A portion of these leases are with related parties as noted in the following table.

A reconciliation of operating lease liabilities by minimum lease payments by year and in aggregate and discount amounts in aggregate, as of December 31, 2023, are as follows:

	Branch Leases		Equipment		Total
	Third Parties	Related Parties	Leases		
	(In Thousands)				
2024	\$ 1,156	\$ 685	\$ 39	\$	1,880
2025	975	698	22		1,695
2026	957	671	-		1,628
2027	592	55	-		647
2028	551	-	-		551
Thereafter	666	-	-		666
Total Payments	4,897	2,109	61		7,067
Less: Discount Amount	370	109	0		479
Total Lease Liability	<u>\$ 4,527</u>	<u>\$ 2,000</u>	<u>\$ 61</u>	<u>\$</u>	<u>6,588</u>

Rent expense to related parties was \$661 thousand for the years ended December 31, 2023 and 2022, respectively, as described in Note 14.

Note 16 - Federal Income Taxes

The components of income tax expense are as follows:

	Year Ended December 31,	
	2023	2022
	(In Thousands)	
Current	\$ 2,883	\$ 4,639
Deferred	(84)	(348)
Income Tax Expense	<u>\$ 2,799</u>	<u>\$ 4,291</u>

A reconciliation of the statutory federal income tax at a rate of 21% as of December 31, 2023 and December 31, 2022 to the income tax expense included in the consolidated statements of income is as follows:

	Years Ended December 31,			
	2023		2022	
	(In Thousands)			
	Dollar	%	Dollar	%
Federal income tax at statutory rate	\$ 3,246	21.0 %	\$ 4,619	21.0 %
Tax-exempt interest	(344)	(2.2) %	(281)	(1.3) %
Bank owned life insurance	(143)	(0.9) %	(90)	(0.4) %
Other	40	0.2 %	43	0.2 %
Income Tax Expense	<u>\$ 2,799</u>	<u>18.1 %</u>	<u>\$ 4,291</u>	<u>19.5 %</u>

The Company evaluates its tax positions which is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more likely than not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either

individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2023 and 2022, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

The components of the net deferred tax asset (included in other assets) are as follows:

	December 31,	
	2023	2022
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 2,617	\$ 2,614
Deferred compensation	1,628	1,540
Lease liability	1,384	1,541
Unrealized loss on securities available for sale	11,616	13,585
Other	10	17
Total Deferred Tax Assets	17,255	19,297
Deferred tax liabilities:		
Premises and equipment	82	73
Prepaid assets	279	287
Deferred loan costs	604	617
Right of use asset	1,360	1,505
Total Deferred Tax Liabilities	\$ 2,325	\$ 2,482
Net Deferred Tax Asset	\$ 14,930	\$ 16,815

Based upon the level of historical taxable income and projections for future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

Note 17 – Parent Company Only Financial

Condensed financial information pertaining only to the parent company, Embassy Bancorp, Inc., is as follows:

BALANCE SHEETS

	December 31,	
	2023	2022
	(In Thousands)	
<u>ASSETS</u>		
Cash	\$ 443	\$ 548
Other assets	53	49
Investment in subsidiary	105,599	88,067
Total Assets	<u>\$ 106,095</u>	<u>\$ 88,664</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Other liabilities	\$ 440	\$ 388
Stockholders' equity	105,655	88,276
Total Liabilities and Stockholders' Equity	<u>\$ 106,095</u>	<u>\$ 88,664</u>

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	Years Ending December 31,	
	2023	2022
	(In Thousands)	
Other expenses	\$ (613)	\$ (560)
Equity in net income of banking subsidiary	13,144	18,150
Income before income taxes	12,531	17,590
Income tax benefit	125	112
Net income	<u>\$ 12,656</u>	<u>\$ 17,702</u>
Equity in other comprehensive income (loss) of banking subsidiary	7,407	(49,913)
Comprehensive Income (Loss)	<u>\$ 20,063</u>	<u>\$ (32,211)</u>

STATEMENT OF CASH FLOWS

	Years Ending December 31,	
	2023	2022
	(In Thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 12,656	\$ 17,702
Adjustments to reconcile net income to net cash used in operating activities:		
Stock compensation expense	568	527
Net change in other assets and liabilities	48	48
Equity in net income of banking subsidiary	(13,144)	(18,150)
Net Cash Provided By Operating Activities	128	127
Cash Flows Provided By Investing Activities:		
Dividend from banking subsidiary	2,871	2,495
Cash Flows from Financing Activities:		
Exercise of stock options, net of payment for stock tendered, and proceeds from employee stock purchase plan	69	189
Purchase of treasury stock	(132)	(100)
Dividends paid	(3,041)	(2,644)
Net Cash Used in Financing Activities	(3,104)	(2,555)
Net (Decrease) Increase in Cash	(105)	67
Cash – Beginning	548	481
Cash - Ending	\$ 443	\$ 548

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

Item 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of December 31, 2023. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of December 31, 2023, that the Company's disclosure controls and procedures were effective in recording, processing, summarizing, and reporting information required to be disclosed by the Company within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to management to allow timely decisions regarding required disclosures.

A Report of Management's Assessment of Internal Control Over Financial Reporting is located on page 52 of this report, and incorporated herein by reference.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fourth quarter of 2023 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 required by Part III, Item 10, is incorporated herein by reference to the information under the captions “Governance of the Company,” “Board of Directors,” “Information as to Nominees and Directors,” “Executive Officers,” “Nominating Process,” “Code of Conduct (Ethics),” “Committees of the Board of Directors,” “Report of Audit Committee” and “Delinquent Section 16(a) Reports” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2024 annual meeting of shareholders.

Item 11. EXECUTIVE COMPENSATION.

The information required by Part III, Item 11, is incorporated herein by reference to the information under the captions “Director Compensation,” “Executive Compensation,” “Agreements with Executive Officers” and “Pay versus Performance” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2024 annual meeting of shareholders.

In accordance with Item 402 (v) of Regulation S-K, the information set forth under the caption “Pay versus Performance” in such proxy statement will be deemed to be furnished in this report and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act as a result of furnishing the disclosure in this manner.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by Part III, Item 12, is incorporated herein by reference to the information under Item 5 of this report and the information under the caption “Information Concerning Share Ownership” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2024 annual meeting of shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by Part III, Item 13, is incorporated herein by reference to the information under the captions “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2024 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by Part III, Item 14, is incorporated herein by reference to the information under the captions “Independent Registered Public Accounting Firm,” “Fees of Independent Accountants” and “Report of Audit Committee” in the Company’s definitive proxy statement to be filed with the SEC in connection with the Company’s 2024 annual meeting of shareholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a) Financial Statement Schedules can be found under Item 8 of this report.
- (b) Exhibits required by Item 601 of Regulation S-K:

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Incorporation, as amended (conformed) (Incorporated by reference to Exhibit 3.1 of Registrant's Form 10-K filed on March 18, 2022).
3.2	By-Laws (Incorporated by reference to Exhibit 3.2 of Registrant's Form 10-K filed on March 18, 2022).
4.1	Description of the Company's Securities (Incorporated by reference to Exhibit 4.1 of Registrant's Form 10-K filed on March 18, 2022).
10.1	Amended and Restated Embassy Bancorp, Inc. 2010 Stock Incentive Plan (Incorporated by reference to Annex A of Registrant's definitive proxy statement filed on May 1, 2019).
10.2	Form of Stock Option Grant Agreement – Directors (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-K filed on March 18, 2022).
10.3	Form of Stock Option Grant Agreement – Executive Officers (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-K filed on March 18, 2022).
10.4	Lease Agreement dated June 11, 2001 for the Rte. 512 Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.4 of Registrant's Form 10-K filed on March 12, 2021).
10.5	Lease Addendum dated January 1, 2005 for additional space in Rte. 512 Bethlehem office, Bethlehem, PA (Incorporated by reference to Exhibit 10.6 of Registrant's Form 10-K filed on March 12, 2021).
10.6	Second Lease Expansion Addendum dated October 21, 2011 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates, LLC (Incorporated by reference to Exhibit 10.6 of Registrant's Form 10-K filed on March 17, 2023).
10.7	Lease Renewal and Modification Agreement dated May 4, 2012 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates LLC.
10.8	Lease Renewal dated February 17, 2017 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates, LLC (Incorporated by reference to Exhibit 10.8 of Registrant's Form 10-K filed on March 17, 2023).
10.9	Lease Expansion Agreement dated June 15, 2018 by and between Embassy Bank for the Lehigh Valley and Red Bird Associates, LLC.
10.10	Amended and Restated Employment Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated May 24, 2018.
10.11	Amended and Restated Employment Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated May 24, 2018.
10.12	Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010 (Incorporated by reference to Exhibit 10.14 of Registrant's Form 10-K filed on March 18, 2022).
10.13	Amendment No. 1 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 21, 2011 (Incorporated by reference to Exhibit 10.15 of Registrant's Form 10-K filed on March 17, 2023).
10.14	Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated November 19, 2010 (Incorporated by reference to Exhibit 10.16 of Registrant's Form 10-K filed on March 18, 2022).
10.15	Amendment No. 2 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated January 1, 2013 (Incorporated by reference to Exhibit 10.27 of Registrant's Form 10-K filed on March 13, 2019).
10.16	Amendment No. 3 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and David M. Lobach, Jr., dated January 23, 2014 (Incorporated by reference to Exhibit 10.29 of Registrant's Form 10-K filed on March 11, 2020).
10.17	Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated November 19, 2010 (Incorporated by reference to Exhibit 10.19 of Registrant's Form 10-K filed on March 18, 2022).

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. (Continued)

<u>Exhibit Number</u>	<u>Description</u>
10.18	Amendment No. 2 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated January 1, 2013 (Incorporated by reference to Exhibit 10.30 of Registrant’s Form 10-K filed on March 13, 2019).
10.19	Amendment No. 3 to Amended and Restated Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated January 23, 2014 (Incorporated by reference to Exhibit 10.32 of Registrant’s Form 10-K filed on March 11, 2020).
10.20	Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 23, 2015 (Incorporated by reference to Exhibit 10.34 of Registrant’s Form 10-K filed on March 12, 2021).
10.21	Amendment No. 1 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 21, 2016 (Incorporated by reference to Exhibit 10.26 of Registrant’s Form 10-K filed on March 18, 2022).
10.22	Amendment No. 2 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 20, 2017 (Incorporated by reference to Exhibit 10.27 of Registrant’s Form 10-K filed on March 17, 2023).
10.23	Amendment No. 3 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 21, 2018.
10.24	Amendment No. 4 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Judith A. Hunsicker, dated December 18, 2020 (Incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed on December 21, 2020).
10.25	Embassy Bancorp, Inc. Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.35 of Registrant’s Form 10-K filed on March 18, 2022).
10.26	Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Diane M. Cunningham, dated December 21, 2016.
10.27	Amendment No. 5 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Diane M. Cunningham, dated December 15, 2022.
10.28	Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Lynne M. Neel, dated December 21, 2016.
10.29	Amendment No. 5 to Supplemental Executive Retirement Plan Agreement between Embassy Bank for the Lehigh Valley and Lynne M. Neel, dated December 15, 2022.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Baker Tilly US, LLP.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.
101.1	XBRL - Related Documents
	No. Description
101. INS	XBRL Instance Document. *
101. SCH	XBRL Taxonomy Extension Schema Document.
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101. LAB	XBRL Taxonomy Extension Label Linkbase Document.
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101. DEF	XBRL Taxonomy Extension Definitions Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* This instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline

Item 16. FORM 10-K SUMMARY.

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 in its behalf by the undersigned, thereunto duly authorized.

EMBASSY BANCORP, INC.

Dated: March 28, 2024

By: /s/ David M. Lobach, Jr.
David M. Lobach, Jr.
Chairman, President and Chief Executive Officer

Dated: March 28, 2024

By: /s/ Judith A. Hunsicker
Judith A. Hunsicker
First Executive Officer, Chief Operating
Officer, Secretary and Chief Financial Officer

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

Dated: March 28, 2024 /s/ Frank Banko III
Frank Banko III, Director

Dated: March 28, 2024 /s/ Geoffrey F. Boyer
Geoffrey F. Boyer, Director

Dated: March 28, 2024 /s/ John G. Englesson
John G. Englesson, Director

Dated: March 28, 2024 /s/ Bernard M. Lesavoy
Bernard M. Lesavoy, Director

Dated: March 28, 2024 /s/ David M. Lobach, Jr.
David M. Lobach, Jr., Director and Chairman of the Board

Dated: March 28, 2024 /s/ John C. Pittman
John C. Pittman, Director

Dated: March 28, 2024 /s/ Patti Gates Smith
Patti Gates Smith, Director

Dated: March 28, 2024 /s/ John T. Yurconic
John T. Yurconic, Director

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

1. Embassy Bank for the Lehigh Valley, Bethlehem, Pennsylvania; a state-chartered bank organized under Pennsylvania Banking Code of 1965.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-169018, 333-212583, and 333-233401) of Embassy Bancorp, Inc. and Subsidiary of our report dated March 28, 2024 relating to the consolidated financial statements, which appears in this annual report on Form 10-K, for the year ended December 31, 2023.

/s/ Baker Tilly US, LLP

Allentown, Pennsylvania
March 28, 2024

EXHIBIT 31.1

CERTIFICATION

I, David M. Lobach, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Embassy Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) I evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David M. Lobach, Jr.
David M. Lobach, Jr.
Chairman, President and Chief Executive Officer
DATED: March 28, 2024

EXHIBIT 31.2

CERTIFICATION

I, Judith A. Hunsicker, certify that:

1. I have reviewed this annual report on Form 10-K of Embassy Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) I evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Judith A. Hunsicker

Judith A. Hunsicker

First Executive Officer, Chief Operating
Officer, Secretary and Chief Financial Officer

DATED: March 28, 2024

EXHIBIT 32.1

**Certification Pursuant to 18 U.S.C. 1350 and
Section 906 of Sarbanes-Oxley Act of 2002**

We hereby certify that the foregoing Form 10-K of Embassy Bancorp, Inc. for the year ended December 31, 2023 complies in all respects with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Embassy Bancorp, Inc.

/s/ David M. Lobach, Jr.

David M. Lobach, Jr.

Chairman, President and Chief Executive Officer

/s/ Judith A. Hunsicker

Judith A. Hunsicker

First Executive Officer, Chief Operating
Officer, Secretary and Chief Financial Officer

DATED: March 28, 2024

Embassy Bancorp, Inc.

Embassy Bancorp, Inc. (the “Company”) is a Pennsylvania corporation and registered bank holding company. It is the parent company of Embassy Bank For The Lehigh Valley (the “Bank”), a full service bank providing personal and business lending and deposit service through 10 branch offices in the Lehigh Valley area of Pennsylvania.

Transfer Agent

Computershare
P.O. Box 43006
Providence, RI 02940-3006
Phone: 1-800-368-5948

Corporate Headquarters

100 Gateway Drive, Suite 310
P.O. Box 20405
Lehigh Valley, PA 18002-0405
610-882-8800 Fax: 610-691-5600
www.embassybank.com

Annual Meeting

The Annual Meeting of Embassy Bancorp, Inc. will be held on June 20, 2024, at 5:30 P.M. EDT, virtually via live webcast. To access the webcast, you must have the control number located on the 2024 Annual Meeting Proxy Card. The webcast URL is: meetnow.global/M94NQZ4.

Form 10-K Request

The Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge at the Company’s website at www.embassybank.com or by contacting:

Judith Hunsicker, Chief Operating Officer
Embassy Bancorp, Inc.
P.O. Box 20405
Lehigh Valley, PA 18002-0405

Market & Dividend Information

Embassy Bancorp, Inc. common stock is quoted on the OTCQX under the symbol EMYB and is traded over the counter and in privately negotiated transactions. The common stock is not listed on any national securities exchange. OTC Markets (www.otcmarkets.com) maintains a list of market makers of Company common stock. You may also obtain this list by contacting Lynne Neel at 610-882-8805.

On June 15, 2023, the Company declared an annual cash dividend of \$0.40 per share.

Direct Stock Purchase and Dividend Reinvestment Plan

The Company’s Transfer Agent, Computershare Trust Company, N.A., sponsors and administers a plan that offers a convenient way for current and prospective investors to purchase shares of Company common stock through direct purchases or reinvestment of cash dividends.

For more information about the plan, please contact Computershare at:

Computershare
P.O. Box 43006
Providence, RI 02940-3006
Phone: 1-800-368-5948
Internet: www.computershare.com

ALLENTOWN
1142 S. Cedar Crest Blvd.
484-223-0018

ALLENTOWN
4148 W. Tilghman St.
484-223-1782

ALLENTOWN
2002 W. Liberty St.
610-297-4141

BETHLEHEM
100 Gateway Dr.
610-882-8800

BETHLEHEM
925 W. Broad St.
484-821-1210

EASTON
3751 Easton-Nazareth Hwy.
484-536-1870

MACUNGIE
180 W. Main St.
484-519-9150

NAZARETH
10 N. Main St.
610-614-3251

SAUGON VALLEY
3495 Rt. 378
610-332-2981

TREXLERTOWN
6379 Hamilton Blvd.
610-336-8034



www.embassybank.com

