QNB CORP.

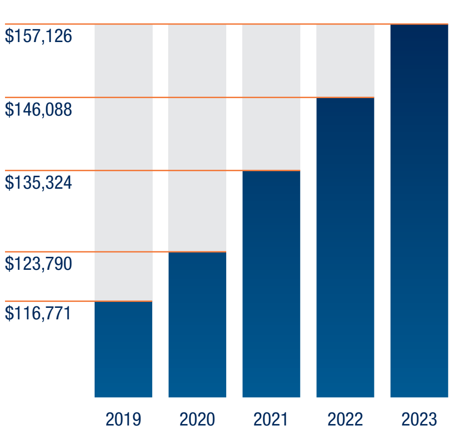
2023 ANNUAL REPORT

Financial Highlights

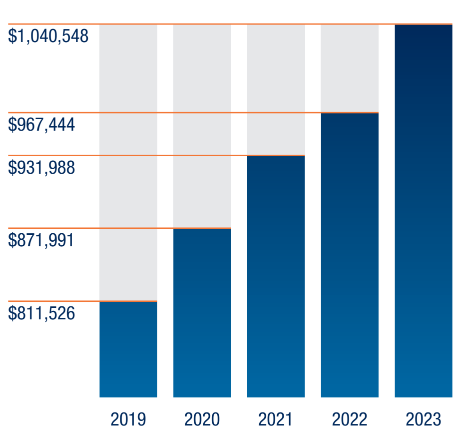
(in thousands, except per share data)
(unaudited)

Year Ended December 31,	2023	2022	2021	2020	2019
Financial Performance					
Net interest income	$ 40,155	$ 44,497	$ 42,127	$ 37,248	$ 36,294
Provision for credit losses	(844)	(850)	458	1,250	1,300
Non-interest income	4,837	5,731	9,781	7,602	8,317
Non-interest expense	34,109	31,492	30,997	28,955	28,104
Net income	9,483	15,921	16,492	12,083	12,357
Per Share Data					
Net income - basic	$ 2.63	$ 4.47	$ 4.64	$ 3.42	$ 3.53
Net income - diluted	2.63	4.47	4.64	3.42	3.53
Book value	24.86	19.78	38.41	37.80	34.30
Cash dividends	1.48	1.44	1.40	1.36	1.32
Selected Average Balances					
Total assets	$ 1,748,029	$ 1,710,449	$ 1,585,627	$ 1,343,984	$ 1,212,040
Total earning assets	1,703,744	1,669,384	1,534,627	1,297,151	1,174,619
Investment securities	628,380	696,158	565,924	390,906	359,606
Loans held-for-sale	427	6	3,971	3,530	113
Loans receivable	1,040,121	967,438	928,017	868,461	811,413
Deposits	1,455,517	1,460,416	1,359,100	1,150,411	1,030,373
Total borrowed funds	124,574	95,876	81,658	60,311	56,980
Shareholders' equity	157,126	146,088	135,324	123,790	116,771
Balance Sheet Data					
Total assets	$ 1,706,318	$ 1,668,497	$ 1,673,340	$ 1,440,229	$ 1,225,023
Investment securities	496,092	558,581	704,770	448,495	358,874
Loans held-for-sale	549	–	–	6,570	977
Loans receivable	1,093,533	1,039,385	926,470	920,042	820,616
Allowance for credit losses on loans	(8,852)	(10,531)	(11,184)	(10,826)	(9,887)
Deposits	1,488,713	1,418,369	1,449,745	1,228,067	1,037,860
Total borrowed funds	114,094	171,327	78,476	68,838	55,931
Shareholders' equity	90,824	70,958	136,494	134,445	120,717
Selected Ratios					
Return on average assets	0.54%	0.93%	1.04%	0.90%	1.02%
Return on average shareholders' equity	6.04	10.90	12.19	9.76	10.58
Net interest margin	2.39	2.71	2.79	2.92	3.16
Average shareholders' equity to average total assets	8.99	8.54	8.53	9.21	9.63

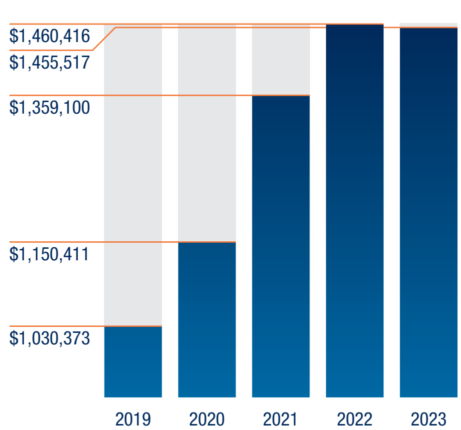
Total Average Equity



Total Average Loans



Total Average Deposits



Letter to the Shareholders

We are pleased to present the 2023 Annual Report of QNB Corp. (QNB or the Company), which includes the activity of its subsidiary QNB Bank (the Bank).

We cannot speak about our 2023 results without acknowledging the financial services industry's turbulent year and the economic environment. We spent much of 2023 focusing and executing deliberate actions to navigate the complex environment to position QNB for short and long-term success while managing the day-to-day operations.

Liquidity was a key factor, fueling competition in the deposit-gathering space among local, regional, and national banks and fueling higher rate offers from banks and non-bank entities. In the first quarter, when banks were fighting to retain deposits, we deliberately focused on deposit retention and deposit gathering, raising our deposit rates to remain competitive and an attractive banking option for our customers and prospects.

Rates continued to rise, with the Federal Funds Rate increasing 100 basis points in the first half of 2023. Continued rising interest rates put low-cost deposits at significant risk for attrition, and our actions ensured we had liquidity, diverse sources of funds, and a solid deposit base comprised of local customers' funds.

In March, the Federal Reserve introduced the Bank Term Funding Program to help banks with a source of lower-cost funds. We took advantage of the program by borrowing $50 million at 4.39%, which provided a lower cost of funds with no prepayment penalty, making this a low-risk option for additional liquidity. This rate was well below the Federal Funds target rate of 5.25% – 5.50%, which was in effect in the second half of 2023.

The pressure on our margin was significant. Lower-rate fixed loans did not reprice in alignment with the rapid deposit cost increase. In the second quarter, we entered into interest rate swaps, which are fair value hedging instruments, to help mitigate the impact of rising interest rates. We began to feel the benefit of the swaps helping our earnings in the second half of the year and have significantly improved our interest rate risk.

We continued to navigate, making additional moves to reallocate assets for better performance. In the fourth quarter, we improved the efficiency of our investment portfolio by executing a sale of $26 million in book value of low-yielding fixed-rate available-for-sale securities, booking a pre-tax loss of $1.8 million. Net losses on sales of investment securities were $2.1 million for the year ended December 31, 2023. We took the proceeds of the securities sale and reinvested in interest-bearing cash, earning a significantly higher yield than the underperforming securities. Reinvesting these funds at higher yields is more beneficial for our future earnings.

With all of the economic challenges in 2023, QNB showed solid fundamental results. We experienced continued demand and growth for commercial loans, with our year-ending loans receivable up $54 million vs. the prior year-end, a 5.2% growth. Our credit quality remains excellent, with a 0.52% ratio of nonaccrual loans to total loans at year-end, a decrease of 36 basis points vs. the prior year's end. Our deposits also showed year-over-year growth of $70 million or 5.0% for 2023, and we continued to see growth in the total number of households the bank maintains. We significantly increased our cash on hand, reduced our borrowing positions, and have good liquidity. Our many local businesses and consumers provide a well-diversified and sticky deposit base.

In May 2024, we will say farewell to our long-standing board chair, Dennis Helf, and board member and former QNB CEO, Tom Bisko, as they retire from the QNB Corp. Board. We are grateful for their dedicated service and contributions to our company. We are pleased to welcome a long-term board member, shareholder, and local businessperson, Dr. Randy Bimes, as the new Chairman of the Board to steward QNB Corp. in the future.

We are very cognizant of the changing economic landscape and approach 2024 with optimism as we continue to focus on our core business and will continue to execute tactics to navigate the complex financial environment.

The Company's long-term success is related to the quality of our employees. A list of 2023's promoted and newly hired officers is available on the inside back cover.

As we enter our 147th year of providing banking products and services, we continue to be thankful for the strength of our customer relationships, the support of the communities in which we serve, the dedication of our employees, and the commitment of you, our shareholders. On behalf of the Board of Directors, thank you for your investment in QNB Corp.

Dennis Helf
Chairman of the Board

David W. Freeman
President and Chief Executive Officer

Corporate Information

ANNUAL MEETING

The Annual Meeting of Shareholders of QNB Corp. will be held at The Centennial Conference Center on May 21, 2024, at 11:00 am.
3350 Center Valley Parkway
Center Valley, PA 18034

MARKET MAKERS

As of December 31, 2023, the following firms made a market in QNB Corp. common stock:

Boenning & Scattergood, Inc.
West Conshohocken, PA 19428

RBC Wealth Management
Baltimore, MD 21202

Janney Montgomery Scott LLC
Philadelphia, PA 19103

Monroe Securities, Inc.
Chicago, IL 60606

Pershing, LLC
Jersey City, NJ 07399

Stifel, Nicolaus & Co., Inc.
St. Louis, MO 63102

StockCross Financial Services
Jersey City, NJ 07302

UBS Securities LLC
Stamford, CT 06901

TRANSFER AGENT

Computershare Shareholder Services
PO Box 505000
Louisville, KY 40233-5000
800-368-5948

AUDITORS

Baker Tilly US, LLP
99 Wood Ave South, Ste 801
Iselin, NJ 08830-2734

SEC FILINGS

The 10-K and other Corporation reports are also filed electronically through the Electronic Data Gathering, Analysis, and Retrieval System (EDGAR) which performs automated collection, validation, indexing, acceptance, and forwarding of submissions to the Securities and Exchange Commission (SEC) and are accessible by the public using the Internet at http://www.sec.gov/edgar.shtml.

DIRECT DEPOSIT OF DIVIDENDS

Shareholders of record may elect to have dividends deposited directly to a checking or savings account at their financial institutions. For additional information about Direct Deposit of Dividends, please contact Computershare Shareholder Services whose contact information is listed under the Transfer Agent section of this page.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

QNB Corp. offers a Dividend Reinvestment and Stock Purchase Plan (the "Plan") that provides a convenient and economical method for investing cash dividends in additional shares of the Company's common stock. The Plan also allows additional cash purchases of stock. Additional details of the Plan can be found in the prospectus which is located under SEC Filings on the Investor Relations page at QNBbank.com. To participate in the Plan, please contact Computershare Shareholder Services whose contact information is listed under the Transfer Agent section of this page.

Directors & Executive Officers

As of 3/15/2024

DIRECTORS OF QNB CORP. AND QNB BANK

Autumn Bayles – *SVP Global Supply Chain at Aramark Corp.*
Laurie A. Bergman – *CFO Liquid Environmental Solutions*
Randy S. Bimes – *President of Quakertown Veterinary Clinic*
Thomas J. Bisko – *Retired President & CEO of QNB Bank*
Kenneth F. Brown – *President of McAdoo & Allen, Inc.*
David W. Freeman – *President & CEO of QNB Bank*
Gerald E. Gorski – *President & CEO of Gorski Engineering, Inc.*
Dennis Helf – *Registered Investment Advisor*
Jennifer Mann – *President of JL Mann Consulting, LLC*
Ranajoy Ray-Chaudhuri – *Associate Professor of Economics & Finance at Muhlenberg College*
W. Randall Stauffer – *Retired Chairman & COO of Stauffer Glove & Safety*
Scott R. Stevenson – *President & CEO of Phoebe Ministries*

OFFICERS OF QNB CORP.

Dennis Helf – *Chairman of the Board*
David W. Freeman – *President & Chief Executive Officer*
Jeffrey Lehocky – *EVP, Chief Financial Officer*

EXECUTIVE MANAGEMENT OF QNB BANK

David W. Freeman – *President & Chief Executive Officer*
Christopher T. Cattie – *EVP, Chief Operations & Technology Officer*
Courtney L. Covelens – *EVP, Chief Retail & Business Banking Officer*
Jeffrey Lehocky – *EVP, Chief Financial Officer*
Christina S. McDonald – *EVP, Chief Marketing & Retail Lending Officer*
Scott G. Orzehoski – *EVP, Chief Lending Officer*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2023**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _______________ to _______________.**

Commission file number 0-17706

QNB Corp.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2318082**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
15 North Third Street, P.O. Box 9005 Quakertown, PA	**18951-9005**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code (215) 538-5600
Securities registered pursuant to Section 12(b) of the Act: None.

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	QNBC	N/A

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
Title of class

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☐ No ☒

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

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

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

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

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

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

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

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

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

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

As of February 29, 2024, 3,654,784 shares of common stock of the registrant were outstanding. As of June 30, 2023 the aggregate market value of the common stock of the registrant held by non-affiliates was approximately $71,440,104 based upon the average bid and asked prices of the common stock as reported on the OTC BB.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement for the annual meeting of its shareholders to be held May 21, 2024 are incorporated by reference in Part III of this report.

FORM 10-K INDEX

PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this document contains forward-looking statements. Forward-looking statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project” and variations of such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “may” or similar expressions. The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor in regard to the inclusion of forward-looking statements in this document and documents incorporated by reference.

Shareholders should note that many factors, some of which are discussed elsewhere in this document and in the documents that are incorporated by reference, could affect the future financial results of QNB Corp. and its subsidiary and could cause those results to differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this document. These factors include, but are not limited to, the following:

- Volatility in interest rates and shape of the yield curve;
- Credit risk;
- Liquidity risk;
- Operating, legal and regulatory risks;
- Economic, political and competitive forces affecting QNB Corp.’s business;
- The effects of unforeseen external events, including acts of terrorism, acts of war or other events involving armed conflict in other countries, natural disasters, and pandemics; and
- The risk that the analysis of these risks and forces could be incorrect, and/or that the strategies developed to address them could be unsuccessful.

QNB Corp. (herein referred to as “QNB” or the “Company”) cautions that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, all of which change over time, and QNB assumes no duty to update forward-looking statements. Management cautions readers not to place undue reliance on any forward-looking statements. These statements speak only as of the date of this Annual Report on Form 10-K, even if subsequently made available by QNB on its website or otherwise, and they advise readers that various factors, including those described above, could affect QNB’s financial performance and could cause actual results or circumstances for future periods to differ materially from those anticipated or projected. Except as required by law, QNB does not undertake, and specifically disclaims any obligation, to publicly release any revisions to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

ITEM 1. BUSINESS

Overview

QNB was incorporated under the laws of the Commonwealth of Pennsylvania on June 4, 1984. QNB is registered with the Board of Governors of the Federal Reserve System as a bank holding company under the Bank Holding Company Act of 1956 and conducts its business through its wholly-owned subsidiary, QNB Bank (the “Bank”).

Prior to December 28, 2007, the Bank was a national banking association organized in 1877 as The Quakertown National Bank, was chartered under the National Banking Act and was subject to Federal and state laws applicable to national banks. Effective December 28, 2007, the Bank became a Pennsylvania chartered commercial bank and changed its name to QNB Bank. The Bank, whose principal office is located in Quakertown, Bucks County, Pennsylvania, operated twelve full-service community banking offices in Bucks, Montgomery and Lehigh counties in southeastern Pennsylvania as of December 31, 2023.

The Bank is engaged in the general commercial banking business and provides a full range of banking services to its customers. These banking services consist of, among other things, attracting deposits and using these funds in making commercial loans, residential mortgage loans, consumer loans, and purchasing investment securities. These deposits are in the form of time, demand and savings accounts. Time deposits include certificates of deposit and individual retirement accounts. The Bank’s demand and savings accounts include money market accounts, interest-bearing demand accounts (including a higher yielding checking account), club accounts, traditional statement savings accounts, and a higher yielding online savings account.

At December 31, 2023, QNB had total assets of $1,706,318,000, total loans receivable of $1,093,533,000, total deposits of $1,488,713,000 and total shareholders' equity of $90,824,000. For the year ended December 31, 2023, QNB reported net income of $9,483,000 compared to net income for the year ended December 31, 2022 of $15,921,000 and December 31, 2021 of $16,492,000.

At February 15, 2024, the Bank had 189 full-time employees and eight part-time employees. The Bank's employees have a customer-oriented philosophy emphasizing personal service and flexible solutions which together make achieving our customers' goals possible. They maintain close contact with both the residents and local business people in the communities in which they serve, responding to changes in market conditions and customer requests in a timely manner.

Competition and Market Area

The banking business is highly competitive, and the profitability of QNB depends principally upon the Bank's ability to compete in its market area. QNB faces intense competition within its market, both in making loans and attracting deposits. Bucks, Lehigh, and Montgomery counties have a high concentration of financial institutions, including large national and regional banks, community banks, savings institutions and credit unions. Some of QNB's competitors offer products and services that QNB currently does not offer, such as traditional trust services and full-service insurance.

In addition, as a result of consolidation in the banking industry, some of QNB's competitors may enjoy advantages such as greater financial resources, a wider geographic presence, more favorable pricing alternatives and lower origination and operating costs. However, QNB has been able to compete effectively with other financial institutions by emphasizing the establishment of long-term relationships and customer loyalty. A strong focus on small-business solutions, providing fast local decision-making on loans, exceptional personal customer service and technology solutions, including internet- and mobile-banking, electronic bill pay and remote deposit capture, also enable QNB to compete successfully.

Competition for loans and deposits comes principally from commercial banks, savings institutions, credit unions and non-bank financial service providers. Factors in successfully competing for deposits include providing excellent customer service, convenient locations and hours of operation, attractive rates, low fees, and alternative delivery systems. One such delivery system is remote deposit capture for those commercial customers that are not conveniently located near one of our branches, or mobile banking for retail customers. Successful loan origination tends to depend not only on interest rate and terms of the loan but also on being responsive and flexible to the customers' needs. While many competitors within the Bank's primary market have substantially higher legal lending limits, QNB often has the ability, through loan participations, to meet the larger lending needs of its customers.

QNB's success is dependent to a significant degree on economic conditions in southeastern Pennsylvania, especially Bucks, Lehigh and Montgomery counties, which it defines as its primary market. The banking industry is affected by general economic conditions, including the effects of recession, unemployment, declining real estate values, inflation, changes interest rates, trends in the national and global economies, and other factors beyond QNB's control.

Monetary Policy and Economic Conditions

The business of financial institutions is affected not only by general economic conditions, but also by the policies of various governmental regulatory agencies, including the Board of Governors of the Federal Reserve (the "Federal Reserve"). The Federal Reserve regulates money, credit conditions and interest rates to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in the reserve requirements against depository institutions' deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, as well as the interest rates charged on loans and the interest rates paid on deposits.

The monetary policies of the Federal Reserve have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the financial markets in addition to the activities of monetary and fiscal authorities, the prediction of future changes in interest rates, credit availability or deposit levels is very challenging.

Supervision and Regulation

Banks and bank holding companies operate in a highly-regulated environment and are regularly examined by Federal and state regulatory authorities. Federal statutes that apply to QNB and its subsidiary include the Bank Holding Company Act of 1956 ("BHCA"), the Federal Reserve Act and the Federal Deposit Insurance Act ("FDIA"), as those statutes have been significantly amended by recent laws such as the Dodd-Frank Wall Street Reform and Consumer Protection Act the "Dodd-Frank Act"), the Gramm-Leach-Bliley Act ("GLBA"), and others. In general, these statutes regulate the corporate governance of the Bank and eligible business activities of QNB and impose certain restrictions and limitations on such important matters as mergers and acquisitions, intercompany transactions, loans and dividends, and capital adequacy, among others. Other corporate governance requirements are imposed on QNB by Federal securities and other laws, including the Sarbanes-Oxley Act, described later.

The Company is under the jurisdiction of the Securities and Exchange Commission and of state securities commissions for matters relating to the offering and sale of its securities. In addition, the Company is subject to the Securities and Exchange Commission's rules and regulations relating to periodic reporting, proxy solicitation and insider trading.

Set forth below is a brief summary of some of the significant regulatory concepts and laws that affect QNB and the Bank. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by references to the particular statutory or regulatory provisions themselves. Proposals to change banking laws and regulations are frequently introduced in Congress, the state legislatures, and before the various bank regulatory agencies. QNB cannot determine the likelihood of passage or timing of any such proposals or legislation or the impact they may have on QNB and its subsidiary. A change in law, regulations or regulatory policy may have a material effect on QNB and its subsidiary.

Bank Holding Company Regulation

QNB is registered as a bank holding company and is subject to the regulations of the Federal Reserve under the BHCA. In addition, QNB Corp., as a Pennsylvania business corporation, is subject to the Pennsylvania Business Corporation Law of 1988 (the "BCL"), as amended, and to certain provisions of the Pennsylvania Banking Code of 1965, as amended (the "Banking Code").

Bank holding companies are required to file periodic reports with, and are subject to examination by, the Federal Reserve. The Federal Reserve's regulations require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve, pursuant to its "source of strength" regulations, may require QNB to commit its resources to provide adequate capital funds to the Bank during periods of financial distress or adversity.

Federal Reserve approval may be required before QNB may begin to engage in any non-banking activity and before any non-banking business may be acquired by QNB.

Regulatory Restrictions on Dividends

Dividend payments made by the Bank to the Company are subject to the Pennsylvania Banking Code, the FDIA, and the regulations of the Federal Deposit Insurance Corporation ("FDIC"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally retained earnings). The Federal Reserve and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. Under the FDIA, the Bank is prohibited from paying any dividends, making other distributions or paying any management fees if, after such payment, it would fail to satisfy its minimum capital requirements. See also "Supervision and Regulation – Bank Regulation".

In addition to the dividend restrictions described above, the banking regulators have the authority to prohibit or to limit the payment of dividends by the Bank if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the Bank.

Under Pennsylvania law, QNB may not pay a dividend, if, after giving effect thereto, it would be unable to pay its debts as they become due in the usual course of business and, after giving effect to the dividend, the total assets of QNB would be less than the sum of its total liabilities plus the amount that would be needed, if QNB were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to those receiving the dividend.

It is also the policy of the Federal Reserve that a bank holding company generally only pay dividends out of net income over the past year and only if the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality, and overall financial condition. In the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios at the 100% level unless both asset quality and capital are very strong. A bank holding company also should not maintain a dividend level that places undue pressure on the capital of such institution's subsidiaries, or that may undermine the bank holding company's ability to serve as a source of strength for such subsidiaries.

The minimum capital requirements implemented by Basel III, and described below under "Capital Adequacy," also introduced a capital conservation buffer, comprised of common equity Tier 1 capital, above a banking institution's minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets in order to avoid limitations on certain distributions, including dividend payments. Under the restrictions applicable to the Bank, to remain "well capitalized," the Bank had approximately $27,772,000 available for payment of dividends to the Company at December 31, 2023.

Capital Adequacy

In July 2013, the Federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The rules generally implemented higher minimum capital requirements, added a new common equity Tier 1 capital requirement, and established criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. Tier 1 capital consists principally of common shareholders' equity, plus retained earnings, less certain intangible assets. Tier 2 capital includes the allowance for loan and lease losses (up to 1.25 percent of risk-weighted assets), qualifying preferred stock, subordinated debt, and qualifying Tier 2 minority interests. The current minimum capital requirements are a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. In addition, in order to avoid limitations on certain capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), as of January 1, 2019, a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. At December 31, 2023, QNB's Tier 1 capital, total capital (Tier 1 and Tier 2 combined) and common equity Tier 1 equity ratios were 12.39%, 13.09%, and 12.39%, respectively.

In addition to the risk-based capital guidelines, the Federal Reserve requires a bank holding company to maintain a minimum leverage ratio. This requires a minimum level of Tier 1 capital (as determined under the risk-based capital rules) to average total consolidated assets of 4% for those bank holding companies that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. The Federal Reserve expects all other bank holding companies to maintain a ratio of at least 1% to 2% above the stated minimum. At December 31, 2023, QNB's leverage ratio was 8.92%.

During 2018, the FRB raised the threshold of its "Small Bank Holding Company" exemption to the application of consolidated capital requirements for qualifying small bank holding companies from $1 billion to $3 billion of consolidated assets. Consequently, qualifying bank holding companies having less than $3 billion of consolidated assets are not subject to the consolidated capital requirements unless otherwise directed by the FRB.

Under the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in May 2018, federal banking agencies adopted the community bank leverage ratio ("CBLR") framework available to depository institutions having less than $10 billion in total assets and meeting certain other qualifying criteria. The CBLR rules provide that qualifying community banking organizations that adopt the CBLR framework and that maintain a CBLR in excess of 9% will be considered to have met the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules and the capital ratio requirements necessary to be considered "well capitalized." QNB has not elected to use the CBLR framework at this time.

Pursuant to the prompt corrective action provisions of the FDIA, the Federal banking agencies have specified, by regulation, the levels at which an insured institution is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. Under these regulations, an institution is considered well capitalized if it satisfies each of the following requirements:

- Total risk-based capital ratio of 10% or more.
- Tier 1 risk-based capital ratio of 8% or more.
- Common equity tier 1 risk-based capital ratio of 6.5% or more.
- Leverage ratio of 5% or more, and
- Not subject to any order or written directive to meet and maintain a specific capital level

At December 31, 2023 and 2022, the Bank qualified as well capitalized under these regulatory standards. See Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for additional information.

Bank Regulation

As a Pennsylvania-chartered insured commercial bank, the Bank is subject to extensive regulation and examination by the Pennsylvania Department of Banking and Securities (the "Department") and by the FDIC, which insures its deposits to the maximum extent permitted by law.

The Federal and state laws and regulations applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds, the nature and amount of collateral for certain loans, the activities of a bank with respect to mergers and consolidations, and the establishment of branches. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not for the purpose of protecting QNB's shareholders. This regulatory structure also gives the Federal and state banking agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department, the FDIC or the United States Congress, could have a material impact on the Company, the Bank and their operations.

As a subsidiary bank of a bank holding company, the Bank is subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to QNB, on investments in the stock or other securities of QNB, and on taking such stock or securities as collateral for loans.

FDIC Insurance Assessments

The Bank's deposits are insured to the applicable limits as determined by the FDIC, which is currently $250,000 per depositor. Under the FDIC's risk-based assessment system, deposit insurance assessments are based on each insured institution's total assets less tangible equity, thereby basing deposit insurance assessments on an institution's total liabilities, not only insured deposits. Small banks (generally, those with less than $10 billion in assets) are assigned an individual rate based on a formula using financial data and CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) ratings. A bank's assessment is calculated by multiplying its individual assessment rate by its assessment base (average consolidated total assets less average tangible equity), determined quarterly.

For the years ended December 31, 2023, 2022 and 2021, the Bank recorded $1,058,000, $768,000, and $793,000, respectively, in FDIC deposit insurance premium expense.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"), which is one of 11 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e. advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. At December 31, 2023 the Bank had no overnight FHLB advances outstanding and $20,000,000 in long-term debt.

The Bank is required to purchase and maintain stock in the FHLB as a condition of membership in an amount equal to 0.10% of its assets. In addition, each member is required to purchase and maintain activity-based stock of 4% of outstanding advances from the FHLB. At December 31, 2023, the Bank had $1,718,000 in stock of the FHLB.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA") as amended, the FDIC is required to assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the communities that they serve. The CRA focuses specifically on low- and moderate-income neighborhoods.

An institution's record is considered during the evaluation of any application made by such institutions for, among other things:

- Approval of a branch or other deposit facility;
- An office relocation or a merger; and
- Any acquisition of bank shares.

The CRA also requires that the regulatory agency make publicly available the evaluation of the Bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods. This evaluation includes a descriptive rating of either outstanding, satisfactory, needs to improve, or substantial noncompliance, and a statement describing the basis for the rating. The Bank's most recent CRA rating was "Satisfactory".

In October 2023, the federal banking regulators issued a final rule, effective April 1, 2024, to modernize their respective CRA regulations. The revised rule substantially alters the methodology for assessing compliance with the CRA, with most provisions of the new rule taking effect January 1, 2026, and revised data reporting requirements taking effect January 1, 2027. Among other things, the revised rule evaluates lending outside traditional assessment areas generated by the growth of non-branch delivery systems, such as online and mobile banking, apply a metrics-based benchmarking approach to assessment, and clarifies eligible CRA activities.

USA Patriot Act

The USA Patriot Act strengthens the anti-money laundering provisions of the Bank Secrecy Act. The Act requires financial institutions to establish certain procedures to be able to identify and verify the identity of its customers. Specifically, the Bank must have procedures in place to:

- Verify the identity of persons applying to open an account;
- Ensure adequate maintenance of the records used to verify a person's identity; and
- Determine whether a person is on any U.S. government agency list of known or suspected terrorists or a terrorist organization.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act is intended to bolster public confidence in the nation's capital markets by imposing new duties and penalties for non-compliance on public companies and their executives, directors, auditors, attorneys and securities analysts. Some of the more significant aspects of the Act as it relates to QNB include:

- Corporate Responsibility for Financial Reports - requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify certain matters relating to a company's financial records and accounting and internal controls.
- Management Assessment of Internal Controls - requires auditors to certify the company's underlying controls and processes that are used to compile the financial results for companies that are accelerated filers.
- Real-time Issuer Disclosures - requires that companies provide real-time disclosures of any events that may affect the company's stock price or financial performance, generally within a 48-hour period.
- Criminal Penalties for Altering Documents - provides severe penalties for "whoever knowingly alters, destroys, mutilates" any record or document with intent to impede an investigation. Penalties include monetary fines and prison time.

The Act also imposes requirements for corporate governance, auditor independence, accounting standards, audit committee member independence and increased authority, executive compensation, insider loans and whistleblower protection. As a result of the Act, QNB adopted a Code of Business Conduct and Ethics applicable to its CEO, CFO and Controller, which meets the requirements of the Act, to supplement its long-standing Code of Ethics, which applies to all directors and employees.

QNB's Code of Business Conduct and Ethics can be found on the Bank's website at QNBBank.com.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act")

The Dodd-Frank Act was enacted on July 21, 2010. This law made significant changes to the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakened the Federal preemption rules that had been applicable for national banks and Federal savings associations and gave state attorneys general the ability to enforce Federal consumer protection laws.

Many of the provisions of the Dodd-Frank Act do not apply to the Bank, as it does not engage in many of the specific activities sought to be regulated by the Dodd-Frank Act. Many of the provisions, however, such as increased capital requirements and changes to FDIC insurance premiums already implemented, affected all banking entities. In addition, the financial crisis of 2008 and the enactment of the Dodd-Frank Act in response to that crisis has resulted in an era of increased regulatory oversight over all financial entities. The ultimate changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Possible Future Legislation

Congress is often considering some financial industry legislation, and the Federal banking agencies routinely propose new regulations. The Company cannot predict the future effect any new legislation, or new rules adopted by Federal or state banking agencies, will have on the business of the Company and its subsidiaries. The Company expects that there will be legislative and regulatory actions that may materially affect the banking industry in the foreseeable future.

Additional Information

QNB's principal executive offices are located at 320 West Broad Street, Quakertown, Pennsylvania. Its telephone number is (215) 538-5600.

QNB also makes its periodic and current reports available, including this annual report for Form 10-K, free of charge, on its website, QNBBank.com, as soon as reasonably practicable after such material is electronically filed with the SEC. Information available on the website is not a part of, and should not be incorporated into, this annual report on Form 10-K. In addition, the SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants, including QNB, that file electronically with the SEC which can be accessed at SEC.gov.

ITEM 1A. RISK FACTORS

The following discusses risks that management believes are specific to our business and could have a negative impact on QNB's financial performance. When analyzing an investment in QNB, the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report, should be carefully considered. This list should not be viewed as comprehensive and may not include all risks that may affect the financial performance of QNB.

Our net interest income, net income and results of operations are sensitive to fluctuations in interest rates.

QNB's profitability is largely a function of the spread between the interest rates earned on earning assets and the interest rates paid on deposits and other interest-bearing liabilities. Like most financial institutions, QNB's net interest income and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the Federal government, that influence market interest rates and QNB's ability to respond to changes in such rates. At any given time, QNB's assets and liabilities may be such that they are affected differently by a change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable- and fixed-rate loans or investment securities in QNB's portfolio could have a positive or negative effect on its net income, capital and liquidity. Although management believes it has implemented strategies and guidelines to reduce the potential effects of adverse changes in interest rates on results of operations, any substantial and prolonged change in market interest rates could affect operating results negatively.

We are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively affected by economic conditions and other factors that could adversely affect our customers.

As a lender, QNB is exposed to the risk that its borrowers may be unable to repay their loans and that the current market value of any collateral securing the payment of their loans may not be sufficient to assure repayment in full. Credit losses are inherent in the lending business and could have a material adverse effect on the operating results of QNB. Adverse changes in the economy or business conditions, either nationally or in QNB's market areas, could increase credit-related losses and expenses and/or limit growth. Substantially all of QNB's loans are to businesses and individuals in its limited geographic area and any economic decline in this market could impact QNB adversely. QNB makes various assumptions and judgments about the collectability of its loan portfolio and provides an allowance for loan losses based on a number of factors. If these assumptions are incorrect, the allowance for loan losses may not be sufficient to cover losses and may cause QNB to increase the allowance in the future by increasing the provision for loan losses, thereby having an adverse effect on operating results. QNB has adopted underwriting and credit monitoring procedures and credit policies that management believes are appropriate to control these risks; however, such policies and procedures may not prevent unexpected losses that could have a material adverse effect on QNB's financial condition or results of operations.

A deterioration in regional or national economic conditions may adversely affect our financial condition and results of operations.

QNB primarily provides banking services to customers located in the Bucks, Lehigh and Montgomery Counties in Pennsylvania. Adverse effects of a regional economic downturn could affect QNB's ability to attract deposits and qualified loans. Economic factors impacting the local economy with this region, such as a decline in real estate values, unemployment, natural disasters, or the effects of armed conflict in other parts of the world, including present armed conflicts in Ukraine and the Gaza Strip, may have a negative impact on credit-worthiness of customers, the value of collateral, and customers' ability to repay loans, which would result in write-downs, increases in non-performing loans, and a decline in QNB's financial performance measurements. Unlike larger banks that are more geographically diversified, we provide banking and financial services locally and therefore are more affected by adverse local economic conditions.

Similarly, potential adverse effects of any national economic downturn or concerns with the stability of the financial markets could lead to lack of consumer confidence, increased market volatility, and a general reduction in business activity. Such events may result in increased regulation of the financial services industry and increased compliance costs; greater difficulty in assessing the creditworthiness of customers and increased credit risk; greater difficulty in originating loans that meet our underwriting criteria; liquidity issues to the extent that it becomes more difficult to borrow from third parties, including other financial institutions; and limitations on growth.

We face significant competition from other banks and financial institutions in our market area, many of which are larger in terms of asset size and market capitalization.

The financial services industry is highly competitive, with competition for attracting and retaining deposits and making loans coming from other banks and savings institutions, credit unions, mutual fund companies, insurance companies and other non-bank businesses. Many of QNB's competitors are much larger in terms of total assets and market capitalization, have a higher lending limit, have greater access to capital and funding, and offer a broader array of financial products and services. In light of this, QNB's ability to continue to compete effectively is dependent upon its ability to maintain and build relationships by delivering top quality service. Competition within the financial services industry also impacts QNB's ability to attract and retain low-cost deposits which could impact QNB's liquidity. Lowering loan rates and increasing deposit rates compresses the interest rate margin and profitability.

At December 31, 2023, our lending limit per borrower was approximately $23,109,000. Accordingly, the size of loans that we may offer to potential borrowers (without participation by other lenders) is less than the size of loans that many of our competitors with larger capitalization are able to offer. Our legal lending limit also impacts the efficiency of our lending operation because it tends to lower our average loan size, which means we have to generate a higher number of transactions to achieve the same portfolio volume. We may engage in loan participations with other banks for loans in excess of our legal lending limit. However, there can be no assurance that such participations will be available or on terms which are favorable to us and our customers.

Our results of operations may be adversely affected by other-than-temporary impairment charges relating to our debt securities.

QNB purchases U.S. Government and U.S. Government agency debt securities, U.S. Government agency issued mortgage-backed securities or collateralized mortgage obligation securities, obligations of states and municipalities and corporate debt securities. QNB is exposed to the risk that the issuers of these debt securities may experience significant deterioration in credit quality which could impact the market value of such issuer's securities. QNB periodically evaluates its debt securities to determine if market value declines are other-than-temporary. Once a decline is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the credit related portion of the impairment.

Our results of operations may be adversely affected by fair value declines in our investments in equity securities.

The Company's investment in marketable equity securities primarily consists of investments in large cap stock companies. Changes in fair value are recorded in unrealized gain/(losses) in non-interest income. These equity securities are carried at fair value. QNB had five equity securities with unrealized losses of approximately $448,000 at December 31, 2023. The severity and duration of the fair value declines are consistent with current stock market developments.

At December 31, 2023, the Bank had $1,718,000 in capital stock of the FHLB and $12,000 in capital stock of ACBB. These equity securities are restricted in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other tradable equity securities, their fair value is equal to amortized cost, and no impairment write-downs have been recorded on these securities.

Our assets at December 31, 2023 included a deferred tax asset and we may not be able to realize the full benefit of that asset.

As of December 31, 2023, QNB had a net deferred tax asset of $19,290,000. Our ability to realize these tax benefits ultimately depends on the existence of sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryback and carryforward periods provided under the tax law. Estimating whether the deferred tax asset will be realized requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. The deferred tax asset may be reduced in the future if estimates of future income, our tax planning strategies, or tax rate changes resulting from Federal tax reform do not support the amount of the deferred tax asset. If it is determined in the future that a valuation allowance of the deferred tax asset is necessary, we may incur a charge to earnings and a reduction to regulatory capital for the amount included in any such allowance.

A disruption in components of our business infrastructure resulting from financial or technological difficulties of our third-party vendors on which we rely could adversely affect our business.

Third parties provide key components of our business infrastructure, such as Internet connections, software platforms and network access. Any disruption in Internet, network access or other voice or data communication services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect the ability to deliver products and services to clients and otherwise to conduct business. Disruptions or failures in the business infrastructure or operating systems that support our business and customers, or cyber-attacks or security breaches of the networks, systems, or devices that our customers use to access our products and services, could damage our reputation, cause us to incur additional expenses, result in losses, or subject us to regulatory sanctions or additional regulatory scrutiny, any of which could adversely affect our results of operations or financial condition.

Our failure to properly or timely utilize effective technologies to deliver our products and services, or a systems failure or breach of network security with respect to our information systems could adversely affect our business.

The market for financial services is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking and mobile banking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able to properly or timely anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition or operating results.

In addition, we rely heavily on our information systems to conduct business. Maintaining and protecting those systems 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 or our information systems. The policies, procedures and technical safeguards we have in place to prevent or limit the effect of any failure, interruption or security breach of our information systems may be insufficient to prevent or remedy the effects of any such event. Moreover, as cyber threats continue to evolve, we may be required to expend significant additional resources to modify or enhance our protective measures relating to information security. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, cause us to incur additional expenses, result in losses, or subject us to regulatory sanctions or additional regulatory scrutiny, any of which could adversely affect our business, financial condition or operating results.

Changes in accounting standards applicable to us could materially impact how we report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the FASB changes the financial accounting and reporting standards that govern the preparation of our financial statements.

These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. Management believes the current financial statements are prepared in accordance with U.S. generally accepted accounting principles.

We operate in a highly regulated environment and are subject to examination and supervision by bank regulatory agencies, which could have an adverse impact on our operations or increase the cost of our operations.

We operate in a highly regulated environment and are subject to extensive examination by the Board of Governors of the Federal Reserve System, the FDIC, and the Pennsylvania Department of Banking and Securities. The bank regulatory agencies exercise broad discretion in connection with their supervisory and enforcement activities. Federal and state banking laws and regulations are designed primarily to protect depositors, the deposit funds, and consumers, and not necessarily shareholders of a financial institution. Banking regulations or the activities of bank regulatory agencies may, for example, limit a financial institution's growth and potential shareholder returns by restricting certain activities such as the payment of dividends, expansion of branch offices, and acquisition activities.

The significant laws and regulations that govern our activities are described under "Item 1 - Description of Business" in this Form 10-K. These laws and regulations, along with existing tax, accounting, securities, and monetary laws, regulations, standards, policies, and interpretations control the manner in which financial institutions conduct business. Such laws, regulations, standards, policies, and interpretations are constantly evolving and may change significantly over time. The potential exists for additional federal or state laws or regulations, or new policies or interpretations by regulatory agencies having jurisdiction over our activities, to affect many aspects of our operations, including capital requirements, lending and funding practices, and liquidity standards. Additional laws, regulations or other regulatory requirements, or any substantial change in regulation and oversight, may have a material impact on our operations by increasing our cost of regulatory compliance and of doing business and otherwise affecting our operations, and may significantly affect the markets in which we do business, the markets for and value of our investments, the fees we charge and our ongoing operations, costs and profitability.

If we lose the availability of wholesale funding we may be unable to support interest-earning asset growth, which could adversely impact our operating results and liquidity.

Management periodically uses wholesale funding sources to support loan demand and deposit withdrawals and to provide sufficient liquidity. Wholesale funding primarily is made up of borrowings from the FHLB but may also include unsecured Federal funds from correspondent banks, Federal advances and wholesale certificates of deposit.

If wholesale funding becomes unavailable, QNB may need to reduce interest-earning asset growth through production reduction, sale of assets, or participating out future and current loans; this could adversely impact future net income. A termination or change in borrowings from the FHLB, the Federal Reserve or correspondent banks may have an adverse effect on our liquidity and operating results.

Our disclosure controls and procedures and our internal control over financial reporting may not achieve their intended objectives.

Management diligently reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by QNB in reports filed or submitted under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Management believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Any undetected circumvention of these controls could have a material adverse impact on QNB's financial condition and results of operations.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

We may not be able to attract and retain highly qualified personnel to execute our business strategy.

Our success depends upon the ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees. Our ability to execute our business strategy and provide high-quality service may suffer if we are unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially. QNB currently has employment agreements and/or change of control agreements with six of its senior officers.

Acts of terrorism and other external events, including natural disasters, national or global health emergencies, and events of armed conflict in other countries, could impact our ability to do business or otherwise adversely affect our business, operations or financial condition.

Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communications systems. Such events could cause significant damage, impact the stability of our facilities, result in additional expenses, and impair the ability of our borrowers to repay their loans. Although we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations, and financial condition. In addition, other external events, including natural disasters, health emergencies and epidemics or pandemics, and events of armed conflict in other parts of the world, such as the present armed conflicts involving Ukraine and Russia and involving Israel and Hamas, could adversely affect the global or regional economies resulting in unfavorable economic conditions in the United States. Any of such developments could have an adverse effect on our business, operations or financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY RISK MANAGEMENT, STRATEGY AND GOVERNANCE

QNB maintains comprehensive and continually evolving processes for assessing, identifying, and managing material risks from cybersecurity threats, including any potential unauthorized occurrence on, or conducted through, QNB's information systems that may result in adverse effects on the confidentiality, integrity, or availability of such systems or any information residing on such systems. The processes relating to cybersecurity threats are integrated into the QNB's overall risk management processes, which are overseen by the entire board of directors and not delegated to any committee or subcommittee of the board.

As part of the QNB's overall risk management processes, it has established both the Information Technology Committee and the Security Committee. The Technology Committee comprises the executive management team, selected department heads, and the Information Security Officer ("ISO"). The Technology Committee reports to the Board of Directors. The second committee is the Information Security Committee, composed of QNB's Chief Operations & Technology Officer ("COTO"), the Information Technology Director, and the ISO. The Information Security Committee reports to QNB's Audit Committee. QNB's COTO presents a detailed report on information systems and cybersecurity matters to the Board of Directors at least once annually. The Board of Directors also receives and reviews copies of minutes of all meetings of the Audit Committee and the Information Technology Committee.

QNB Bank's information technology resources are managed by the Information Technology Department, which is responsible for identifying, assessing, and managing material risks from cybersecurity threats. The present COTO, who reports directly to the current President and Chief Executive Officer ("CEO"), has been with QNB Bank for over eight years and has over twenty-five years of experience in banking technology and operations. He has an MBA in Management Information Systems and is a current Certified Information Systems Security Professional. QNB's IT Director and ISO report directly to the COTO. The Information Technology Department is managed by the IT Director. The present IT Director has been employed by QNB Bank in the information technology area for ten years has been in the technology industry for over fifteen years and holds numerous technology certifications. QNB's ISO, whose responsibilities include security relating to QNB's information systems, is a Certified Information Systems Security Professional and a Certified Information Security Manager. The ISO, among other duties, supervises internal employee training relating to cybersecurity risks, conducts access reviews relating to QNB's information systems, and monitors implemented checks and balances relating to access to information. Information relating to cybersecurity risks and cybersecurity incidents, if any, is reported by the COTO and the ISO and to both the Information Technology Committee and the Information Security Committees. Additionally, cyber security incidents are reported to QNB's Board of Directors by the COTO no less than quarterly.

QNB maintains an Incident Response Plan that provides documented guidelines for handling potential threats and taking appropriate measures, including timely notification of cybersecurity threats and incidents to senior management and the Board of Directors when appropriate. The Incident Response Plan is managed by the Information Security Committee and is reviewed and tested at least annually.

QNB uses third-party vendors to assist in monitoring, detecting, and managing cyber threats, including managed security service monitoring, penetration testing, and vulnerability assessment. The Information Security Committee has established risk management guidelines for third-party vendors. QNB conducts due diligence reviews of third-party vendors before contracts or agreements for the provision of services are signed and conducts ongoing due diligence and oversight procedures with the frequency of the procedures determined based on a risk assessment of the services provided. Generally, QNB's agreements with service providers include requirements related to cybersecurity and data privacy. All such agreements are reviewed at least annually. QNB cannot guarantee, however, that such agreements, due diligence, and oversight procedures will prevent a cybersecurity incident from impacting information systems. Moreover, as a result of applicable laws and regulations or applicable contractual provisions, QNB may be held responsible for cybersecurity incidents attributed to its service providers in relation to any data that QNB shares with such providers.

To date, QNB has not experienced any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, that have materially affected or are reasonably likely to materially affect QNB, including its business strategy, results of operations, or financial condition. As discussed under "Risk Factors" in Item 1A, however, the sophistication of cybersecurity threats continues to increase, and the preventative actions taken by QNB to reduce the risk of cybersecurity threats or incidents may not be sufficient in a particular circumstance. Accordingly, QNB may not be able to anticipate all cybersecurity breaches no matter how well designed or implemented QNB's cybersecurity controls and procedures are, and QNB may not be able to implement effective preventive measures against such security breaches in a timely manner.

ITEM 2. PROPERTIES

The principal office of both QNB Bank and QNB Corp. is located at 15 North Third Street, Quakertown, Pennsylvania. QNB Bank conducts business from its principal office and eleven other branch offices located in Bucks, Lehigh, and Montgomery Counties in Pennsylvania. QNB Bank owns its principal office, three branch locations, its administrative and operations facility and a computer facility. QNB Bank leases its remaining eight branch properties. The leases on the properties generally contain renewal options. In management's opinion, these properties are in good condition and are currently adequate for QNB's purposes.

The following table details QNB Bank's properties:

Location	
• Quakertown, PA – Downtown Branch (Principal Office) - 15 North Third Street	Owned
• Quakertown, PA – Towne Bank Center - 320-322 West Broad Street	Owned
• Quakertown, PA – Computer Center - 121 West Broad Street	Owned
• Quakertown, PA – Country Square Branch - 240 South West End Boulevard	Owned
• Quakertown, PA – Quakertown Commons Branch - 901 South West End Boulevard	Leased
• Dublin, PA – Dublin Branch - 161 North Main Street	Leased
• Pennsburg, PA – Upper Perkiomen Valley Branch - 410 Pottstown Avenue	Leased
• Coopersburg, PA – Coopersburg Branch - 51 South Third Street	Owned
• Perkasie, PA – Perkasie Branch - 607 Chestnut Street	Owned
• Souderton, PA – Souderton Branch - 750 Route 113	Leased
• Wescosville, PA – Wescosville Branch - 950 Mill Creek Road	Leased
• Colmar, PA – Colmar Branch - 127 Bethlehem Pike	Owned
• Warminster, PA – Warminster Branch - 1402 West Street Road	Leased
• Allentown, PA – Allentown Branch - 535 N. 19th Street	Leased

IITEM 3. LEGAL PROCEEDINGS

Although there are currently no material proceedings to which QNB is the subject, future litigation that arises during the normal course of QNB's business could be material and have a negative impact on QNB's earnings. Future litigation also could adversely impact the reputation of QNB in the communities that it serves.

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

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

Stock Information

QNB common stock is quoted on the over-the-counter bulletin board ("OTCBB"). QNB had approximately 633 shareholders of record as of February 29, 2024.

The following table sets forth the high and low bid and ask stock prices for QNB common stock on a quarterly basis during 2023 and 2022. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High		Low		Cash dividend per share
	Bid	Ask	Bid	Ask	
2023					
First Quarter	$ 29.51	$ 32.00	$ 24.92	$ 25.00	$ 0.37
Second Quarter	25.05	25.70	22.00	22.43	0.37
Third Quarter	24.20	24.75	22.57	22.94	0.37
Fourth Quarter	25.28	27.75	21.50	21.85	0.37
2022					
First Quarter	$ 37.54	$ 38.25	$ 35.80	$ 36.00	$ 0.36
Second Quarter	36.27	36.90	26.80	27.25	0.36
Third Quarter	30.50	31.00	26.01	27.00	0.36
Fourth Quarter	26.90	29.50	25.50	26.24	0.36

QNB has traditionally paid quarterly cash dividends on the last Friday of each quarter. The Company expects to continue the practice of paying quarterly cash dividends to its shareholders; however, future dividends are dependent upon future earnings, financial condition, appropriate legal restrictions, and other factors relevant at the time the board of directors considers declaring a dividend. Certain laws restrict the amount of dividends that may be paid to shareholders in any given year. See "Shareholders' Equity - Capital Adequacy" included in Item 7 of this Form 10-K filing and Note 20 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K filing, for additional information that discusses and quantifies this regulatory restriction.

The following table provides information on repurchases by QNB of its common stock in each month of the quarter ended December 31, 2023.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that may yet be Purchased Under the Plan
October 1, 2023 through October 31, 2023	—	$ —	—	98,000
November 1, 2023 through November 30, 2023	—	—	—	98,000
December 1, 2023 through December 31, 2023	—	—	—	98,000
Total	—	$ —	—	98,000

(1) Transactions are reported as of settlement dates.

(2) QNB's current stock repurchase plan was originally approved by its Board of Directors and announced on January 24, 2008 and subsequently increased on February 9, 2009 and April 27, 2021.

(3) The total number of shares approved for repurchase under QNB's current stock repurchase plan is 200,000 as of the filing of this Form 10-K.

(4) QNB's current stock repurchase plan has no expiration date.

(5) QNB has no stock repurchase plan that it has determined to terminate or under which it does not intend to make further purchases.

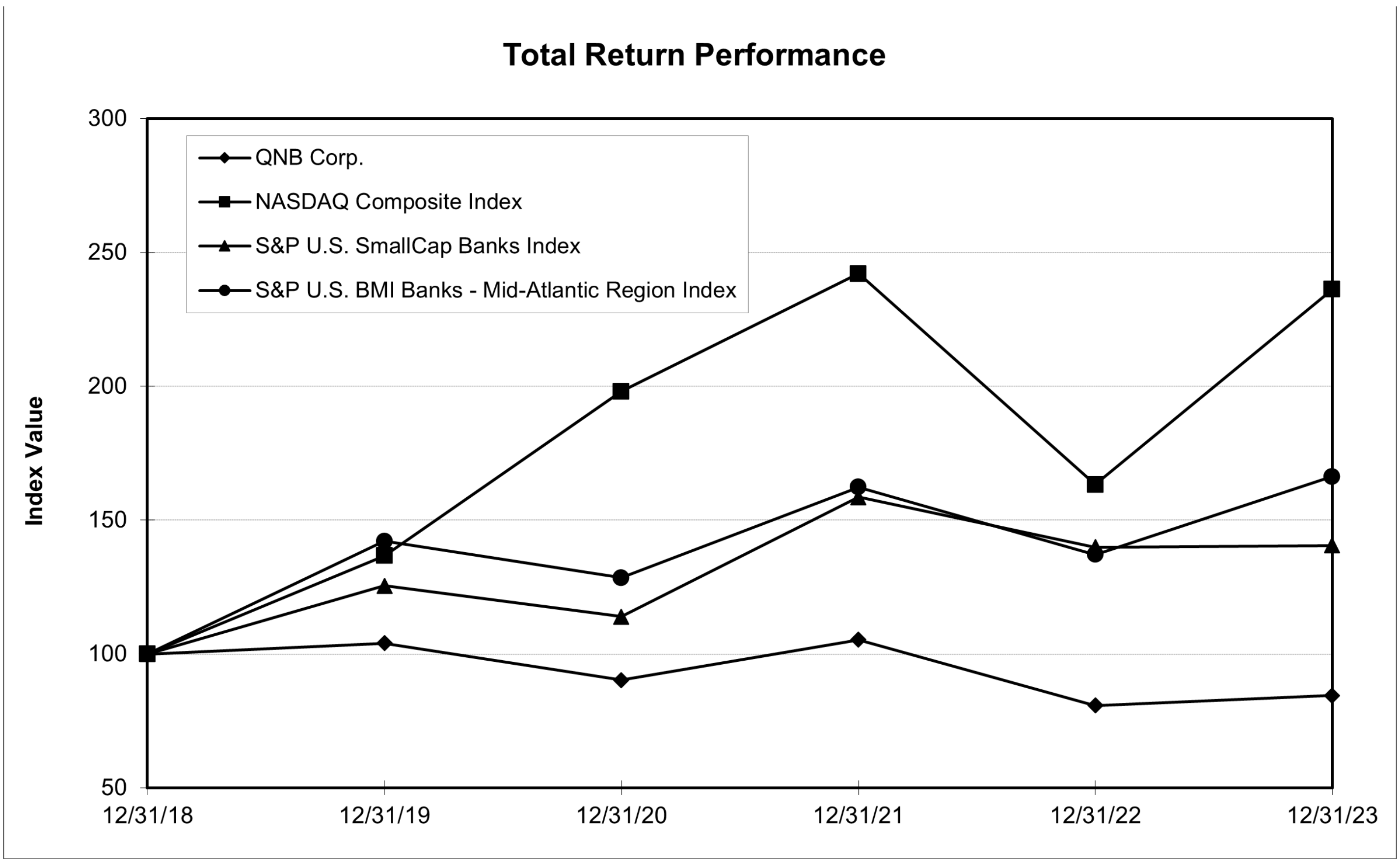
Stock Performance Graph

Set forth below is a performance graph comparing the yearly cumulative total shareholder return on QNB's common stock with:

- the yearly cumulative total shareholder return on stocks included in the NASDAQ Composite Index, a broad market index;
- the yearly cumulative total shareholder return on the S&P US SmallCap Banks Index, a group encompassing publicly traded banking companies trading on the NYSE or NASDAQ with an average market capitalization of $1.7 billion (individually ranging from $58 million to $20.5 billion); and
- the yearly cumulative total shareholder return on the S&P U.S. BMI Banks - Mid-Atlantic Bank Index, a group encompassing publicly traded banking companies trading on the NYSE, AMEX, or NASDAQ headquartered in Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, and Puerto Rico.

All of these cumulative total returns are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

QNB Corp.



	Period Ending					
Index	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**
QNB Corp.	100.00	104.00	90.19	105.27	80.71	84.49
NASDAQ Composite Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P U.S. SmallCap Banks Index	100.00	125.46	113.94	158.62	139.85	140.55
S&P U.S. BMI Banks - Mid-Atlantic Region Index	100.00	142.19	128.53	162.33	137.10	166.23

Source: S&P Global Market Intelligence© 2024

ITEM 6. [RESERVED]

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

Results of Operations – Overview

QNB Corp. ("QNB" or the "Company") earns its net income primarily through its subsidiary, QNB Bank (the "Bank"). Net interest income, or the spread between the interest, dividends and fees earned on loans and investment securities and the expense incurred on deposits and other interest-bearing liabilities, is the primary source of operating income for QNB. QNB seeks to achieve sustainable and consistent earnings growth while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk levels approved by the Board of Directors. Due to its limited geographic area, comprised principally of Bucks, Lehigh and Montgomery counties, growth is pursued through expansion of existing customer relationships and building new relationships by stressing a consistent high level of service at all points of contact.

Tabular information presented throughout management's discussion and analysis, other than share and per share data, is presented in thousands of dollars.

The following table displays five years of selected financial amounts and ratios for the QNB:

Year ended December 31,	2023	2022	2021	2020	2019
Income and expense					
Net interest income	$ 40,155	$ 44,497	$ 42,127	$ 37,248	$ 36,294
Provision for credit losses	(844)	(850)	458	1,250	1,300
Non-interest income	4,837	5,731	9,781	7,602	8,317
Non-interest expense	34,109	31,492	30,997	28,955	28,104
Net income	9,483	15,921	16,492	12,083	12,357
Share and Per Share Data					
Net income - basic	$ 2.63	$ 4.47	$ 4.64	$ 3.42	$ 3.53
Net income - diluted	2.63	4.47	4.64	3.42	3.53
Book value	24.86	19.78	38.41	37.80	34.30
Cash dividends	1.48	1.44	1.40	1.36	1.32
Average common shares outstanding - basic	3,610,713	3,564,481	3,553,949	3,537,323	3,498,326
Average common shares outstanding - diluted	3,610,713	3,564,481	3,554,138	3,537,360	3,504,150
Balance Sheet at Year-end					
Investment securities	$ 496,092	$ 558,581	$ 704,770	$ 448,495	$ 358,874
Loans receivable	1,093,533	1,039,385	926,470	920,042	820,616
Allowance for credit losses on loans	(8,852)	(10,531)	(11,184)	(10,826)	(9,887)
Other earning assets	51,210	1,242	4,196	25,909	5,210
Total assets	1,706,318	1,668,497	1,673,340	1,440,229	1,225,023
Deposits	1,488,713	1,418,369	1,449,745	1,228,067	1,037,860
Total borrowed funds	114,094	171,327	78,476	68,838	55,931
Shareholders' equity	90,824	70,958	136,494	134,445	120,717
Selected Financial Ratios					
Net interest margin	2.39%	2.71%	2.79%	2.92%	3.16%
Net income as a percentage of:					
Average total assets	0.54	0.93	1.04	0.90	1.02
Average shareholders' equity	6.04	10.90	12.19	9.76	10.58
Average shareholders' equity to average total assets	8.99	8.54	8.53	9.21	9.63
Dividend payout ratio	56.37	32.24	30.15	39.82	37.39

Net income for the year ended December 31, 2023 was $9,483,000, or $2.63 per share on a diluted basis. This compares to 2022 net income of $15,921,000, or $4.47 per share on a diluted basis and 2021 net income of $16,492,000, or $4.64 per share on a diluted basis. Two important measures of profitability in the banking industry are an institution's return on average assets and return on average shareholders' equity. Return on average assets was 0.54%, 0.93% and 1.04% in 2023, 2022, and 2021, respectively, and return on average shareholders' equity was 6.04%, 10.90% and 12.19%, respectively, during those same periods.

The Bank contributed $9,395,000 to net income for the year ended December 31, 2023 compared to $16,445,000 for the same period in 2022; whereas the holding company contributed $88,000 to consolidated net income for the year ended December 31, 2023 compared to a loss of $524,000 for the same period in 2022. The decrease at the Bank was primarily due to interest margin compression and losses on sales of investments securities. The increase at the holding company resulted primarily from an increase in the fair value of the equity portfolio during 2023.

2023 versus 2022

The results for 2023 include the following significant components:

- Net interest income decreased $4,342,000, or 9.76%, to $40,155,000 for 2023.
- The net interest margin on a tax-equivalent basis decreased 32 basis points to 2.39% for 2023 from 2.71% for 2022.
- Provision for credit losses was a credit of $844,000 for 2023, compared with a credit of $850,000 for 2022.
- Non-interest income for 2023 was $4,837,000, a decrease of $894,000, or 15.6%, compared with 2022.
- Non-interest expense for 2023 was $34,109,000, an increase of $2,617,000, or 8.3%, compared with 2022.
- Total investment securities declined $62,489,000, or 11.2%, from December 31, 2022.
- Loans receivable grew $54,148,000, or 5.2%, from December 31, 2022.
- Deposits increased $70,344,000, or 5.0%, from December 31, 2022.
- Total non-performing loans, which represent loans on non-accrual status, loans past due 90 days or more and still accruing interest, and restructured loans, were $1,940,000, or 0.18% of total loans receivable at December 31, 2023, compared with $9,121,000, or 0.88% of total loans receivable at December 31, 2022. Loans on non-accrual status were $1,940,000 at December 31, 2023 compared with $4,820,000 at December 31, 2022. Net recoveries for 2023 were $138,000, or 0.02% of average total loans, as compared with net recoveries for 2022 were $197,000, or 0.02% of average total loans for 2022.

2022 versus 2021

The results for 2022 include the following significant components:

- Net interest income increased $2,370,000, or 5.63%, to $44,497,000 for 2022.
- The net interest margin on a tax-equivalent basis decreased eight basis points to 2.71% for 2022 from 2.79% for 2021.
- Provision for loan losses was a credit of $850,000 for 2022, compared with expense of $458,000 for 2021.
- Non-interest income for 2022 was $5,731,000, a decrease of $4,050,000, or 41.4%, compared with 2021.
- Non-interest expense for 2022 was $31,492,000, an increase of $495,000, or 1.6%, compared with 2021.
- The fair value of the investment securities declined $145,835,000, or 21.1% from December 31, 2021.
- Loans receivable grew $112,915,000, or 12.2%, from December 31, 2021.
- Deposits decreased $31,376,000, or 2.2%, from December 31, 2021.
- Total non-performing loans, which represent loans on non-accrual status, loans past due 90 days or more and still accruing interest, and restructured loans, were $9,121,000, or 0.88% of total loans receivable at December 31, 2022, compared with $11,672,000, or 1.26% of total loans receivable at December 31, 2021. Loans on non-accrual status were $4,820,000 at December 31, 2022 compared with $7,530,000 at December 31, 2021. Net recoveries for 2022 were $197,000, or 0.02% of average total loans, as compared with net charge-offs of $100,000, or 0.01% of average total loans for 2021.

These items, as well as others, will be explained more thoroughly in the next sections.

Net Interest Income

The following table presents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the years ended December 31, 2023, 2022, and 2021.

Year ended December 31,	2023	2022	2021
Total interest income	$ 69,082	$ 52,421	$ 46,770
Total interest expense	28,927	7,924	4,643
Net interest income	40,155	44,497	42,127
Tax-equivalent adjustment	584	713	706
Net interest income (tax-equivalent basis)	$ 40,739	$ 45,210	$ 42,833

Net interest income is the primary source of operating income for QNB. Net interest income is interest income, dividends, and fees on earning assets, less interest expense incurred for funding sources. Earning assets primarily include loans, investment securities and interest-bearing balances at the Federal Reserve Bank (Fed). Sources used to fund these assets include deposits and borrowed funds. Net interest income is affected by changes in interest rates, the volume and mix of earning assets and interest-bearing liabilities, and the amount of earning assets funded by non-interest-bearing deposits.

For purposes of this discussion, interest income and the average yield earned on loans and investment securities are adjusted to a tax-equivalent basis as detailed in the table that appears above. This adjustment to interest income is made for analysis purposes only. Interest income is increased by the amount of savings of Federal income taxes, which QNB realizes by investing in certain tax-exempt state and municipal securities and by making loans to certain tax-exempt organizations. In this way, the ultimate economic impact of earnings from various assets can be more easily compared.

The net interest rate spread is the difference between average rates received on earning assets and average rates paid on interest-bearing liabilities, while the net interest margin, which includes interest-free sources of funds, is net interest income expressed as a percentage of average interest-earning assets. The Asset/Liability and Investment Management Committee works to manage and maximize the net interest margin for the Company.

2023 versus 2022

On a tax-equivalent basis, net interest income for 2023 decreased $4,471,000, or 9.9%, to $40,739,000. The net interest margin, which decreased 32 basis points to 2.39%, was unfavorably impacted by increased rates on deposits and short-term borrowings. The average rate earned on earning assets increased 91 basis points from 3.18% for 2022 to 4.09% for 2023 with the yield on investments increasing 47 basis points and the yield on loans increasing 95 basis points. The yield on investment securities was favorably impacted by increased yields on all categories, causing an increase in interest income of $3,057,000; the yield was unfavorably impacted by a decrease in average volume of $67,778,000 contributing to a $1,307,000 decrease in interest income. The yield on loans was favorably impacted by increased rates in all loan categories, contributing to a $9,999,000 increase in interest income. This was also favorably impacted by a $73,104,000 net increase in average volume, of which $76,271,000 was related to an increase in average commercial real estate loans, contributing $3,204,000 in interest income; partially offset by a decrease of $7,613,000 in commercial and industrial loans average balances, resulting in a decrease of $389,000 in interest income. The yield on total average interest-bearing liabilities increased 151 basis points from 0.60% for 2022 to 2.11% for 2023. The growth in loans was funded by sales and maturities of investment securities and by a $28,698,000, or 29.9%, increase in borrowings. The average rate paid on interest-bearing deposits increased from 0.57% to 2.01% for the same time periods, respectively, contributing to an increase in interest expense of $17,446,000, and a $29,102,000 increase in average interest-bearing deposits resulting in additional interest expense of $651,000. The average rate paid on short-term borrowings increased from 1.00% to 3.01% for the same time periods, respectively, contributing to an increase in interest expense of $2,182,000. Loan and deposit growth was partially offset by the competitive local interest rate market for quality loans and deposits. Net interest spread decreased 60 basis points to 1.98% for 2023 compared to 2.58% for 2022.

2022 versus 2021

On a tax-equivalent basis, net interest income for 2022 increased $2,377,000, or 5.5%, to $45,210,000. The net interest margin, which decreased eight basis points to 2.71% was unfavorably impacted by increased rates on deposits and short-term borrowings. The average rate earned on earning assets increased nine basis points from 3.09% for 2021 to 3.18% for 2022 with the yield on investments increasing 14 basis points and the yield on loans increasing 11 basis points. The yield on investment securities was favorably impacted by increased yields on all categories except state and municipal securities, causing an increase in interest income of $1,296,000; additionally, the yield was favorably impacted by an increase in average volume of $130,234,000 contributing to a $1,758,000 increase in interest income. The yield on loans was favorably impacted by increased rates in all loan categories except tax-exempt loans, contributing to a net $1,410,000 increase in interest income. This was also favorably impacted by a $35,456,000 net increase in average volume, of which $80,201,000 was related to an increase in average commercial real estate loans, contributing $3,327,000 in interest income; partially offset by a decrease of $47,912,000 in commercial and industrial loans average balances, resulting in a decrease of $2,275,000 in interest income. The yield on total average interest-bearing liabilities increased 21 basis points from 0.39% for 2021 to 0.60% for 2022. The growth in loans and investment securities was funded by a $101,316,000, or 7.5%, increase in average total deposits and by a $14,218,000, or 19.8%, increase in short-term borrowings. The average rate paid on interest-bearing deposits increased from 0.38% to 0.57% for the same time periods, respectively, contributing to an increase in interest expense of $2,489,000, and a $95,049,000 increase in average interest-bearing deposits resulting in additional interest expense of $189,000. The average rate paid on short-term borrowings increased from 0.36% to 1.00% for the same time periods, respectively, contributing to an increase in interest expense of $552,000.

Average Balances, Rates, and Interest Income and Expense Summary (Tax-Equivalent Basis)

	2023			2022			2021		
	Average balance	Average rate	Interest	Average balance	Average rate	Interest	Average balance	Average rate	Interest
Assets									
Investment securities (AFS & Equity):									
U.S. Treasury securities	$ 4,535	5.06%	$ 229	$ 524	1.18%	$ 6	$ —	0.00%	$ —
U.S. Government agencies	100,409	1.11	1,119	101,455	1.10	1,119	80,340	1.05	842
State and municipal	109,598	2.89	3,164	128,126	2.39	3,056	112,011	2.47	2,765
Mortgage-backed and CMOs	399,599	2.14	8,555	447,369	1.58	7,059	351,801	1.29	4,540
Corporate debt securities and money market funds	6,655	4.40	293	6,673	4.37	291	7,291	4.01	292
Equities	7,584	4.22	320	12,011	3.32	399	14,481	3.02	437
Total investment securities	628,380	2.18	13,680	696,158	1.71	11,930	565,924	1.57	8,876
Loans:									
Commercial real estate	713,294	4.89	34,900	637,023	4.20	26,759	556,822	4.15	23,098
Residential real estate	107,379	3.73	4,005	104,397	3.34	3,484	95,241	3.41	3,244
Home equity loans	58,144	6.52	3,794	56,155	4.38	2,459	57,311	3.29	1,886
Commercial and industrial	137,966	7.50	10,344	145,579	5.10	7,432	193,491	4.75	9,189
Consumer loans	3,889	7.29	283	4,512	5.63	254	5,097	4.98	254
Tax-exempt loans	19,876	3.56	707	19,778	3.42	676	24,026	3.47	835
Total loans, net of unearned income*	1,040,548	5.19	54,033	967,444	4.24	41,064	931,988	4.13	38,506
Other earning assets	34,816	5.61	1,953	5,782	2.42	140	36,715	0.26	94
Total earning assets	1,703,744	4.09	69,666	1,669,384	3.18	53,134	1,534,627	3.09	47,476
Cash and due from banks	13,918			13,803			23,408		
Allowance for credit losses on loans	(8,820)			(11,287)			(11,157)		
Other assets	39,187			38,549			38,749		
Total assets	$ 1,748,029			$ 1,710,449			$ 1,585,627		
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Interest-bearing demand	$ 315,990	0.60%	$ 1,900	$ 345,054	0.27%	$ 933	$ 307,258	0.20%	$ 624
Municipals	131,610	4.46	5,867	122,824	1.43	1,758	127,828	0.32	411
Money market	183,004	2.64	4,823	137,830	0.45	617	122,361	0.31	381
Savings	348,878	1.20	4,187	443,104	0.49	2,175	386,630	0.30	1,178
Time less than $100	121,622	2.63	3,194	91,216	0.79	723	98,986	0.93	921
Time $100 through $250	107,560	3.59	3,859	52,314	0.93	489	52,693	0.86	454
Time greater than $250	38,076	3.08	1,171	25,296	0.83	209	26,833	0.96	257
Total interest-bearing deposits	1,246,740	2.01	25,001	1,217,638	0.57	6,904	1,122,589	0.38	4,226
Short-term borrowings	108,862	3.01	3,273	85,876	1.00	861	71,658	0.36	258
Long-term debt	15,712	4.10	653	10,000	1.57	159	10,000	1.57	159
Total interest-bearing liabilities	1,371,314	2.11	28,927	1,313,514	0.60	7,924	1,204,247	0.39	4,643
Non-interest-bearing deposits	208,777			242,778			236,511		
Other liabilities	10,812			8,069			9,545		
Shareholders' equity	157,126			146,088			135,324		
Total liabilities and shareholders' equity	$ 1,748,029			$ 1,710,449			$ 1,585,627		
Net interest rate spread		1.98%			2.58%			2.70%	
Margin/net interest income		2.39%	$ 40,739		2.71%	$ 45,210		2.79%	$ 42,833

Tax-exempt securities and loans were adjusted to a tax-equivalent basis and are based on the marginal Federal corporate tax rate of 21 percent. Non-accrual loans and investment securities are included in earning assets.

* Includes loans held-for-sale

Rate-Volume Analysis of Changes in Net Interest Income (1) (2) (3)

	2023 vs. 2022			2022 vs. 2021		
	Due to change in: Volume	Rate	Total Change	Due to change in: Volume	Rate	Total Change
Interest income:						
Investment securities (AFS & Equity):						
U.S. Treasury securities	$ 47	$ 176	$ 223	$ 6	$ —	$ 6
U.S. Government agencies	(12)	12	—	221	56	277
State and municipal	(441)	549	108	397	(106)	291
Mortgage-backed and CMOs	(753)	2,249	1,496	1,233	1,286	2,519
Corporate debt securities and money market funds	(1)	3	2	(25)	24	(1)
Equities	(147)	68	(79)	(74)	36	(38)
Total Investment securities (AFS & Equity)	(1,307)	3,057	1,750	1,758	1,296	3,054
Loans:						
Commercial real estate	3,204	4,937	8,141	3,327	334	3,661
Residential real estate	100	421	521	311	(71)	240
Home equity loans	87	1,248	1,335	(38)	611	573
Commercial and industrial	(389)	3,301	2,912	(2,275)	518	(1,757)
Consumer loans	(35)	64	29	(29)	29	—
Tax-exempt loans	3	28	31	(148)	(11)	(159)
Total loans	2,970	9,999	12,969	1,148	1,410	2,558
Other earning assets	702	1,111	1,813	(79)	125	46
Total interest income	2,365	14,167	16,532	2,827	2,831	5,658
Interest expense:						
Interest-bearing deposits:						
Interest-bearing demand	(78)	1,045	967	77	232	309
Municipals	125	3,984	4,109	(16)	1,363	1,347
Money market	203	4,003	4,206	47	189	236
Savings	(462)	2,474	2,012	172	825	997
Time less than $100	242	2,229	2,471	(73)	(125)	(198)
Time $100 through $250	516	2,854	3,370	(3)	38	35
Time greater than $250	105	857	962	(15)	(33)	(48)
Total interest-bearing deposits	651	17,446	18,097	189	2,489	2,678
Short-term borrowings	230	2,182	2,412	51	552	603
Long-term debt	91	403	494	—	—	—
Total interest expense	972	20,031	21,003	240	3,041	3,281
Net interest income	$ 1,393	$ (5,864)	$ (4,471)	$ 2,587	$ (210)	$ 2,377

(1) Loan fees have been included in the change in interest income totals presented. Non-accrual loans and investment securities have been included in average balances.

(2) Changes due to both volume and rates have been allocated in proportion to the relationship of the dollar amount change in each.

(3) Interest income on loans and securities is presented on a tax-equivalent basis.

The Rate-Volume Analysis tables, as presented on a tax-equivalent basis, highlight the impact of changing rates and volumes on interest income and interest expense. Total interest income on a tax-equivalent basis increased $16,532,000 to $69,666,000 for 2023, while total interest expense increased $21,003,000 to $28,927,000. Volume growth in earning assets contributed an additional $2,365,000 of interest income and interest rate increases contributed an additional $14,167,000 of interest income. Rate-related interest expense increased $20,031,000, while volume-related interest expense increased $972,000.

Investments

2023 versus 2022

Interest income on available-for-sale and equity investment securities increased $1,750,000 when comparing the two years. The 47 basis-point increase in rate contributed an additional $3,057,000 to interest income and the $67,778,000 decrease in volume reduced interest income $1,307,000. The average yield on the available-for-sale and equity investment portfolio increased to 2.18% for 2023 compared to 1.71% for 2022.

Income on U.S. Government agency securities remained level at yields of 1.11% for 2023 compared to 1.10% for 2022. Most of the bonds in the agency portfolio have call features ranging from three months to three years, none of which were exercised during 2023.

Interest income on state and municipal securities increased $108,000. Average balances, which decreased $18,528,000, reduced interest income by $441,000. The increase in yield of 50 basis points from 2.39% in 2022 to 2.89% in 2023 contributing $549,000 to interest income more than offset the decrease in interest income caused by volume. Many of these bonds have either reached maturity or their call dates and are being replaced with municipal bonds with less favorable tax-equivalent yields. Typically, QNB purchased municipal bonds with 10- to 15-year maturities with call dates between 2 and 5 years. Future demand for tax-exempt municipal securities is uncertain, as the tax-equivalent yield could be less favorable compared to other securities with similar risk-based capital asset-weighting characteristics.

All the mortgage-backed and collateralized mortgage obligations ("CMO") securities owned by QNB are issued by U.S. Government agencies and sponsored enterprises ("GSE") and carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. Interest income on mortgage-backed securities and CMOs increased $1,496,000 due to a 56 basis-point increase in rate from 1.58% for 2022 to 2.14% for 2023 adding $2,249,000 to interest income; this was partly offset by a $47,770,000 decrease in average balances reducing interest income by $753,000. This portfolio generally provides higher yields relative to agency bonds and provides monthly cash flow which can be used for liquidity purposes or can be reinvested as interest rates increase.

QNB continued to improve the efficiency of its investment portfolio by executing sales of low yielding fixed rate available-for-sale securities during 2023. The average decreases in both the state and municipal portfolio and the mortgage-backed and CMO portfolio were impacted by sales of $33,213,000 during 2023.

Income on corporate debt securities increased $2,000 due to an increase in yield from 4.37% for 2022 to 4.40% for 2023.

Excess cash at the holding company was invested in Treasury securities during 2023 adding $223,000 to interest income.

Dividend income on equities decreased $79,000 due to a decrease in average balances of $4,427,000, partially offset by an increase in yield of 90 basis points.

2022 versus 2021

Interest income on available-for-sale and equity investment securities increased $3,054,000 when comparing the two years. The increase in average balances contributed an additional $1,758,000 to interest income and the 14 basis-point increase in rate contributed $1,296,000 to interest income. The average yield on the available-for-sale and equity investment portfolio increased to 1.71% for 2022 compared to 1.57% for 2021.

Income on U.S. Government agency securities increased $277,000, due to a 5 basis-point increase in the yield from 1.05% for 2021 to 1.10% for 2022 and an increase in average balances totaling $21,115,000. Most of the bonds in the agency portfolio have call features ranging from three months to three years, none of which were exercised during 2022. QNB invested excess funds toward the end of 2021 to earn a higher rate than current available on interest-earning deposits.

Interest income on tax-exempt municipal securities increased $291,000. Average balances, which increased $16,115,000, contributed $397,000 to interest income. The decrease in yield of eight basis points from 2.47% in 2021 to 2.39% in 2022 partially offset the increase in interest income by $106,000.

Interest income on mortgage-backed securities and CMOs increased $2,519,000 due to a $95,568,000 increase in average balances and a 29 basis-point increase in rate from 1.29% for 2021 to 1.58% for 2022.

Income on corporate debt securities decreased $1,000 due to a decrease in average balances of $618,000 partially offset by an increase in yield from 4.01% for 2021 to 4.37% for 2022.

Excess cash at the holding company was invested in Treasury securities during 2022 adding $6,000 to interest income.

Dividend income on equities decreased $38,000 due to a decrease in average balances of $2,470,000, partially offset by an increase in yield of 30 basis points.

Loans

2023 versus 2022

The largest category of the loan portfolio is commercial real estate loans. This category of loans includes commercial purpose loans secured by either commercial properties such as office buildings, hotels, factories, warehouses, medical facilities and retail establishments, or residential real estate, usually the residence of the business owner or investment properties. The category also includes construction and land development loans. Income on commercial real estate loans increased $8,141,000. The increase in average balances of $76,271,000, or 12.0%, contributed an increase in interest income of $3,204,000; the 69 basis-point increase in yield, from 4.20% in 2022 to 4.89% in 2023 contributed $4,937,000 to the increase in interest income.

Income on commercial and industrial loans, the second largest category, increased $2,912,000 with average balances decreasing $7,613,000 resulting in a decrease to interest income of $389,000, this decrease was more than offset by the positive impact from an increase in average yield of 240 basis points to 7.50% in 2023 from 5.10% in 2022, contributing to a $3,301,000 increase in interest income. Many of the loans in this category are indexed to the prime interest rate.

Tax-exempt loan income increased $31,000 to $707,000 in 2023. When comparing the same periods, average balances increased $98,000 to $19,876,000, which contributed a $3,000 increase in interest income. The average yield on the tax-exempt loan portfolio increased from 3.42% for 2022 to 3.56% for 2023, resulting in an increase in interest income of $28,000.

QNB strives to be the "local consumer lender of choice." QNB continues to focus on its retail lending efforts by adding new product offerings and by marketing and promotion. Overall, retail lending balances increased $4,348,000 and interest income for retail lending increased $1,885,000 in 2023 compared with 2022, driven by a 103 basis-point increase in yield.

Given the low yields on alternative investment securities, QNB retained certain fixed rate and hybrid adjustable-rate mortgages to borrowers with high credit scores and low loan-to-value ratios. As a result, average residential mortgage loans secured by first lien 1-4 family residential mortgages increased by $2,982,000, or 2.9%, to $107,379,000 for 2023. The average yield on the residential real estate portfolio increased 39 basis points to 3.73% for 2023 compared to 3.34% for 2022. Overall, interest income for this segment grew $521,000 in 2023.

Income on home equity loans increased by $1,335,000 when comparing 2023 and 2022. During 2023 and 2022, QNB offered attractive rates on both variable rate and fixed rate home equity loans. Average balances in home equity loans increased $1,989,000, or 3.5%, to $58,144,000 when comparing 2023 and 2022. The yield on the home equity portfolio increased 214 basis points to 6.52% when comparing the two years. Home values have continued to grow; therefore, we expect the demand for home equity loans will continue.

Interest income on consumer loans increased $29,000. Consumer loans at QNB experienced a decline in average balances in 2023 of $623,000, or 13.8%, led by a decline in installment loans and student loans. Installment loan average balances declined $164,000 and interest declined $2,000. Student loan balances are no longer insured, and QNB ceased funding originations through its third-party provider during the second half of 2018; average balances decreased $448,000 and interest income increased $25,000 when comparing 2023 and 2022. Student loans are primarily variable rate loans and interest income was favorably impacted by a 281 basis-point increase in rate.

2022 versus 2021

Income on commercial real estate loans increased $3,661,000. The increase in average balances of $80,201,000, or 14.4%, contributed an increase in interest income of $3,327,000; the five basis-point increase in yield, from 4.15% in 2021 to 4.20% in 2022 contributed $334,000 to the increase in interest income.

Income on commercial and industrial loans decreased $1,757,000 with average balances decreasing $47,912,000 resulting in a decrease to interest income of $2,275,000, partially offset by the positive impact from an increase in average yield of 35 basis points to 5.10% in 2022 from 4.75% in 2021, contributing to a $518,000 increase in interest income. Included in this category are the PPP loans which contributed $41,515,000 of the net volume decrease. The PPP loans yield one percent to the customer; however, QNB received origination fees from the SBA ranging from a flat fee of $2,500 to one to five basis points, resulting in a yield of approximately 11.07% for 2022 compared to 7.48% for 2021. Excluding the PPP loans, the average yield on the commercial and industrial loans increased 102 basis points to 4.62% in 2022 from 3.90% in 2021.

Tax-exempt loan income decreased $159,000 to $676,000 in 2022. When comparing the same periods, average balances decreased $4,248,000 to $19,778,000, which contributed a $148,000 decrease in interest income. The average yield on the tax-exempt loan portfolio decreased from 3.47% for 2021 to 3.42% for 2022, resulting in a decrease in interest income of $11,000.

Retail lending balances increased $7,415,000 and interest income for retail lending increased $813,000 in 2022 compared with 2021, driven by a 33 basis-point increase in yield. Average residential mortgage loans secured by first lien 1-4 family residential mortgages increased by $9,156,000, or 9.6%, to $104,397,000 for 2022. The average yield on the residential real estate portfolio decreased seven basis points to 3.34% for 2022 compared to 3.41% for 2021. Overall, interest income for this segment grew $240,000 in 2022.

Average home equity loans balances increased by $573,000 when comparing 2022 and 2021. The yield on the home equity portfolio increased 109 basis points to 4.38% when comparing the two years.

Interest income on consumer loans remained flat. Consumer loans at QNB experienced a decline in average balances in 2022 of $585,000, or 11.5%, led by a decline in installment loans and student loans.

Deposits and Borrowings

2023 versus 2022

Total interest expense for 2023 was $28,927,000 compared with $7,924,000 for 2022, an increase of $21,003,000. Interest expense on deposits increased $18,097,000 and interest expense on borrowed funds increased $2,906,000 when comparing the two years. The rate paid on interest-bearing deposits increased 144 basis points; the rate paid on borrowings increased 209 basis points, when comparing the two periods. Deposit and borrowing costs increase due to an increase in competition for deposits when rates rise.

The composition of the deposit accounts changed in 2023 as QNB offered several new interest-bearing demand and money market products offering higher yields to retain large depositors and reduce the reliance on higher-cost short-term borrowings. Average non-interest-bearing demand accounts decreased $34,001,000, or 14.0%, to $208,777,000 for 2023. Average interest-bearing demand accounts decreased $29,064,000, or 8.4%, to $315,990,000 for 2023 compared with 2022, with interest expense on interest-bearing demand accounts increasing $967,000 to $1,900,000 for 2023. The average rate paid increased 33 basis points to 0.60% for 2023 compared to 0.27% for 2022. Interest-bearing business demand average balances decreased by $2,188,000, or 3.0%, and related interest expense increased $950,000, or 136 basis points in yield, when comparing the two years. Also included in the interest-bearing demand category is QNB-Rewards checking, a tiered-rate retail checking account product. In order to receive the high rate a customer must receive an electronic statement, have one direct deposit or other ACH transaction and have at least 12 debit card purchase transactions post and clear per statement cycle. If these qualifications are not met, the rate paid is 0.10%. For 2023, the average balance in this product was $93,336,000 and the related interest expense was $389,000 for an average cost of funds of 0.42%. In comparison, the average balance in this product for 2022 was $104,122,000 and the related interest expense was $366,000 for an average cost of funds of 0.35%. The rates paid on the QNB-Rewards product, assuming qualifications are met, is attractive relative to competitors' offerings as well as other QNB products. This product also generates fee income through the use of the debit card. The average balance of other interest-bearing demand accounts included in this category decreased from $167,737,000 for 2022 to $151,647,000 for 2023. The average rate paid on these balances was 0.05% in 2022 and 0.05% in 2023. Many of the non-interest bearing and interest-bearing demand funds moved to time deposits and other new products offered by QNB during 2023

Average money market accounts increased $45,174,000, or 32.8%, to $183,004,000 for 2023 compared with 2022. Interest expense on money market accounts increased $4,206,000 to $4,823,000 for 2023 compared with 2022. The average interest rate paid on money market accounts was 2.64% for 2023, an increase of 219 basis points compared with 2022. The balances in this category were historically and primarily comprised of Select money market accounts, a product that pays a tiered rate based on account balances. However, a new High Yield money market account was introduced in 2023. Many balances moved from the Select money market accounts to the High Yield accounts and additionally, balance moved into the High Yield accounts from other demand accounts.

Interest expense on municipal interest-bearing demand accounts increased $4,109,000 to $5,867,000 for 2023. The average balance of municipal interest-bearing demand accounts increased $8,786,000, or 7.2%, to $131,610,000 and the average interest rate paid on these accounts increased 303 basis points to 4.46% for 2023 from 1.43% for 2022. Most of these accounts are indexed to the Federal funds rate with negotiated rate floors between 0.15% and 0.35%. Many of these deposits are seasonal in nature and are received during the third quarter as tax receipts are collected and are withdrawn over the course of the next year.

QNB's online e-Savings product is the largest category of savings deposits and was created to compete with other online savings accounts. Average e-Savings balances decreased $79,238,000, or 23.6%, to $256,252,000 in 2023 compared with $335,490,000 in 2022. The average cost of funds on these accounts was 1.57% for 2023 and 0.59% for 2022. The yield on this account may rise along with market rates and as competition for savings balances increases. Traditional statement savings accounts and club accounts are also included in the savings category and decreased on average by $14,988,000, or 13.9%, to $92,626,000. The average rate paid on total savings accounts was 1.20% for 2023, a 71 basis-point increase from 0.49% for 2022 and interest expense increased $2,012,000, to $4,187,000 from $2,175,000 over the same period.

Interest expense on time deposits increased $6,803,000, to $8,224,000 in 2023, due to an increase in average balances of $98,432,000 in 2023, to $267,258,000 and a 224 basis-point increase in yield, from 0.84% in 2022 to 3.08% in 2023. Similar to fixed-rate loans and investment securities, time deposits reprice over time and, therefore, have less of an immediate impact on costs in either a rising or falling rate environment. However, the maturity and repricing characteristics of time deposits tend to be shorter.

Approximately $258,245,000, or 82.0%, in time deposits will reprice or mature over the next 12 months compared with 48.6% of the portfolio at December 31, 2022. The average rate paid on these time deposits is approximately 4.12%.

Short-term borrowings are comprised of sweep accounts structured as repurchase agreements with our commercial customers, overnight FHLB borrowing and short-term FRB borrowing with average balances in 2023 of $53,154,000, $15,845,000 and $39,863,000, respectively. Interest expense on short-term borrowings increased $2,412,000 to $3,273,000 when comparing the two years. During this period average balances of repurchase agreements decreased $15,496,000 with an 89 basis-point increase in average rate paid, resulting in an increase of cost of funds of $398,000. The average balances of borrowings from the FHLB decreased $1,381,000 with a 189 basis-point increase in average rate paid, resulting in an increase in cost of funds of $258,000. During the first quarter of 2023, QNB borrowed $50,000,000, resulting in a $39,863,000 average balance, from the FRB under its Bank Term Funding Program and locked in a rate of 4.39%; there are no pre-payment penalties.

Average long-term debt was $15,712,000 with an average yield of 4.10%. The yield on interest-bearing liabilities increased 151 basis points to 2.11% for 2023.

2022 versus 2021

Total interest expense for 2022 was $7,924,000 compared with $4,643,000 for 2021, an increase of $3,281,000. Interest expense on total deposits increased $2,678,000 and interest expense on borrowed funds increased $603,000 when comparing the two years. The rate paid on interest-bearing deposits increased 19 basis points; the rate paid on borrowings increased 64 basis points, when comparing the two periods.

Average non-interest-bearing demand accounts increased $6,267,000, or 2.6%, to $242,778,000 for 2022; QNB was successful in increasing business checking accounts. Average interest-bearing demand accounts increased $37,796,000, or 12.3%, to $345,054,000 for 2022 compared with 2021, with interest expense on interest-bearing demand accounts increasing $309,000 to $933,000 for 2022. The average rate paid increased seven basis points to 0.27% for 2022 compared to 0.20% for 2021. Interest-bearing business checking account average balances increased by $7,918,000, or 12.8%, and related interest expense increased $141,000, or 17 basis points in yield, when comparing the two years. For 2022, the average balance in QNB-Rewards Checking was $104,122,000 and the related interest expense was $366,000 for an average cost of funds of 0.35%. In comparison, the average balance in this product for 2021 was $96,522,000 and the related interest expense was $350,000 for an average cost of funds of 0.36%. The average balance of other interest-bearing demand accounts included in this category increased from $148,969,000 for 2021 to $171,247,000 for 2022. The average rate paid on these balances was 0.05% in 2021 and 0.13% in 2022.

Average money market accounts increased $15,469,000, or 12.6%, to $137,830,000 for 2022 compared with 2021. Interest expense on money market accounts increased $236,000 to $617,000 for 2022 compared with 2021. The average interest rate paid on money market accounts was 0.45% for 2022, an increase of 14 basis points compared with 2021.

Average e-Savings balances increased $45,577,000, or 15.7%, to $335,490,000 in 2022 compared with $289,913,000 in 2021. The average cost of funds on these accounts was 0.59% for 2022 and 0.36% for 2021. Traditional statement savings accounts and club accounts are also included in the savings category and increased on average by $10,897,000, or 11.3%, to $107,614,000. The average rate paid on total savings accounts was 0.49% for 2022, a 19 basis-point increase from 0.30% for 2021 and interest expense increased $997,000, to $2,175,000 from $1,178,000 over the same period.

Interest expense on time deposits decreased $211,000, to $1,421,000 in 2022, due to a decrease in average balances of $9,686,000 in 2022, to $168,826,000 and a seven basis-point decrease in yield, from 0.91% in 2021 to 0.84% in 2022.

Short-term borrowings are comprised of sweep accounts structured as repurchase agreements with our commercial customers and overnight borrowings from correspondent banks with average balances in 2022 of $68,650,000 and $17,226,000, respectively. Interest expense on short-term borrowings increased by $603,000 to $861,000 when comparing the two years. During this period average balances of repurchase agreements decreased $2,817,000 with a 14 basis-point increase in average rate paid, resulting in an increase of cost of funds of $85,000. The average balances of borrowings from correspondent banks increased $17,035,000 and the average rate paid increased 249 basis points, resulting in an increase in cost of funds of $518,000.

Average long-term debt was $10,000,000 with an average yield of 1.57%. The yield on interest-bearing liabilities increased 21 basis points to 0.60% for 2022.

Provision for Credit Losses

The provision for credit losses represents management's determination of the amount necessary to be charged to operations to bring the allowance for credit losses on loans and the allowance for credit losses on unused commitments to amounts that are intended to absorb historical loss experience, current conditions and reasonable and supportable forecasts, in the outstanding loan portfolio and the unused commitments. Management believes that it uses the best information available to make determinations about the adequacy of these allowances and that it has established its existing allowances for credit losses on loan and on unused commitments in accordance with U.S. GAAP. The determination of an appropriate level for the allowance for credit losses on loans and the allowance for credit losses on unused commitments are based upon an analysis of the risks inherent in QNB's loan portfolio. QNB recorded a reversal of the provision for credit losses on loans $828,000 for the twelve months ended December 31, 2023 compared to a reversal of the provision for loan losses of $850,000 for the twelve-month period ended December 31, 2022 and a provision for loan losses of $458,000 for the twelve-month period ended December 31, 2021. QNB recorded a reversal of the provision for credit losses on unused commitments of $16,000 during 2023. Prior period adjustments for the reserve for unused commitments were included in non-interest expense. Net loan recoveries were $138,000, or 0.02% of total average loans for 2023 compared with net loan recoveries were $197,000, or 0.02% of total average loans for 2022 and net charge-offs of $100,000, or 0.01% of total average loans for 2021. The majority of the commercial loans charged off during 2021 had specific reserves established during the allowance for loan loss calculation process prior to the decision to charge-off the loans. The majority of the recoveries during 2023 and 2022, were on these previously charged off commercial loans. Deterioration in credit quality resulting in charge-offs or significant growth in the loan portfolio may result in a higher provision for credit losses on loans in 2024.

Non-Interest Income

Non-interest income comparison

				Change from prior year			
				$ Change		% Change	
Year ended December 31,	**2023**	**2022**	**2021**	**2023 to 2022**	**2022 to 2021**	**2023 to 2022**	**2022 to 2021**
Fees for services to customers	$ 1,651	$ 1,614	$ 1,326	$ 37	$ 288	2.3%	21.7%
ATM and debit card	2,735	2,719	2,682	16	37	0.6	1.4
Retail brokerage and advisory	862	788	786	74	2	9.4	0.3
Bank-owned life insurance	320	361	497	(41)	(136)	-11.4	-27.4
Merchant	394	394	451	—	(57)	0.0	-12.6
Net (loss) gain on sale of investment securities	(2,077)	266	1,806	(2,343)	(1,540)	N/M	-85.3
Unrealized gain (loss) on investment equity securities	250	(1,026)	926	1,276	(1,952)	-124.4	N/M
Net gain on sale of loans	16	6	595	10	(589)	166.7	-99.0
Other	686	609	712	77	(103)	12.6	-14.5
Total	$ 4,837	$ 5,731	$ 9,781	$ (894)	$ (4,050)	-15.6%	-41.4%

N/M - Not Meaningful

2023 versus 2022

QNB, through its core banking business, generates various fees and service charges. Total non-interest income includes service charges on deposit accounts, ATM and debit card income, retail brokerage and advisory income, income on bank-owned life insurance, merchant income and gains and losses on investment securities and residential mortgage loans. Total non-interest income was $4,837,000 in 2023 compared with $5,731,000 in 2022, a decrease of $894,000. Excluding the unrealized (losses)gains on equity securities, gains(losses) on sales of investment securities and gains on sales of loans, noninterest income was $6,648,000 in 2023 compared to $6,485,000 in 2022, an increase of $163,000.

Fees for services to customers are primarily comprised of service charges on deposit accounts. These fees were $1,651,000 for 2023, an increase of $37,000 from 2022. Overdraft income, which represented approximately 78% of total fees for services to customers in both 2023 and 2022, increased by $32,000, or 2.5%, when comparing 2023 to 2022. The increase in overdraft income primarily reflects an increase in the number of overdraft occurrences.

ATM and debit card income is primarily comprised of transaction income on debit cards and ATM cards and ATM surcharge income for the use of QNB's ATM machines by non-QNB customers. ATM and debit card income was $2,735,000 in 2023, an increase of $16,000, or 0.6% from the amount recorded in 2022. Debit card interchange income increased $22,000, or 0.8%, to $2,686,000 in 2023, while ATM surcharge income and monthly card fees income decreased $6,000 to $49,000. The growth in checking accounts and card usage contributed to the increase in debit card income, including the QNB Rewards checking product, a tiered-rate checking account which requires, among other terms, the posting of a minimum of twelve debit card purchase transactions per statement cycle to receive the high interest rate.

QNB provides securities and advisory services under the name QNB Financial Services through an independent third-party registered Broker/Dealer and Registered Investment Advisor. QNB receives a percentage of the revenue generated but is responsible for salaries and expenses of advisors who are QNB employees. Retail brokerage and advisory revenue was $862,000 for 2023 compared with $788,000 for 2022, an increase of $74,000, or 9.4%. Advisory fees increased $27,000 comparing 2023 to 2022. Sales in front-loaded products, such as annuities and alternative investments (which include private equity, hedge funds, managed futures, real estate "REITs", commodities and derivatives contracts) and trailing income related to these increased $47,000 in 2023 over 2022. In 2023, the net income provided by QNB Financial Services was $186,000, compared with $210,000 in net income for 2022.

Income on bank-owned life insurance ("BOLI") represents the earnings and death benefits on life insurance policies in which the Bank is the beneficiary. The insurance carriers reset the rates on these policies annually taking into consideration the interest rate environment as well as mortality costs. The existing policies have rate floors which limit how low the earnings rate can go. Some of these policies are currently at their floor. Income on these policies during 2023 was $320,000 compared to $361,000 for 2022; included in the 2022 number was a life insurance benefit of $46,000.

Merchant income represents fees charged to merchants for the Bank's handling of credit card or charge sales. Merchant income was $394,000 for 2023, level to the amount reported in 2022.

The fixed-income securities portfolio represents a significant portion of QNB's earning assets and is also a primary tool in liquidity and asset/liability management. QNB actively manages its fixed-income portfolio to take advantage of changes in the shape of the yield curve, changes in spread relationships in different sectors, and for liquidity purposes. Management continually reviews strategies that will result in an increase in the yield or improvement in the structure of the investment portfolio, including monitoring credit and concentration risk in the portfolio. In addition, the Corporation owns a small portfolio of equity securities for the purpose of generating both dividend income and capital appreciation.

Net (losses) gains on sales of investment securities decreased $2,343,000 to a net loss of $2,077,000 for the year ended December 31, 2023, compared with a net gain of $266,000 for the year ended December 31, 2022. Net loss from sales of equity securities were $19,000 in 2023 compared to a net gain of $405,000 in 2022. Net loss on the sale of fixed income securities were 2,058,000 for 2023 compared to a net loss of $139,000 for 2022. QNB continued to improve the efficiency of its investment portfolio by executing sales of low yielding fixed rate available-for-sale securities during 2023. QNB sold both state and municipal securities and mortgage-backed and CMO securities totaling $33,213,000 during 2023. Unrealized gains on equity securities of $250,000 were recorded during 2023 compared to unrealized losses of $1,026,000 during 2022.

The net gain on residential mortgage sales is directly related to the volume of mortgages sold and the timing of the sales relative to the interest rate environment. Residential mortgage loans to be sold are identified at origination. The net gain on the sale of residential mortgage loans was $16,000 and $6,000 for 2023 and 2022, respectively. Mortgage financing activity was greater in 2023, due to available properties. Proceeds from the sale of residential mortgages were $989,000 and $304,000 for the years ended December 31, 2023 and 2022, respectively. Included in the gains on the sale of residential mortgages in 2023 and 2022 are $7,000 and $2,000, respectively, related to the recognition of mortgage servicing assets.

QNB retains servicing rights for residential mortgages sold in the secondary market. A servicing fee is retained on all mortgage loans sold and serviced. QNB recognizes its obligation to service financial assets that are retained in a transfer of assets in the form of a servicing asset. The servicing asset is amortized in proportion to, and over, the period of net servicing income or loss. On a quarterly basis, servicing assets are assessed for impairment based on their fair value. Mortgage servicing income of $125,000 for 2023 and $143,000 for 2022 is included in other non-interest income.

Other non-interest income, excluding mortgage servicing income, was $561,000 for 2023, an increase of $95,000 from the amount recorded in 2022. Other non-interest income included sales tax refunds in 2023 of $117,000 and broker-dealer conversion costs reimbursements of $18,000 in 2023 compared to $39,000 in 2022. Title company income decreased $33,000, credit card income increased $21,000 and letter of credit fees increased $16,000 when comparing 2023 to 2022.

2022 versus 2021

Total non-interest income was $5,731,000 in 2022 compared with $9,781,000 in 2021, a decrease of $4,050,000. Excluding the unrealized (losses)gains on equity securities, gains(losses) on sales of investment securities and gains on sales of loans, noninterest income was $6,485,000 in 2022 compared to $6,454,000 in 2021, an increase of $31,000.

Fees for services to customers are primarily comprised of service charges on deposit accounts. These fees were $1,614,000 for 2022, an increase of $288,000 from 2021. Overdraft income, which represented approximately 78% and 72% of total fees for services to customers in 2022 and 2021, respectively, increased by $312,000, or 32.8%, when comparing 2022 to 2021. The increase in overdraft income primarily reflects an increase in the number of overdraft occurrences.

ATM and debit card income was $2,719,000 in 2022, an increase of $37,000, or 1.4%, from the amount recorded in 2021. Debit card interchange income increased $44,000, or 1.7%, to $2,664,000 in 2022, while ATM surcharge income and monthly card fees income decreased $7,000 to $55,000.

Retail brokerage and advisory revenue was $788,000 for 2022 compared with $786,000 for 2021, an increase of $2,000, or 0.3%. Advisory fees increased $31,000 comparing 2022 to 2021. Fee income from sales in front-loaded products and trailing income related to these decreased $29,000 in 2022 over 2021. In 2022, the net income provided by QNB Financial Services was $210,000, compared with $206,000 in net income for 2021.

BOLI income during 2022 was $361,000 compared to $497,000 for 2021; included in these numbers was a life insurance benefit of $46,000 realized during 2022 and a benefit of $193,000 realized during 2021.

Merchant income was $394,000 for 2022, a decrease of $57,000, or 12.6%, from the amount reported in 2021. The decrease in merchant income is primarily a result of decreased usage.

Net gains on sales of investment securities decreased $1,540,000 to a net gain of $266,000 for the year ended December 31, 2022, compared with a net gain of $1,806,000 for the year ended December 31, 2021, primarily due to market conditions which resulted in greater opportunities for profitable sales in 2021 compared with 2022. Gains from equity securities were $405,000 in 2022 compared to gains of $1,788,000 in 2021. Net losses/gains on the sale of fixed income securities were a net loss of $139,000 for 2022 compared to a net gain of $18,000 for 2021. Unrealized losses/gains on equity securities were unrealized losses of $1,026,000 recorded during 2022 compared to unrealized gains of $926,000 during 2021.

The net gain on the sale of residential mortgage loans was $6,000 and $595,000 for 2022 and 2021, respectively. Mortgage financing activity was greater in 2021, as an improvement in rates prompted borrowers to purchase. Proceeds from the sale of residential mortgages were $304,000 and $16,773,000 for the years ended December 31, 2022 and 2021, respectively. Included in the gains on the sale of residential mortgages in 2022 and 2021 are $2,000 and $122,000, respectively, related to the recognition of mortgage servicing assets. Mortgage servicing income of $143,000 for 2022 and $102,000 for 2021 is included in other non-interest income.

Other non-interest income, excluding mortgage servicing income, was $466,000 for 2022, a decrease of $144,000 from the amount recorded in 2021. Other non-interest income included broker-dealer conversion costs reimbursements of $39,000 and $55,000 for 2022 and 2021, respectively. Other non-interest income included $37,000 in an anti-trust settlement in 2021. Title company income decreased $83,000 and letter of credit fees decreased $30,000 when comparing 2022 to 2021.

Non-Interest Expense

Non-interest expense comparison

				Change from prior year			
				$ Change		% Change	
Year ended December 31,	**2023**	**2022**	**2021**	**2023 to 2022**	**2022 to 2021**	**2023 to 2022**	**2022 to 2021**
Salaries and employee benefits	$ 19,026	$ 17,306	$ 17,453	$ 1,720	$ (147)	9.9%	-0.8%
Net occupancy	2,223	2,195	2,228	28	(33)	1.3	-1.5
Furniture and equipment	3,602	2,917	2,787	685	130	23.5	4.7
Marketing	964	870	922	94	(52)	10.8	-5.6
Third party services	2,422	2,474	2,160	(52)	314	-2.1	14.5
Telephone, postage and supplies	571	748	715	(177)	33	-23.7	4.6
State taxes	367	1,004	1,013	(637)	(9)	-63.4	-0.9
FDIC insurance premiums	1,058	768	793	290	(25)	37.8	-3.2
Other	3,876	3,210	2,926	666	284	20.7	9.7
Total	$ 34,109	$ 31,492	$ 30,997	$ 2,617	$ 495	8.3%	1.6%

2023 versus 2022

Non-interest expense is comprised of costs related to salaries and employee benefits, net occupancy, furniture and equipment, marketing, third party services, FDIC insurance premiums, regulatory assessments and taxes and various other operating expenses. Total non-interest expense was $34,109,000 in 2023, an increase of $2,617,000, or 8.3%, from the $31,492,000 in 2022. QNB's overhead efficiency ratio, which represents the percentage of each dollar of revenue that is used for non-interest expense, is calculated by taking non-interest expense divided by net operating revenue (tax-equivalent net interest income plus non-interest income). QNB's efficiency ratios for 2023, 2022 and 2021 were 74.8%, 61.8%, and 58.9%, respectively. The unfavorable increase in the 2023 efficiency ratio is primarily due to a reduction in tax-equivalent net interest income of $4,471,000 in 2023 over 2022.

Salaries and benefits expense is the largest component of non-interest expense. QNB monitors, using various surveys, the competitive salary and benefit information in its markets and makes adjustments when appropriate. Salaries and benefits expense for 2023 was $19,026,000, an increase of $1,720,000 compared with $17,306,000 reported in 2022. Salary expense and related payroll taxes for 2023 was $15,989,000, an increase of $1,250,000 compared with $14,739,000 reported in 2022. Benefit expense for 2023 was $3,037,000, an increase of $470,000, or 18.3%, from the amount recorded in 2022. Medical premiums increased $319,000 primarily due to an increase in claims. Retirement plan matching and safe harbor increased $101,000 compared to 2022. QNB utilized unvested forfeited 401(k) contributions to offset retirement plan matching in 2023 and 2022. During 2023, the Bank adopted a Nonqualified Deferred Compensation Plan ("NQDC Plan"). The purpose of the NQDC Plan is to provide a deferred compensation vehicle to which the Bank may credit discretionary amounts on behalf of key employees for recruitment and reward. NQDC Plan expense was $108,000 for the year ended December 31, 2023.

Net occupancy and furniture and equipment expense increased $713,000, to $5,825,000 when comparing 2023 to 2022, due primarily to increased software maintenance.

Marketing expense was $964,000 for 2023, a $94,000 increase from the expense recorded in 2022. QNB's contributions and sponsorships for not-for-profit organizations, events and clubs in the communities it serves are included in public relations expense which increased $97,000 in 2023.

Third party services are comprised of professional services, including legal, accounting, auditing and consulting services, as well as fees paid to outside vendors for support services of day-to-day operations. These support services include correspondent banking services, statement printing and mailing, investment security safekeeping and supply management services. Third party services decreased $52,000; QNB incurred additional legal, consulting and other third-party services to implement core-processing software in 2022.

Telephone, postage and supplies expense decreased $177,000 to $571,000 in 2023 compared with 2022, primarily due to reduction in transportation costs for supplies and mail delivery services due to usage.

The premium assessment formula for small institutions is based on asset growth and related risk assumptions determined by the FDIC as well as capital. Small institutions, for FDIC premium assessments purposes, are defined as those with total consolidated assets less than $10 billion. FDIC insurance premium expense increased $290,000 in 2023 due to an increase in the assessment rate.

State tax expense represents the payment of the Pennsylvania Shares Tax and Pennsylvania sales and use tax. State tax expense was $367,000 and $1,004,000 for the years 2023 and 2022, respectively. The Pennsylvania Shares Tax is based primarily on the equity of the Bank. The decrease in Pennsylvania Shares Tax is a result of lower capital and an increase in tax credits.

Other operating expenses for the twelve months ended December 31, 2022 increased $666,000, or 20.7%. There was an increase of $499,000 in write-offs primarily due to fraud on customer accounts. Director fees increase $74,000 primarily due to additional expense related to the QNB Corp. 2023 Non-Employee Director Compensation Plan. Business development expenses increased $49,000 as in-person meetings increased. There was a $43,000 increase in loan work-out costs as there was a large recovery in 2022 of $45,000 to reimburse the Bank for insurance costs.

2022 versus 2021

Total non-interest expense was $31,492,000 in 2022, an increase of $495,000, or 1.6%, from the $30,997,000 in 2021. Salaries and benefits expense for 2021 was $17,453,000, an increase of $912,000 compared with $16,541,000 reported in 2020. Salaries and benefits expense for 2022 was $17,306,000, a decrease of $147,000 compared with $17,453,000 reported in 2021. Salary expense and related payroll taxes for 2022 was $14,739,000, an increase of $35,000 compared with $14,704,000 reported in 2021. Included in salary expense in 2022 was incentive compensation plus related payroll taxes of $607,000, a $575,000 decrease over incentive compensation in 2021. Benefit expense for 2022 was $2,567,000, a decline of $182,000, or 6.6%, from the amount recorded in 2021. Medical premiums decreased $235,000 primarily due to a reduction in claims. Retirement plan matching and safe harbor increased $15,000 compared to 2021. QNB utilized unvested forfeited 401(k) contributions to offset retirement plan matching in 2022 and 2021.

Net occupancy and furniture and equipment expense increased $97,000, to $5,112,000 when comparing 2022 to 2021, due primarily to increased software maintenance.

Marketing expense was $870,000 for 2022, a $52,000 decrease from the expense recorded in 2021. Advertising and sales promotions costs decreased $40,000. QNB's contributions and sponsorships for not-for-profit organizations, events and clubs in the communities it serves are included in public relations expense which decreased $9,000 in 2022.

Third party services increased $314,000; QNB incurred additional legal, consulting and other third-party services to implement core-processing software.

Telephone, postage and supplies expense increased $33,000 to $748,000 in 2022 compared with 2021, primarily due to higher transportation costs for supplies and mail delivery services.

FDIC insurance premium expense decreased $25,000 in 2022.

State tax expense was $1,004,000 and $1,013,000 for the years 2022 and 2021, respectively. The Pennsylvania Shares Tax is based primarily on the equity of the Bank. The decrease in Pennsylvania Shares Tax is a result of a lower apportionment factor in Pennsylvania.

Other operating expenses for the twelve months ended December 31, 2022 increased $284,000, or 9.7%. Checkcard expense increased $114,000 and employee travel, training, entertainment and membership fees collectively increased $100,000 as in-person events reopened after the Covid-19 pandemic.

Income Taxes

Applicable income tax expense and effective tax rates were $2,244,000, or 19.1% for 2023, $3,665,000, or 18.7% for 2022 and $3,961,000, or 19.4% for 2021. The primary reason for the increased effective tax rate for 2023 over 2022 was due to a decrease in allowable tax-exempt interest due to higher disallowed interest expense related to a higher cost of funds. The primary reason for the increased effective tax rate for 2022 over 2021 was due to the state taxes on the realized gains on equity sales securities in 2022.

QNB expects the effective tax rate in 2024 to be less than the 21% corporate rate, due to its holdings of tax-free assets, including municipal bonds, municipal loans, and life insurance contracts. For a more comprehensive analysis of income tax expense and deferred taxes, refer to Note 11 in the Notes to Consolidated Financial Statements.

Financial Condition

ASSETS

The following table presents total assets at the dates indicated:

			Change from prior year	
Year ended December 31,	**2023**	**2022**	**Amount**	**Percent**
Cash and cash equivalents	$ 62,657	$ 15,899	$ 46,758	N/M
Investment securities AFS	490,182	546,525	(56,343)	-10.3%
Investment equity securities	5,910	12,056	(6,146)	-51.0
Restricted investment in bank stocks	2,730	5,193	(2,463)	-47.4
Loans held for sale	549	—	549	N/M
Loans receivable	1,093,533	1,039,385	54,148	5.2
Allowance for credit losses on loans	(8,852)	(10,531)	1,679	15.9
Premises and equipment, net	14,952	15,463	(511)	-3.3
Bank-owned life insurance	11,946	11,625	321	2.8
Accrued interest receivable	6,101	5,038	1,063	21.1
Other assets	26,610	27,844	(1,234)	-4.4
Total assets	$ 1,706,318	$ 1,668,497	$ 37,821	2.3%

Cash and interest-earning deposits

Total cash and cash equivalents increased $46,758,000 to $62,657,000 at December 31, 2023 from $15,899,000 at December 31, 2022. QNB had interest-bearing balances at the Federal Reserve Bank of $48,755,000 compared with $880,000 and interest-bearing balances in a brokerage account of $565,000 compared with $353,000 at December 31, 2023 and December 31, 2022, respectively. At December 31, 2023, there was $1,850,000 held as collateral against the fair value swaps held a correspondent bank. Net cash was provided by operating, investing and financing activities. The maturity, prepayment and sales of investment securities, proceeds received from deposit growth and net proceeds from the issuance of long-term debt more than offset loan growth and net repayment of short-term borrowings.

Investment Securities and Other Short-Term Investments

At December 31, 2023 and 2022, QNB had no Federal funds sold.

QNB accounts for its investments by classifying securities into four categories. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt securities that QNB has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses, net of tax, excluded from earnings and reported as a separate component of shareholders' equity. Equity investments with readily determinable fair values are measured at fair value with changes in fair value recognized in net income. Management determines the appropriate classification of securities at the time of purchase.

Investment Portfolio History **December 31,**	**2023**	**2022**	**2021**
Investment Securities Available-for-Sale			
U.S. Treasuries	$ 6,451	$ 301	$ —
U.S. Government agency	74,122	86,709	97,499
State and municipal	89,189	95,367	131,035
U.S. Government agencies and sponsored enterprises (GSEs):			
Mortgage-backed	224,238	256,161	329,938
Collateralized mortgage obligations (CMOs)	89,973	101,672	127,012
Corporate debt and money market funds	6,209	6,315	6,876
Total investment securities available-for-sale	$ 490,182	$ 546,525	$ 692,360
Equity Investments			
Equity	$ 5,910	$ 12,056	$ 12,410
Total equity investments	$ 5,910	$ 12,056	$ 12,410
Total investment securities	$ 496,092	$ 558,581	$ 704,770

Investments Available-For-Sale Debt Securities

Available-for-sale investment securities include securities that management intends to use as part of its liquidity and asset/liability management strategy. These securities may be sold in response to changes in market interest rates, changes in the securities prepayment or credit risk, the need for liquidity, or growth in loan demand. At December 31, 2023, the fair value of investment debt securities available-for-sale, including the impact of fair value hedges, was $490,182,000, or $85,996,000 less the amortized cost of $576,178,000. This compares to a fair value of $546,525,000, or $102,692,000 less the amortized cost of $649,217,000, at December 31, 2022. The available-for-sale portfolio had a weighted average maturity of approximately 6.9 years at December 31, 2023 and 7.2 years at December 31, 2022 and a weighted average tax-equivalent yield of 1.81% and 1.68% at December 31, 2023 and 2022, respectively.

At December 31, 2023, approximately 79% of QNB's investment securities available-for-sale were either U.S. Government agency debt securities, U.S. Government agency issued mortgage-backed securities or CMOs. As of December 31, 2023, QNB held no securities of any one issue or any one issuer (excluding the U.S. Government and its agencies) that were in excess of 10% of shareholders' equity.

The QNB investment portfolio represents a significant portion of earning assets and interest income. QNB actively manages the investment portfolio in an attempt to maximize earnings, while considering liquidity needs, interest rate risk and credit risk. The decrease of the investment portfolio as a percent of total assets in 2023 is due to the proceeds from payments, maturities and sales being used to fund loan growth. During 2023, $14,381,000 of investment securities available-for-sale were purchased compared with $35,001,000 during 2022. Proceeds from the sale of investment securities available-for-sale were $33,213,000 during 2023 compared with $7,551,000 during 2022 . In addition to the proceeds from the sale of investment securities available-for-sale, proceeds from maturities, calls and prepayments were $50,042,000 in 2023 compared with $72,965,000 in 2022.

Treasury securities had a fair value of $6,451,000 at December 31, 2023 compared to $301,000 at December 31, 2022. Excess cash at the holding company was invested in short-term Treasury securities in 2023.

The balance of U.S. Government agency securities decreased $12,587,000 to $74,122,000 at December 31, 2023 and represents 15.1% of the available-for-sale investment portfolio, compared with 15.9% at December 31, 2022. U.S. Government agency securities with a fair value of $15,862,000 were sold during 2023. U.S. Government agency issued CMO and MBS balances decreased $43,622,000 to $314,211,000 and represents 64.1% of the available-for-sale portfolio compared with 65.5% at December 31, 2022. U.S. Government agency issued CMO and MBS bonds with a fair value of $7,865,000 were sold during 2023. These bonds provide monthly cash flow to be reinvested in either loans or other securities, potentially at higher yields as rates increase.

The balance of municipal securities decreased $6,178,000 to $89,189,000 at December 31, 2023, representing 18.2% of the available-for-sale portfolio compared with 17.4% at December 31, 2022. QNB focuses on the financial performance of the underlying issuer for municipal bond purchases in addition to the bond rating of the issuer or the rating of bond insurer, if present. Municipal securities bonds fair value of $9,486,000 were sold in 2023.

QNB owns one collateralized debt obligations ("CDO") in the form of a pooled trust preferred security and is included in the Corporate debt category. The security is comprised of securities issued by banks or bank holding companies. QNB owns the mezzanine tranche of this security. The security is structured so that the senior and mezzanine tranches are protected from defaults by over-collateralization and cash flow default protection provided by subordinated tranches. The trust preferred security the Bank continues to hold has a carrying balance of $52,000 at December 31, 2023 and represents the senior-most obligation of the trust. There was no credit-related impairment charge during 2023, 2022 or 2021. Future estimates of fair value of the remaining security could require recording additional impairment charges through earnings. For additional detail on these securities see Note 17 of the Notes to Consolidated Financial Statements.

The weighted average maturity is based on the stated contractual maturity or likely call date of all securities except for MBS and CMOs, which are based on estimated average life. The maturity of the portfolio could become shorter if interest rates decline and prepayments on MBS and CMOs increase or securities are called. However, the estimated average life could lengthen if interest rates were to increase and principal payments on MBS and CMOs slowed or securities anticipated to be called extend past their call date.

Investment Portfolio Maturities and Weighted Average Yields

December 31, 2023	One year or less	After one year through five years	After five years through ten years	After ten years	Total
Investment Securities Available-for-Sale					
U.S. Treasuries					
Fair value	$ 6,451	$ —	$ —	$ —	$ 6,451
Weighted average yield	5.37%	—	—	—	5.37%
U.S. Government agency:					
Fair value	—	$ 48,020	$ 26,102	—	$ 74,122
Weighted average yield	—	1.04%	1.39%	—	1.16%
State and municipal:					
Fair value	—	2,889	11,887	74,413	89,189
Weighted average yield	—	2.96%	1.98%	2.02%	2.05%
Mortgage-backed:					
Fair value	118	79,313	144,807	—	224,238
Weighted average yield	2.51%	1.42%	1.67%	—	1.58%
Collateralized mortgage obligations (CMOs):					
Fair value	177	26,725	63,071	—	89,973
Weighted average yield	0.97%	2.99%	1.97%	—	2.27%
Corporate debt and money market funds:					
Fair value	2,069	2,796	1,344	—	6,209
Weighted average yield	0	6.00%	4.16%	—	4.37%
Total fair value	$ 8,815	$ 159,743	$ 247,211	$ 74,413	$ 490,182
Weighted average yield	4.52%	1.68%	1.75%	2.02%	1.81%

Securities are assigned to categories based on stated contractual maturity except for mortgage-backed securities and CMOs which are based on anticipated payment periods and state and municipal securities which are based on pre-refunded date, if applicable. Tax-exempt securities were adjusted to a tax-equivalent basis and are based on the marginal Federal corporate tax rate of 21% and a Tax Equity and Financial Responsibility Act ("TEFRA") adjustment for the cost of funds. Weighted average yields on investment securities available-for-sale are based on amortized cost.

Investments in Equity Securities

Equity securities decreased $6,146,000 to $5,910,000 at December 31, 2023 from $12,056,000 at December 31, 2022. QNB sold $8,556,000 in equity securities for a net loss of $19,000 and purchased $2,179,000 in equities during 2023.

Increases and decreases in the fair value of equity securities were recognized in net income, At December 31, 2023, the fair value of the equity securities was $5,910,000, or $215,000 above the cost of $5,695,000 compared to $12,056,000, or $35,000 below the cost of $12,091,000 at December 31, 2022.

The equities portfolio comprises blue-chip large-capitalized stocks, providing a taxable equivalent dividend yield of 4.22%. The estimated cumulative contribution (realized and unrealized net gains (losses), plus dividends) of the equity portfolio to earnings per share from January 1, 2014 through December 31, 2023 is $2.25 per diluted share. Details of the equity portfolio's contribution to net income is detailed in the following table.

Net Income (Expense) on Equity Securities	For the Year Ended December 31,							
	2016	2017	2018	2019	2020	2021	2022	2023
Equity Securities:								
Tax-equivalent dividends*	$ 233	$ 249	$ 300	$ 274	$ 392	$ 437	$ 399	$ 320
Net gain (loss) on sales	758	1,557	(79)	1,781	585	1,788	405	(19)
OTTI	(192)	(80)	N/A	N/A	N/A	N/A	N/A	N/A
Unrealized (loss) gain	N/A	N/A	(336)	770	(47)	926	(1,026)	250
Tax-equivalent income before tax	799	1,726	(115)	2,825	930	3,151	(222)	551
Tax expense (benefit)*	324	701	(33)	816	269	910	(64)	159
Net income	$ 475	$ 1,025	$ (82)	$ 2,009	$ 661	$ 2,241	$ (158)	$ 392
Earnings per share - basic	$ 0.14	$ 0.30	$ (0.02)	$ 0.57	$ 0.19	$ 0.63	$ (0.04)	$ 0.11
Earnings per share - diluted	0.14	0.30	(0.02)	0.57	0.19	0.63	(0.04)	0.11
Tax-equivalent yield	3.13%	3.49%	3.08%	3.31%	3.54%	3.32%	3.32%	4.22%

*Based on Federal tax rates of 34% for the 2016 periods and 21% for the 2017, 2018, 2019, 2020, 2021, 2022 and 2023 periods.

Loans

QNB's primary business is to accept deposits and to make loans to meet the credit needs of the communities it serves. Loans are the most significant component of earning assets, and growth in loans to small businesses and residents of these communities has been a primary focus of QNB. Inherent within the lending function is the evaluation and acceptance of credit risk and interest rate risk. QNB manages credit risk associated with its lending activities through portfolio diversification, underwriting policies and procedures and loan monitoring practices.

QNB has comprehensive policies and procedures that define and govern commercial and retail loan originations and the management of risk. All loans are underwritten in a manner that emphasizes the borrowers' capacity to pay. The measurement of capacity to pay delineates the potential risk of non-payment or default. The higher potential for default determines the need for and amount of collateral required. QNB makes unsecured commercial loans when the capacity to pay is considered substantial. As capacity lessens, collateral is required to provide a secondary source of repayment and to mitigate the risk of loss. Various policies and procedures provide guidance to the lenders on such factors as amount, terms, price, maturity and appropriate collateral levels. Each risk factor is considered critical to ensuring that QNB receives an adequate return for the risk undertaken, and that the risk of loss is minimized.

QNB manages the risk associated with commercial loans by having lenders work in tandem with credit analysts while maintaining independence between personnel. In addition, a Bank loan committee and a committee of the Board of Directors review and approve certain loan requests on a weekly basis. Other than disclosed in the forthcoming Loan Portfolio Table, at December 31, 2023, there was a concentration of loans to lessors of residential buildings and dwellings of 21.5% of total loans and to lessors of nonresidential buildings of 24.7% of total loans, compared with 20.0% and 22.5% of total loans, respectively, at December 31, 2022.

QNB's commercial lending activity is focused on small businesses within the local community. Commercial purpose loans are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or group of related borrowers and are more susceptible to a risk of loss during a downturn in the business cycle. These loans may involve greater risk because the availability of funds to repay these loans depends on the successful operation of the borrower's business. The assets financed are used within the business for its ongoing operation. Repayment of these types of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial and industrial loans represent commercial purpose loans that are either secured by collateral other than real estate or unsecured.

Commercial loans secured by commercial real estate include commercial purpose loans collateralized at least in part by commercial real estate. Some of these loans may not be for the express purpose of conducting commercial real estate transactions. Commercial loans secured by residential real estate are commercial purpose loans generally secured by the business owner's residence or residential investment properties owned by the borrower and rented to tenants. Commercial loans secured by either commercial real estate or residential real estate are originated primarily within the Eastern Pennsylvania market area, are within the Bank's underwriting criteria, and generally include the guarantee of the borrowers. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate and commercial construction 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.

Loans to state and political subdivisions are tax-exempt or taxable loans to municipalities, school districts and housing and industrial development authorities. These loans can be general obligations of the municipality or school district repaid through their taxing authority, revenue obligations repaid through the income generated by the operations of the authority, such as a water or sewer authority, or loans issued to a housing and industrial development agency, for which a private corporation is responsible for payments on the loans.

The Company originates fixed rate and adjustable-rate residential real estate loans that are secured by the underlying 1-4 family residential properties. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-income ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. To reduce interest rate risk, qualifying originations of fixed-rate loans to individuals for 1-4 family residential mortgages with maturities of 15 years or greater are generally sold in the secondary market. Mortgage loan origination activity increased in 2023 with $1,522,000 in residential mortgages originated for sale compared with $298,000 for 2022. There were $549,000 residential mortgage loans held-for-sale at December 31, 2023 and none at December 31, 2022. Loan held for sale are carried at the lower of aggregate cost or market.

The home equity portfolio consists of fixed-rate home equity loans and variable rate home equity lines of credit. These loans are often in a junior lien position and therefore carry a higher risk than first lien 1-4 family residential loans. Risks associated with loans secured by residential properties, either first lien residential mortgages or home equity loans and lines, are generally lower than commercial loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

The Company offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than loans secured by residential real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess or more likely to decrease in value than real estate. Credit risk in this portfolio is controlled by conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower, and, if secured, the value of the collateral.

Total loan receivables at December 31, 2023 were $1,093,533,000, an increase of $54,148,000, or 5.2%, from December 31, 2022. A key financial ratio, loans to deposits was 73.5% at December 31, 2023, compared with 73.3% at December 31, 2022. QNB continues to be committed to make loans available to credit worthy consumers and businesses.

Loan Portfolio **December 31,**	**2023**	**2022**	**2021**	**2020**	**2019**
Commercial:					
Commercial and industrial	$ 137,086	$ 160,875	$ 148,610	$ 227,431	$ 168,031
Construction and land development	116,173	62,955	55,855	57,594	56,209
Real estate secured by multi-family properties	109,193	99,758	69,765	52,268	36,108
Real estate secured by owner-occupied properties	160,695	158,286	147,264	132,948	128,952
Real estate secured by other commercial properties	265,101	260,026	234,375	192,370	170,990
Revolving real estate secured by 1-4 family properties-business	5,442	5,256	5,517	5,376	8,441
Real estate secured by 1st lien on 1-4 family properties-business	103,572	99,805	81,274	79,072	69,232
Real estate secured by junior lien on 1-4 family properties-business	3,445	3,613	3,467	2,825	3,211
State and political subdivisions	18,708	20,971	19,775	25,302	38,376
Retail:					
1-4 family residential mortgages	108,906	105,524	97,075	79,714	68,927
Construction-individual	—	130	3,206	3,025	542
Revolving home equity secured by 1-4 family properties-personal	34,231	36,732	33,476	36,350	37,443
Real estate secured by 1st lien on 1-4 family properties-personal	11,981	10,575	11,172	9,467	11,240
Real estate secured by junior lien on 1-4 family properties-personal	15,625	11,018	11,617	12,750	16,187
Student loans	1,662	2,180	2,436	2,724	3,397
Overdrafts	194	132	91	258	224
Other consumer	1,757	1,801	2,172	2,382	2,909
Total loans	1,093,771	1,039,637	927,147	921,856	820,419
Net unearned costs (fees)	(238)	(252)	(677)	(1,814)	197
Loans receivable	$ 1,093,533	$ 1,039,385	$ 926,470	$ 920,042	$ 820,616

Loan Maturities and Interest Sensitivity

December 31, 2023	One year or less	After one year through five years	After five through 15 years	After 15 years	Total	Loans due after one year: With fixed predetermined interest rate	Loans due after one year: With variable or adjustable interest rates
Commercial:							
Commercial and industrial	$ 84,183	$ 35,016	$ 17,202	$ 685	$ 137,086	$ 30,393	$ 22,510
Construction and land development	23,546	31,698	9,816	51,113	116,173	8,320	84,307
Real estate secured by multi-family properties	566	9,932	41,059	57,636	109,193	12,890	95,737
Real estate secured by owner-occupied properties	2,192	6,425	56,728	95,350	160,695	4,706	153,797
Real estate secured by other commercial properties	6,211	8,888	97,274	152,728	265,101	23,339	235,551
Revolving real estate secured by 1-4 family properties-business	4,983	—	94	365	5,442	—	459
Real estate secured by 1st lien on 1-4 family properties-business	648	2,425	31,320	69,179	103,572	2,617	100,307
Real estate secured by junior lien on 1-4 family properties-business	39	1,170	593	1,643	3,445	1,170	2,236
State and political subdivisions	—	389	17,030	1,289	18,708	1,013	17,695
Retail:							
1-4 family residential mortgages	—	715	12,873	95,318	108,906	45,522	63,384
Construction-individual	—	—	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	67	564	251	33,349	34,231	—	34,164
Real estate secured by 1st lien on 1-4 family properties-personal	63	1,879	8,860	1,179	11,981	11,305	613
Real estate secured by junior lien on 1-4 family properties-personal	22	3,285	10,618	1,700	15,625	14,942	661
Student loans	—	33	852	777	1,662	—	1,662
Overdrafts	194	—	—	—	194	—	—
Other consumer	287	1,271	194	5	1,757	1,445	25
Total	$ 123,001	$ 103,690	$ 304,764	$ 562,316	$1,093,771	$ 157,662	$813,108

Demand loans and loans with no stated maturity are included in one year or less. Table details final maturity.

The Allowance for Credit Losses on Loans Allocation table on Page 39 shows the percentage composition of the loan portfolio over the past five years. There was little change in the composition of the portfolio between the periods ended December 31, 2023 and 2022. Loans secured by commercial real estate, including loans secured by multi-family, owner-occupied and other commercial properties, remained the largest sector of the portfolio amounting to 48.9% and 49.8% of the portfolio at December 31, 2023 and December 31, 2022, respectively, as the balances in this sector grew by $16,919,000, or 3.2%, from $518,070,000 at December 31, 2022 to $534,989,000 at December 31, 2023. While loans secured by commercial real estate represent a significant portion of the total portfolio, the collateral is diversified, including investment properties, manufacturing facilities, office buildings, hospitality properties, hospitals, retirement and nursing home facilities, warehouses and owner-occupied facilities. Commercial real estate loans have drawn the attention of the regulators in recent years as a potential source of risk. QNB monitors these types of loans closely, obtaining updated appraisals on loans classified substandard or worse. As detailed in the Allowance for Loan Losses table, QNB had no charge-offs in this category in 2023, 2022 or 2021.

Commercial loans secured by residential real estate, which includes first lien, junior lien and revolving lines loans, increased by $3,785,000, or 3.4%, to $112,459,000 at December 31, 2023 and at 10.3% remained fairly level with the overall portfolio compared to 10.4% at December 31, 2022. Some of the properties that serve as collateral for these loans are located outside the Bank's market area and have experienced vacancies and significant declines in market value in prior years. Non-accrual commercial loans secured by residential real estate were $165,000, $365,000, and $484,000 at December 31, 2023, 2022, and 2021, respectively. Charge-offs in this category have significantly decreased over the past three years. Net recoveries of $10,000 in 2023, compared to net recoveries of $45,000 in 2022 and net charge-off of $17,000 in 2021. In 2023, $5,000 in net recoveries were on out-of-market properties compared with $41,000 in net recoveries in 2022 and $23,000 of the net charge-offs in 2021.

Commercial and industrial loans, the second largest sector of the portfolio, experienced a decrease in balances of $23,789,000, or 14.8%, to $137,086,000 at December 31, 2023. Commercial and industrial loans represented 12.5% of the portfolio at year-end 2023 compared with 15.5% at December 31, 2022. This category of loans generally presents a greater risk than loans secured by real estate since these loans are either secured by accounts receivable, inventory or equipment, or are unsecured. During 2023, nonaccrual commercial and industrial loan balances decreased $1,264,000 to $311,000, the majority of which is due to paydowns of $1,264,000. During 2022, nonaccrual commercial and industrial loan balances decreased $1,794,000 to $1,575,000, the majority of which is due to paydowns of $1,811,000. During 2021, nonaccrual commercial and industrial loan balances decreased $998,000 to $3,369,000, the majority of which is due to paydowns of $1,048,000. In 2023, 2022 and 2021, there were net recoveries of $348,000, $268,000 and $92,000, respectively.

Construction and land development loans increased 84.5% to $116,173,000, or 10.6% of the portfolio at December 31, 2023, from $62,955,000, or 6.1% of the portfolio at December 31, 2022. These loans are primarily to developers and builders for the construction of residential units or commercial buildings or to businesses for the construction of owner-occupied facilities. This portfolio is diversified among different types of collateral including: 1-4 family residential, medical and retirement home facilities, office buildings, hotels and land for development loans. Construction loans are generally made only on projects that have municipal approval. These loans are usually originated to include a short construction period followed by permanent financing provided through a commercial mortgage after construction is complete. Once construction is complete, the balance is moved to the appropriate secured by commercial real estate category if the permanent financing is provided by the Bank. There were no charge-offs in the construction loan portfolio since 2011, and no construction loans on non-accrual since 2014.

Loans to state and political subdivisions decreased $2,263,000, or 10.8%, to $18,708,000 at December 31, 2023 from $20,971,000 at December 31, 2022. This sector decreased to 1.7% of the total loan portfolio at December 31, 2023 from 2.0% at December 31, 2022. Many municipalities, counties and school districts refinanced their existing bonds or bank debt due to rate.

Residential mortgage loans secured by first lien balances increased by $3,382,000, or 3.2%, to $108,906,000 at December 31, 2023. This followed an increase of $8,449,000, or 8.7%, to $105,524,000, between December 31, 2021 and December 31, 2022. In 2023 and 2022, QNB retained some adjustable and fixed rate mortgages to borrowers with high credit scores and low loan-to-value ratios.

Balances in home equity loans and lines, including first lien, junior lien and revolving line loans, increased $3,512,000, or 5.7%, to $61,837,000 at December 31, 2023. During 2023, QNB continued to offer very attractive rates on both variable and fixed rate home equity loans and lines. These attractive rates, along with excellent customer service, including quick turnaround time, resulted in new originations in home equity loans, however, paydowns and refinancing into mortgage loans contributed to the decline. QNB expects demand for home equity loans will increase as rates normalize and debt consolidation into mortgage loans decline.

As of December 31, 2023 the balance of student loans was $1,662,000, a decrease of $518,000 compared with December 31, 2022. In 2013, QNB reentered the private student loan market through a relationship with a third party. These student loans are either fixed or variable rate with the rate dependent on the credit scores of the student and/or the cosigner. Student loan balances will decline, as their balances are no longer insured, and QNB ceased funding originations through the third party during 2019 and forward.

Overdrafts increased $62,000, to $194,000 at December 31, 2023. Other consumer loan balances decreased $44,000 to $1,757,000 at December 31, 2023.

Non-Performing Assets

Non-performing assets include non-performing loans, OREO and repossessed assets. Non-performing assets totaled $1,940,000, or 0.11% of total assets at December 31, 2023, a $7,181,000 decrease over the $9,121,000, or 0.55% of total assets at December 31, 2022, primarily due to the reassessment of loans previously identified as troubled debt restructurings.

Total non-performing loans, which represent loans on non-accrual status, loans past due 90 days or more and still accruing interest and troubled debt modification/restructured loans were $1,940,000, or 0.18% of total loans receivable at December 31, 2023 compared with $9,121,000, or 0.88% of total loans receivable at December 31, 2022. Loans on non-accrual status were $1,940,000 at December 31, 2023 compared $4,820,000 at December 31, 2022. The decrease was primarily due to paydowns of $1,282,000, net charge-offs of $57,000 and loans returned to accruing of $2,151,000; partially offset by $610,000 being placed on nonaccrual all of which were due to retail relationships. Specific impairment reserves have been established based on updated collateral values even if the borrower continues to pay in accordance with the terms of the agreement. Of the total amount of non-accrual loans at December 31, 2023, $1,306,000, or approximately 67% of the loans classified as non-accrual, are current or past due less than 30 days.

QNB had no loans 90 days or more past due and still accruing at December 31, 2023 or at December 31, 2022. Total loans that are 30 days or more past due increased $9,464,000 to $11,903,000, representing 1.09% of total loans at December 31, 2023 compared with $2,439,000 and 0.23% of total loans at December 31, 2022; the increase is primarily due to one commercial customer in the refinancing process. Restructured loans, as defined in accounting guidance for troubled debt restructuring, that have not already been included in loans past due 90 days or more and still accruing or in non-accrual loans, totaled $4,301,000 at December 31, 2022. QNB had no troubled debt modifications in 2023.

QNB held no OREO at December 31, 2023 or 2022. There were no repossessed assets as of December 31, 2023 or 2022.

Non-Performing Assets **December 31,**	**2023**	**2022**	**2021**	**2020**	**2019**
Loans past due 90 days or more and accruing					
Commercial:					
Commercial and industrial	$ —	$ —	$ —	$ —	$ —
Construction and land development	—	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—	—
Real estate secured by owner-occupied properties	—	—	—	—	—
Real estate secured by other commercial properties	—	—	—	—	—
Revolving real estate secured by 1-4 family properties-business	—	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-business	—	—	—	—	—
Real estate secured by junior lien on 1-4 family properties-business	—	—	—	—	—
State and political subdivisions	—	—	—	—	—
Retail:					
1-4 family residential mortgages	—	—	—	—	—
Construction-individual	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	—	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-personal	—	—	—	—	—
Real estate secured by junior lien on 1-4 family properties-personal	—	—	—	—	—
Student loans	—	—	—	—	—
Overdrafts	—	—	—	—	—
Other consumer	—	—	—	—	—
Total loans past due 90 days or more and accruing	—	—	—	—	—
Non-accrual loans					
Commercial:					
Commercial and industrial	311	1,575	3,369	4,367	5,901
Construction and land development	—	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—	—
Real estate secured by owner-occupied properties	175	866	1,000	2,857	3,580
Real estate secured by other commercial properties	—	1,165	1,279	48	60
Revolving real estate secured by 1-4 family properties-business	—	76	93	108	—
Real estate secured by 1st lien on 1-4 family properties-business	—	13	30	438	334
Real estate secured by junior lien on 1-4 family properties-business	165	276	361	437	517
State and political subdivisions	—	—	—	—	—
Retail:					
1-4 family residential mortgages	805	461	721	636	636
Construction-individual	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	295	188	375	411	386
Real estate secured by 1st lien on 1-4 family properties-personal	116	138	159	174	73
Real estate secured by junior lien on 1-4 family properties-personal	19	—	53	59	78
Student loans	17	17	37	44	70
Other consumer	37	45	53	61	69
Total non-accrual loans	1,940	4,820	7,530	9,640	11,704
Troubled debt restructured loans, not included above	—	4,301	4,142	4,469	4,760
Total non-performing assets	$ 1,940	$ 9,121	$ 11,672	$ 14,109	$ 16,464
Total non-performing assets as a percent of total assets	0.11%	0.55%	0.70%	0.98%	1.34%
Nonaccrual loans to total loans	0.18	0.88	1.26	1.53	2.01

Additional loan quality information can be found in Note 5 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. Management's view is that loans classified as substandard or doubtful that are not included in the past due, non-accrual or restructured categories are potential problem loans. For some of these loans, management may have knowledge of possible credit problems that will cause management to question the ability of the borrowers to comply with the present loan repayment terms. Commercial loans classified as substandard or doubtful, which includes non-performing loans, continue to show improvement. At December 31, 2023, substandard or doubtful loans totaled $11,610,000, a decrease of $2,074,000, or 15.2%, from the $13,684,000, reported as of December 31, 2022.

Allowance for Credit Losses on Loans

QNB adopted ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326), as amended ("ASU 326"), which replaces the incurred loss methodology with an expected credit losses ("CECL"), using the modified retrospective method. QNB recorded a reduction in its allowance for credit losses on loans of $1,089,000 as of January 1, 2023 for the cumulative effect of adopting ASU 326.

The allowance for credit losses on loans represents management's best estimate of expected credit losses in the existing loan portfolio, based on historical experience, current conditions and reasonable and supportable forecasts. Management believes that it uses the best information available to make determinations about the adequacy of the allowance and that it has established its existing allowance for credit losses on loans in accordance with U.S. generally accepted accounting principles ("US GAAP"). Since the allowance for credit losses on loans is dependent on conditions that may be beyond QNB's control, it is at least reasonably possible that management's estimates of the allowance for credit losses on loans and actual results could differ. In addition, various regulatory agencies, as an integral part of their examination process, periodically review QNB's allowance for losses on loans. Such agencies may require QNB to recognize changes to the allowance based on their judgments about information available to them at the time of their examination. Actual loan losses, net of recoveries, serve to reduce the allowance.

Management closely monitors the quality of its loan portfolio and performs a quarterly analysis of the appropriateness of the allowance for credit losses on loans. This analysis considers a number of relevant factors including: specific impairment reserves, historical loan loss experience, general economic conditions, levels of and trends in delinquent and non-performing loans, levels of classified loans, trends in the growth rate of loans, and concentrations of credit.

Asset and credit quality remained strong in QNB's market area in 2023. The allowance level stated as a percent of loans receivable decreased from 1.01% at December 31, 2022 to 0.81% at December 31, 2023. The allowance for credit losses on loans decreased to $8,852,000 at year-end 2023 from $10,531,000 at year-end 2022, or from $9,442,000 after the impact of adopting CECL.

Allowance for Credit Losses on Loans Allocation

December 31,	**2023**		**2022**		**2021**		**2020**		**2019**	
	Amount	**Percent gross loans**	**Amount**	**Percent gross loans**	**Amount**	**Percent gross loans**	**Amount**	**Percent gross loans**	**Amount**	**Percent gross loans**
Balance at end of period applicable to:										
Commercial:										
Commercial and industrial	$ 823	12.5%	$ 1,316	15.5%	$ 3,368	16.0%	$ 4,050	24.7%	$ 4,689	20.5%
Construction and land development	1,252	10.6	755	6.1	363	6.0	346	6.2	590	6.9
Real estate secured by multi-family properties	1,735	10.0	995	9.6	746	7.5	643	5.7	308	4.4
Real estate secured by owner-occupied properties	1,001	14.7	1,549	15.2	1,460	15.9	1,383	14.4	1,016	15.7
Real estate secured by other commercial properties	1,167	24.2	2,458	25.0	2,074	25.3	1,710	20.9	1,195	20.8
Revolving real estate secured by 1-4 family properties-business	27	0.5	25	0.5	25	0.6	24	0.6	34	0.9
Real estate secured by 1st lien on 1-4 family properties-business	1,507	9.5	1,210	9.6	649	8.8	847	8.6	606	8.4
Real estate secured by junior lien on 1-4 family properties-business	14	0.3	30	0.3	386	0.4	24	0.3	23	0.4
State and political subdivisions	55	1.7	94	2.0	69	2.1	89	2.7	115	4.7
Retail:										
1-4 family residential mortgages	427	10.0	682	10.2	625	10.5	513	8.7	544	8.4
Construction-individual	—	—	1	—	21	0.3	20	0.3	5	0.1
Revolving home equity secured by 1-4 family properties-personal	138	3.1	299	3.5	255	3.6	281	3.9	152	4.6
Real estate secured by 1st lien on 1-4 family properties-personal	182	1.1	57	1.0	44	1.2	37	1.0	50	1.4
Real estate secured by junior lien on 1-4 family properties-personal	105	1.4	55	1.1	52	1.3	44	1.4	74	2.0
Student loans	369	0.2	454	0.2	303	0.3	143	0.3	121	0.4
Overdrafts	16	—	8	—	5	—	11	—	19	—
Other consumer	34	0.2	41	0.2	234	0.2	111	0.3	90	0.4
Unallocated	—		502		505		550		256	
Total	$ 8,852	100.0%	$ 10,531	100.0%	$ 11,184	100.0%	$ 10,826	100.0%	$ 9,887	100.0%

Gross loans represent loans before unamortized net loan fees and costs. Percent gross loans lists the percentage of each loan type to total loans.

A loan is considered impaired, based on current information and events, if it is probable that QNB will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls may not be classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Upon the adoption of CECL, performing troubled debt restructured loans are no longer considered impaired. At December 31, 2023 and 2022, the recorded investment in loans for which impairment has been identified totaled $1,923,000 and $9,567,000, respectively, of which $1,451,000 and $4,943,000, respectively, required no specific allowance for loan loss. The recorded investment in impaired loans requiring an allowance for losses was $472,000 and $4,624,000 at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the related allowance for losses associated with these loans was $308,000 and $696,000, respectively. See Note 5 to the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for additional detail of impaired loans.

Allowance for Credit Losses on Loans

	2023	2022	2021	2020	2019
Allowance for credit losses on loans:					
Balance, January 1	$ 10,531	$ 11,184	$ 10,826	$ 9,887	$ 8,834
Impact of adopting ASC 326	(1,089)				
As reported under ASC 326	9,442				
Charge-offs					
Commercial:					
Commercial and industrial	313	38	—	268	207
Construction and land development	—	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—	—
Real estate secured by owner-occupied properties	—	—	—	—	—
Real estate secured by other commercial properties	—	—	—	—	—
Revolving real estate secured by 1-4 family properties-business	—	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-business	—	—	38	—	51
Real estate secured by junior lien on 1-4 family properties-business	—	—	—	—	—
State and political subdivisions	—	—	—	—	—
Retail:					
1-4 family residential mortgages	—	—	—	—	—
Construction-individual	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	—	—	49	—	17
Real estate secured by 1st lien on 1-4 family properties-personal	—	—	—	—	—
Real estate secured by junior lien on 1-4 family properties-personal	—	—	—	—	—
Student loans	57	—	98	185	84
Overdrafts	91	—	69	69	89
Other consumer	14	158	9	28	24
Total charge-offs	475	196	263	550	472
Recoveries					
Commercial:					
Commercial and industrial	661	306	92	40	33
Construction and land development	—	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—	—
Real estate secured by owner-occupied properties	—	—	—	12	2
Real estate secured by other commercial properties	—	—	—	—	8

Allowance for Credit Losses on Loans	2023	2022	2021	2020	2019
Revolving real estate secured by 1-4 family properties-business	—	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-business	10	—	21	68	123
Real estate secured by junior lien on 1-4 family properties-business	—	45	—	—	—
State and political subdivisions	—	—	—	—	—
Retail:					
1-4 family residential mortgages	—	—	—	—	—
Construction-individual	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	—	—	—	—	8
Real estate secured by 1st lien on 1-4 family properties-personal	—	—		—	—
Real estate secured by junior lien on 1-4 family properties-personal	6	—	7	41	7
Student loans	8	—	5	28	2
Overdrafts	26	6	36	48	40
Other consumer	2	36	2	2	2
Total recoveries	713	393	163	239	225
Net recoveries (charge-offs)	238	197	(100)	(311)	(247)
Provision for credit losses on loans	(828)	(850)	458	1,250	1,300
Balance, December 31	$ 8,852	$ 10,531	$ 11,184	$ 10,826	$ 9,887
Total loans (excluding loans held-for-sale)					
Average	$ 1,040,121	$ 967,438	$ 928,017	$ 868,461	$ 811,413
Year-end	1,093,533	1,039,385	926,470	920,042	820,616
Ratios:					
Net (recoveries) charge-offs to:					
Average loans	-0.02%	-0.02%	0.01%	0.04%	0.03%
Loans at year-end	-0.02	-0.02	0.01	0.03	0.03
Allowance for credit losses on loans	-2.69	-1.87	0.89	2.87	2.50
Provision for credit losses on loan	28.74	23.18	21.83	24.88	19.00
Allowance for credit losses on loan to:					
Average loans (excluding loans held-for-sale)	0.85%	1.09%	1.35%	1.25%	1.22%
Loans receivable at year-end	0.81	1.01	1.21	1.18	1.20
Nonaccrual loans	456.29	218.49	148.53	112.30	84.48

QNB had net loan recoveries of $238,000, or 0.02% of average loans for 2023 compared to net recoveries of $197,000, or 0.02% of average loans for 2022 and net charge-offs of $100,000, or 0.01% of average loans for 2021. The majority of charge-offs recorded during these periods had specific reserves established during the allowance for credit losses on loans calculation process prior to the decision to charge-off the loan.

Management believes the allowance for credit losses on loans of $8,852,000 is adequate as of December 31, 2023, in relation to the estimate of known and inherent losses in the portfolio.

Premises and equipment

Premises and equipment includes a right-of-use asset of $2,722,000 and $2,909,000 at December 31, 2023 and December 31, 2022 respectively. The discount rates used in determining the initial value of the right of use assets are based on the FHLB Amortizing Fixed Loan Rate for the term of each lease. QNB typically enters into lease agreements with an initial term of 5 to 10 years and subsequent additional optional terms in increments of 5 years. The lease agreements also contain termination options. None of the leases contain purchase options and none transfer the ownership of the leased asset. QNB has renewed one operating lease during 2023. QNB renewed one operating lease during 2022. Operating lease liabilities are included with "Other liabilities" on the Consolidated Balance Sheets.

All operating lease costs are included in non-interest expense within "Net occupancy" on the Consolidated Statements of Income. Other premises and equipment, net of depreciation decreased $324,000 to $12,230,000 at December 31, 2023; this was primarily due to depreciation.

Other assets

Other assets decreased $1,234,000 from $27,844,000 at December 31, 2022 to $26,610,000 at December 31, 2023. Most of the decrease in other assets relates to a $3,787,000 decrease to the deferred tax asset resulting from the fair value adjustment on investment securities available-for-sale of $3,873,000. The detail of the net deferred tax asset can be found in Note 11 in the Notes to Consolidated Financial Statements.

LIABILITIES

The following table presents total liabilities at the dates indicated:

			Change from prior year	
Year ended December 31,	**2023**	**2022**	**Amount**	**Percent**
Deposits	$ 1,488,713	$ 1,418,369	$ 70,344	5.0%
Short-term borrowings	94,094	161,327	(67,233)	-41.7
Long-term debt	20,000	10,000	10,000	N/M
Accrued interest payable	5,294	467	4,827	N/M
Other liabilities	7,393	7,376	17	0.2
Total liabilities	$ 1,615,494	$ 1,597,539	$ 17,955	1.1%

Deposits

QNB primarily attracts deposits from within its market area by offering various deposit products. These deposits are in the form of time deposits, which include certificates of deposit and individual retirement accounts ("IRAs") which have a stated maturity, and non-maturity deposit accounts, which include: non-interest-bearing demand accounts, interest-bearing demand accounts, money market accounts and savings accounts.

Total deposits increased $70,344,000, or 5.0%, to $1,488,713,000 at December 31, 2023. QNB offered several new interest-bearing demand and money market products offering higher yields to retain large depositors and reduce the reliance on higher-cost short-term borrowings. The mix of deposits continues to be impacted by customers' reactions to the competition, regulations and the interest rate environment. Many customers are looking for transaction accounts that provide liquidity and pay a reasonable amount of interest, while others look for high rate. Time deposit balances increased $139,532,000, or 79.5% between 2022 and 2023, as customers took advantage of a higher rate environment. Customers appear to be looking for the safety of FDIC insured deposits and the stability of a strong local community bank.

Non-interest-bearing demand accounts decreased $46,751,000 to $185,098,000 at December 31, 2023. These deposits are both retail and commercial checking accounts and are volatile depending on the timing of deposits and withdrawals. QNB has been successful in attracting new customers and expanding relationships with existing customers, which provides an opportunity for fee income.

Interest-bearing demand accounts, retail and business interest-checking and municipal accounts, increased $9,785,000, or 2.2%, to $462,712,000 at December 31, 2023. QNB has been successful in maintaining relationships with several school districts and municipalities as well as expanding existing relationships, the balances in these accounts are seasonal in nature and can be volatile on a daily basis. Most of the school district taxes are collected during the third quarter of the year and are disbursed over a nine-month period. Municipal accounts balances increased $14,419,000, or 12.2% at December 31, 2023 over 2022. Business accounts increased from $66,632,000 at December 31, 2022 to $88,714,000, or 33.1%, at December 31, 2023, as two new products were offered to business customers. Retail checking accounts decreased $26,716,000, or 10.0%, to $241,238,000 at December 31, 2023. QNB continues to open a significant number of new checking accounts; additionally, customers may choose to switch products.

Money Market accounts increased $95,800,000 from $127,043,000 at December 31, 2022 to $222,843,000 at December 31, 2023. New money market products offering higher yields to retain large depositors and reduce the reliance on higher-cost short-term borrowings were offered to both retail and business customers in 2023. Personal money market accounts increased $43,727,000 to $84,624,000 at December 31, 2023. Business money market accounts increased $52,073,000, to $138,219,000 at December 31, 2023.

Total savings account balances decreased $128,022,000, or 29.7%, to $303,079,000 at December 31, 2023. This decrease is due primarily to a decrease of $103,801,000, or 32.0%, in the online eSavings accounts over December 31, 2022. Although the rate on eSavings accounts was changed from 1.25% at the end of 2022 to 1.70% in 2023, rates on time deposits and the new money market products were more favorable.

Total time deposit account balances were $314,981,000 at December 31, 2023, an increase of $139,532,000, or 79.5%, from the amount reported at December 31, 2022. QNB was able to retain many maturing deposits during 2023 by offering competitive rates and many current customers moved balances from more liquid accounts to take advantage of these rates.

Maturity of Time Deposits of $250,000 or More **Year ended December 31,**	**2023**	**2022**	**2021**
Three months or less	$ 11,852	$ 3,287	$ 4,749
Over three months through six months	9,629	3,579	4,224
Over six months through twelve months	13,197	7,645	7,395
Over twelve months	8,659	9,959	8,619
Total	$ 43,337	$ 24,470	$ 24,987

To continue to attract and retain deposits, QNB plans to remain competitive with respect to rates and to continue to deliver products with terms and features that appeal to customers. The QNB Rewards checking, high yield money market accounts and time deposits are examples of such products.

The following table presents trends in balances and yield on the major deposit groups.

Average Deposits by Major Classification

	2023		**2022**		**2021**	
	Balance	**Rate**	**Balance**	**Rate**	**Balance**	**Rate**
Demand, non-interest bearing	$ 208,777		$ 242,778		$ 236,511	
Interest-bearing demand	315,990	0.60%	345,054	0.27%	307,258	0.20%
Municipals interest-bearing demand	131,610	4.46	122,824	1.43	127,828	0.32
Money market	183,004	2.64	137,830	0.45	122,361	0.31
Savings	348,878	1.20	443,104	0.49	386,630	0.30
Time less than $100	121,622	2.63	91,216	0.79	98,986	0.93
Time $100 through $250	107,560	3.59	52,314	0.93	52,693	0.86
Time greater than $250	38,076	3.08	25,296	0.83	26,833	0.96
Total	$ 1,455,517	2.01%	$ 1,460,416	0.47%	$ 1,359,100	0.31%

Short-term borrowings

Short-term borrowings comprising commercial sweep accounts, overnight FHLB borrowings and short-term FRB borrowings, decreased $67,233,000, or 41.7%, to $94,094,000 at December 31, 2023. During the first quarter of 2023, QNB borrowed $50,000,000 from the FRB under its Bank Term Funding Program and locked in a rate of 4.39%; there are no pre-payment penalties. Commercial sweep accounts decreased $25,215,000 from $69,309,000 at December 31, 2022 to $44,094,000 at December 31, 2023. There were $92,018,000 in overnight FHLB borrowings outstanding at December 31, 2022 and none at December 31, 2023. The FHLB borrowings were used to support loan growth.

Long-term debt

Long-term debt is comprised of $20,000,0000 in FHLB borrowings. During 2020, QNB borrowed long-term debt of $10,000,000 to lock in borrowing at a lower yield than short-term borrowings at that time; this borrowing matured during the first quarter of 2023. During the second quarter of 2023, QNB borrowed long-term debt of $20,000,000 to lock in borrowing at a lower yield than short-term borrowings.

Other liabilities

Other liabilities comprise accrued expenses including salaries, post-retirement life insurance benefits and income taxes, operating lease liability, deferred revenue, and ATM/debit card processing clearing. These balances increased $17,000, to $7,393,000 at December 31, 2023.

SHAREHOLDERS' EQUITY

The following table presents total shareholders' equity at the dates indicated:

			Change from prior year	
Year ended December 31,	**2023**	**2022**	**Amount**	**Percent**
Common stock	$ 2,414	$ 2,373	$ 41	1.7%
Surplus	26,439	24,798	1,641	6.6
Retained earnings	133,945	128,951	4,994	3.9
Accumulated other comprehensive loss, net of tax	(67,937)	(81,127)	13,190	N/M
Treasury stock	(4,037)	(4,037)	—	—
Total shareholders' equity	$ 90,824	$ 70,958	$ 19,866	28.0%

Total shareholders' equity increased $19,866,000, or 28.0%, to $90,824,000 at December 31, 2023 with an improvement in the negative impact of the market value of available-for-sale securities, net of tax, adjustment contributing $14,573,000. This was partially offset with the negative impact of the market value on the fair value hedge, net of tax, of $1,383,000. Retained earnings increased $4,994,000 due a $857,000 cumulative effect of adopting ASU 326 and net income of $9,483,000, partly offset by dividends declared of $5,346,000. The dividend reinvestment and stock purchase plan, employee stock purchase plan and stock option plan contributed $1,682,000.

Accumulated other comprehensive loss improved from a loss of $81,127,000 to a loss of $67,937,000, resulting from the fair value of the available-for-sale investment portfolio primarily due to a improvement in market values, partially offset the negative impact of the market value on the fair value hedge, net of tax.

QNB offers a Dividend Reinvestment and Stock Purchase Plan (the "Plan") to provide participants a convenient and economical method for investing cash dividends paid on the Company's common stock in additional shares. The Plan also allows participants to make additional cash purchases of stock. Stock purchases under the Plan contributed $1,363,000 and $917,000 to capital during 2023 and 2022, respectively.

The Board of Directors has authorized the repurchase of up to 200,000 shares of QNB's common stock in open market or privately negotiated transactions. The repurchase authorization does not bear a termination date. During 2022, 2,000 shares were repurchased at an average price of $37.07. As of December 31, 2023, a total of 102,000 shares were repurchased under this authorization at an average price of $24.93 and a total cost of $2,543,000.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Management

Liquidity represents an institution's ability to generate cash or otherwise obtain funds at reasonable rates to satisfy demand for loans and deposit withdrawals. QNB attempts to manage its mix of cash and interest-bearing balances, Federal funds sold and investment securities to match the volatility, seasonality, interest sensitivity and growth trends of its loans and deposits. The Company manages its liquidity risk by measuring and monitoring its liquidity sources and estimated funding needs. Liquidity is provided from asset sources through repayments and maturities of loans and investment securities. The portfolio of investment securities classified as available for sale and QNB's policy of selling certain residential mortgage originations in the secondary market also provide sources of liquidity. Core deposits and cash management repurchase agreements have historically been the most significant funding source for QNB. These deposits and repurchase agreements are generated from a base of consumers, businesses and public funds primarily located in the Company's market area.

An additional source of liquidity is provided by the Bank's membership in the FHLB. At December 31, 2023, the Bank's total maximum borrowing capacity at the FHLB was $409,624,000 of which $389,138,000 remained available. The Bank had $20,000,000 in long-term debt outstanding at year-end 2023, related interest payable of $186,000, $283,000 in FHLB-issued letters of credit, and other commitments of $17,000. The maximum borrowing capacity changes depending upon the Bank's level of qualifying collateral assets. In addition, the Bank maintains unsecured Federal funds lines with five correspondent banks totaling $91,000,000. At December 31, 2023 and 2022, there were no outstanding borrowings under these lines. Future availability under these lines is subject to the policies of the granting banks and may be withdrawn. As part of its contingency funding plan, QNB successfully tested its ability to borrow from these sources during 2023.

Total cash and cash equivalents, equity and available-for-sale securities and loans held-for-sale totaled $559,298,000 at December 31, 2023 and $574,480,000 at December 31, 2022, of which $289,935,000 and $237,645,000, respectively, were pledged as collateral for repurchase agreements and public deposits. This decrease in liquid sources is primarily the result of payments and sales of available-for-sale securities and sales of equity securities. Management anticipates that these liquid sources are adequate to meet normal fluctuations in loan demand or deposit withdrawals. It is anticipated that the investment portfolio will continue to provide sufficient liquidity as municipal bonds are called and as principal and interest payments on mortgage-backed and CMO securities provide steady cash flow. Increases in interest rates, however, result in decreased cash flow available from the investment portfolio.

QNB is a member of the Certificate of Deposit Account Registry Services ("CDARS") program offered by the Promontory Interfinancial Network, LLC. CDARS is a funding and liquidity management tool used by banks to access funds and manage their balance sheet. It enables financial institutions to provide customers with full FDIC insurance on time deposits over $250,000 that are placed in the program. QNB also has available Insured Cash Sweep ("ICS"), another program through Promontory Interfinancial Network, LLC, which is a product similar to CDARS, but one that provides liquidity like a money market or savings account. QNB had $9,502,000 in CDARS time deposits at December 31, 2023.

Capital Resources

A strong capital position is fundamental to support continued growth and profitability and to serve the needs of depositors. QNB's shareholders' equity at December 31, 2023 was $90,824,000, or 5.32% of total assets, compared with shareholders' equity of $70,958,000, or 4.25% of total assets, at December 31, 2022. Shareholders' equity at December 31, 2023 included a negative $66,554,000 related to unrealized holding losses, net of taxes, on investment securities available for sale and a negative $1,383,000 related to unrealized holding losses on fair value hedges, compared to a negative $81,127,000 related to unrealized holding losses, net of taxes, on investment securities available for sale at December 31, 2022. Excluding these adjustments, shareholders' equity to total assets would have been 8.95% and 8.69% at December 31, 2023 and 2022, respectively.

Average shareholders' equity and average total assets were $157,126,000 and $1,748,029,000 for 2023, an increase of 7.6% and 2.2%, respectively, from 2022 average equity and average total assets of $146,088,000 and $1,710,449,000, respectively. The ratio of average total equity to total average assets was 8.99% for 2023, compared with 8.54% for 2022.

QNB is subject to restrictions on the payment of dividends to its shareholders pursuant to the Pennsylvania Business Corporation Law of 1988 as amended (the BCL). The BCL operates generally to preclude dividend payments, if the effect thereof would render QNB insolvent, as defined. As a practical matter, QNB's payment of dividends is contingent upon its ability to obtain funding in the form of dividends from the Bank. Under Pennsylvania banking law, the Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2023, the retained earnings of the Bank totaling $134,168,000 was available for dividends without prior Pennsylvania Department of Banking approval, subject to the regulatory capital requirements discussed below. Under the Federal Deposit Insurance Act, an insured depository institution may not pay a dividend if, after the payment of the dividend, the institution would be undercapitalized under the FDIC's prompt corrective action rules. In addition, federal banking agencies have the authority to restrict dividend payments under certain circumstances if such payments are not consistent with the capital needs and financial condition of the institution. It is the policy of the Federal Reserve that a bank holding company generally should not maintain its existing rate of cash dividends on common stock unless the net income available to common shareholders over the prior four quarters, net of dividends previously paid during that period, has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the company's capital needs, asset quality, and overall financial condition. QNB paid dividends to its shareholders of $1.48 per share, $1.44 per share, and $1.40 per share, in 2023, 2022, and 2021, respectively.

QNB is subject to various regulatory capital requirements as issued by Federal regulatory authorities. Regulatory capital is defined in terms of Tier 1 capital and Tier 2. Risk-based capital ratios are expressed as a percentage of risk-weighted assets. Risk-weighted assets are determined by assigning various weights to all assets and off-balance sheet arrangements, such as letters of credit and loan commitments, based on associated risk. QNB is subject to various regulatory capital requirements as issued by Federal regulatory authorities.

Minimum requirements for both the quantity and quality of capital held by banks are as follows: Common equity Tier 1 capital to risk-weighted assets of 4.5%; Tier 1 capital to risk-weighted assets of 6.0%; Total Capital to risk-weighted assets of 8.0%; and Tier 1 leverage ratio of 4.0%. The capital conservation buffer, comprised of common equity Tier 1 capital, was established above the regulatory minimum capital requirements at 2.5%.

The Federal Deposit Insurance Corporation Improvement Act of 1991 established five capital level designations for insured institutions ranging from "well capitalized" to "critically undercapitalized." At December 31, 2023 and 2022, management believes that the Company and the Bank met all capital adequacy requirements to which they are subject and have met the "well capitalized" criteria.

Capital Analysis

December 31,	2023	2022
Regulatory Capital		
Shareholders' equity	$ 90,824	$ 70,958
Net unrealized securities losses, net of tax	67,937	81,127
Deferred tax assets on net operating loss	—	—
Disallowed goodwill and other disallowed intangible assets	(8)	(8)
Common equity tier I capital	158,753	152,077
Tier 1 capital	158,753	152,077
Allowable portion: Allowance for credit losses on loans and unfunded commitments	8,958	10,648
Total regulatory capital	$ 167,711	$ 162,725
Risk-weighted assets	$ 1,281,418	$ 1,233,758
Quarterly average assets for leverage capital purposes	$ 1,779,619	$ 1,737,671

Capital Ratios

December 31,	2023	2022
Common equity tier I capital / risk-weighted assets	12.39%	12.33%
Tier 1 capital / risk-weighted assets	12.39%	12.33%
Total regulatory capital / risk-weighted assets	13.09%	13.19%
Tier 1 capital / average assets (leverage ratio)	8.92%	8.75%

Material Cash Requirements from Known Contractual and Other Obligations

QNB has various financial obligations, including contractual obligations and commitments, which may require future cash payments.

The following table presents, as of December 31, 2023, significant contractual obligations to third parties by payment date and the amounts and expected maturities of significant commitments. Further discussion of the nature of each obligation can be found in the Notes to Consolidated Financial Statements. The Company's reserve for credit losses on unfunded commitments totaled $106,000 at December 31, 2023 compared to $117,000 at December 31, 2022.

December 31, 2023	One year or less	After one year through three years	After three years through five years	After five years	Total
Time deposits	$ 258,244	$ 46,784	$ 9,953	$ —	$ 314,981
Short-term borrowings	94,094	—	—	—	94,094
Long-term debt	—	20,000	—	—	20,000
Operating leases	554	916	609	2,180	4,259
Commitments to extend credit [(a)]	260,930	39,515	23,585	54,924	378,954
Standby letters of credit	16,417	2,403	—	—	18,820
Total	$ 630,239	$ 109,618	$ 34,147	$ 57,104	$ 831,108

(a) Includes available amounts for overdraft protection program in one year or less

Commitments to extend credit, including loan commitments, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, as these commitments often expire without being drawn upon. The Company does not currently have any commitments for significant capital expenditures or other purchase obligations.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to Note 1 of the Notes to Consolidated Financial Statements for discussion of recently issued accounting standards.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Disclosure of the Company's significant accounting policies is included in Note 1 to Consolidated Financial Statements. Additional information is contained in Management's Discussion and Analysis and the Notes to Consolidated Financial Statements for the most sensitive of these issues. The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements of QNB, which are prepared in accordance with US GAAP and predominant practices within the banking industry. The preparation of these Consolidated Financial Statements requires QNB to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. QNB evaluates estimates on an on-going basis, including those related to the determination of the allowance for loan losses, the determination of the valuation of other real estate owned, other-than-temporary impairments on investment securities, the determination of impairment of restricted bank stock, the valuation of deferred tax assets, stock-based compensation and income taxes. QNB bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Impairment on Investment Securities

Securities are evaluated periodically to determine whether a decline in their value is impairment. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is impairment. The term "impairment" is not intended to indicate that the decline is permanent but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

The Company follows the accounting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 326-10 as it relates to the recognition and presentation of impairment. This accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an impairment recorded in other comprehensive income for the non-credit portion of a previous impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. For equity securities without a readily determinable market value, once a decline in value is determined to be impairment, the value of the equity security is reduced to fair value and a corresponding charge to earnings is recognized.

Allowance for Credit Losses on Loans

The Company maintains an allowance for credit losses on loans, which is intended to absorb probable known and inherent losses in the outstanding loan portfolio. The allowance is reduced by actual credit losses and is increased or decreased by the provision (reversal) for loan losses and increased by recoveries of previous losses. The allowance for loan losses is calculated with the objective of maintaining a level believed by management to be sufficient to absorb probable known and inherent losses in the outstanding loan portfolio; the provisions or reversals for credit losses are charged to earnings.

The allowance for credit losses is measured on a pool basis when similar risk characteristics exist; these pools are identified in the first table below. The Company establishes a general valuation allowance for performing loans, including non-accrual student loans. QNB calculates each segment's historical loss rate using a full economic cycle of loan balance and historical loss experienced. The level of the allowance is determined by assigning specific reserves to all non-accrual loans, except the homogeneous pool of student loans which are measured in the general reserve. An allowance on these non-accrual loans is established when the discounted cash flows (or collateral value) of the loan is lower than the carrying value of that loan. The portion of the allowance that is allocated to non-accrual loans is determined by estimating the inherent loss on each credit after giving consideration to the value of underlying collateral. The general component is adjusted for qualitative factors. These qualitative risk factors include:

1. Concentrations: The Company adjusts historic loss for concentrations in the current portfolio that were not present during

the down-turn of economic cycle.

2. Economic Forecast: The Company utilizes an entire economic cycle of data to determine loss rates by segment. This approach reflects an inherent reversion to the historical losses during life of the loans within the pool considering prepayments and loss experience throughout an entire economic cycle. However, the Company feels it is prudent to maintain a floor in its model to assure that there is enough reserve on hand to sustain any losses upon an upcoming recession.

Management emphasizes loan quality and close monitoring of potential problem credits. Credit risk identification and review processes are utilized to assess and monitor the degree of risk in the loan portfolio. QNB's lending and credit administration staff are charged with reviewing the loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect the ability to repay debt or the value of pledged collateral. A loan classification and review system exists that identifies those loans with a higher-than-normal risk of collection. Each commercial loan is assigned a grade based upon an assessment of the borrower's financial capacity to service the debt and the presence and value of collateral for the loan. An independent loan review group tests risk assessments and evaluates the adequacy of the allowance for loan losses. Management meets monthly to review the credit quality of the loan portfolio and quarterly to review the allowance for loan losses.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review QNB's allowance for loan losses. Such agencies may require QNB to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Management believes that it uses the best information available to make determinations about the adequacy of the allowance and that it has established its existing allowance for loan losses in accordance with U.S. GAAP. If circumstances differ substantially from the assumptions used in making determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be affected. Because future events affecting borrowers and collateral cannot be predicted with certainty, increases to the allowance may be necessary should the quality of any loans deteriorate as a result of the factors discussed above.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses and changes in the valuation allowance are included in net expenses from foreclosed assets.

Stock-Based Compensation

QNB sponsored stock-based compensation plans, administered by a Board committee, under which both qualified and nonqualified stock options may be granted periodically to certain employees. QNB accounts for all awards granted under stock-based compensation plans in accordance with ASC 718, *Compensation – Stock Compensation*. Compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. QNB estimates the fair value of stock options on the date of the grant using the Black-Scholes option pricing model. The model requires the use of numerous assumptions, many of which are highly subjective in nature.

Income Taxes

QNB accounts for income taxes under the asset/liability method in accordance with income tax accounting guidance, ASC 740 – *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available. Because the judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond QNB's control, it is at least reasonably possible that management's judgment about the need for a valuation allowance for deferred taxes could change in the near term.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk reflects the risk of economic loss resulting from changes in interest rates and market prices. QNB's primary market risk exposure is interest rate risk and liquidity risk. QNB's liquidity position was discussed in a prior section.

QNB's largest source of revenue is net interest income, which is subject to changes in market interest rates. Interest rate risk management seeks to minimize the effect of interest rate changes on net interest margins and interest rate spreads and to provide growth in net interest income through periods of changing interest rates. QNB's Asset/Liability and Investment Management Committee ("ALCO") is responsible for managing interest rate risk and for evaluating the impact of changing interest rate conditions on net interest income.

QNB uses computer simulation analysis to measure the sensitivity of projected earnings to changes in interest rates. Simulation considers current balance sheet volumes and the scheduled repricing dates, instrument level optionality, and maturities of assets and liabilities. It incorporates assumptions for growth, changes in the mix of assets and liabilities, prepayments, and average rates earned and paid. Based on this information, management uses the model to project net interest income under multiple interest rate scenarios.

A balance sheet is considered asset sensitive when its assets (investment securities and loans) reprice faster than its interest-bearing liabilities (deposits and borrowings). An asset sensitive balance sheet will produce relatively higher net interest income when interest rates rise and less net interest income when they decline. A balance sheet is considered liability sensitive when its liabilities (deposits and borrowings) reprice faster or to a greater extent than its earning assets (loans and securities). A liability sensitive balance sheet will produce relatively less net interest income when interest rates rise and more net interest income when they decline. Based on our simulation analysis, management believes QNB's interest sensitivity position at December 31, 2023 is asset sensitive. Management expects market interest rates to decrease in the next 12 months, based on the economic environment and policy of the Federal Reserve.

The following table shows the estimated impact of changes in interest rates on net interest income as of December 31, 2023 and 2022 assuming instantaneous rate shocks, and consistent levels of assets and liabilities. Net interest income for the subsequent twelve months is projected to increase when interest rates are higher than current rates.

Estimated change in net interest income

Change in interest rates (basis points)	December 31, 2023	2022
+300	7.1%	-14.3%
+200	4.8%	-9.4%
+100	2.6%	-4.7%
-100	-3.4%	4.1%
-200	-7.8%	6.1%
-300	-13.7%	6.6%

Computations of future effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied upon as indicative of actual results. Assets and liabilities may react differently than projected to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag changes in market interest rates. Interest rate shifts may not be parallel.

Changes in interest rates can cause substantial changes in the amount of prepayments of loans and mortgage-backed securities, which may in turn affect QNB's interest rate sensitivity position. Additionally, credit risk may rise if an interest rate increase adversely affects the ability of borrowers to service their debt. At December 31, 2023, QNB had two derivatives designated as fair value hedging instruments, these interest rate swaps had a notional value of $300,000,000.

QNB is not subject to foreign currency exchange or commodity price risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited financial statements are set forth in this Annual Report on Form 10-K on the following pages:

Management's Report on Internal Control over Financial Reporting

March 14, 2024

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, in relation to criteria for effective internal control over financial reporting as described in "Internal Control Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management concludes that, as of December 31, 2023, the Company's system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework (2013)."

/s/ David W. Freeman	/s/ Jeffrey Lehocky
David W. Freeman	Jeffrey Lehocky
Chief Executive Officer	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of QNB Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of QNB Corp. and subsidiary (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as 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 each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

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.

Emphasis of Matter – 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.

Critical Audit Matter

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

Allowance for Credit Losses - Qualitative Factor Adjustments

Critical Audit Matter Description

As disclosed in Notes 1 and 5 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 loan losses is measured on a pool basis when similar risk characteristics exist. The Company establishes a general valuation allowance for performing loans, determined through historical loss rates and qualitative factor adjustments for conditions not reflected in historical losses.

The determination of qualitative factor adjustments involves a high degree of management judgement. Management has identified risk factors related to concentrations of credit and economic data as areas where the historical data requires adjustment to reflect current and expected conditions. Changes to these factors could have a material impact on the Company's financial results.

The allowance for credit losses is an accounting estimate with significant measurement uncertainty and involves the application of significant judgement by management. Therefore, a high degree of auditor judgement and significant auditor effort was required in evaluating the audit evidence obtained related to the qualitative factor adjustments used by management in the calculation.

How the Critical Audit Matter was Addressed in the Audit

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

Testing the design and operating effectiveness of internal controls related to the evaluation of the assumptions and inputs used to evaluate the qualitative factors. This testing included controls addressing management’s review of the completeness and accuracy of underlying data inputs used as the basis for determination of qualitative factor adjustments.

Substantively testing the appropriateness of the judgements and assumptions used in management's estimation process for developing the qualitative factor adjustments, including:

- Assessing whether all relevant factors have been considered that affect the collectability of the loan portfolio;
- Evaluation of the relevance and reliability of underlying internal and external data inputs used as a basis for the qualitative loss factor adjustments and corroboration of these inputs by comparison to the Company's historical loan portfolio performance, and third-party macroeconomic data;
- Recalculation of the allowance for credit loss and allocation of qualitative loss factors to the appropriate loan segments

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2007.

Baker Tilly US, LLP
Iselin, New Jersey

March 15, 2024

CONSOLIDATED BALANCE SHEETS

December 31,	(in thousands, except share data) 2023	2022
Assets		
Cash and due from banks	$ 11,447	$ 14,657
Interest-bearing deposits in banks	51,210	1,242
Total cash and cash equivalents	62,657	15,899
Investment securities:		
Available-for-sale (amortized cost $576,178 and $649,217)	490,182	546,525
Equity securities (cost of $5,695 and $12,091)	5,910	12,056
Restricted investment in stocks	2,730	5,193
Loans held-for-sale	549	—
Loans receivable	1,093,533	1,039,385
Allowance for loan losses	(8,852)	(10,531)
Net loans	1,084,681	1,028,854
Bank-owned life insurance	11,946	11,625
Premises and equipment, net	14,952	15,463
Accrued interest receivable	6,101	5,038
Net deferred tax assets	19,290	23,077
Other assets	7,320	4,767
Total assets	$ 1,706,318	$ 1,668,497
Liabilities		
Deposits		
Demand, non-interest bearing	$ 185,098	$ 231,849
Interest-bearing demand	462,712	452,927
Money market	222,843	127,043
Savings	303,079	431,101
Time less than $100	149,851	91,329
Time $100 through $250	121,793	59,650
Time greater than $250	43,337	24,470
Total deposits	1,488,713	1,418,369
Short-term borrowings	94,094	161,327
Long-term debt	20,000	10,000
Accrued interest payable	5,294	467
Other liabilities	7,393	7,376
Total liabilities	1,615,494	1,597,539
Shareholders' Equity		
Common stock, par value $0.625 per share; authorized 10,000,000 shares; 3,861,940 shares and 3,796,948 shares issued; 3,653,254 and 3,588,262 shares outstanding	2,414	2,373
Surplus	26,439	24,798
Retained earnings	133,945	128,951
Accumulated other comprehensive loss, net of tax	(67,937)	(81,127)
Treasury stock, at cost; 208,686 and 208,686 shares	(4,037)	(4,037)
Total shareholders' equity	90,824	70,958
Total liabilities and shareholders' equity	$ 1,706,318	$ 1,668,497

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	(in thousands, except per share data)		
Year ended December 31,	**2023**	**2022**	**2021**
Interest income			
Interest and fees on loans	$ 53,884	$ 40,922	$ 38,330
Interest and dividends on investment securities (AFS & Equity):			
Taxable	11,794	9,396	6,551
Tax-exempt	1,460	1,965	1,796
Interest on interest-bearing balances and other interest income	1,944	138	93
Total interest income	69,082	52,421	46,770
Interest expense			
Interest on deposits			
Interest-bearing demand	7,767	2,691	1,035
Money market	4,823	617	381
Savings	4,187	2,175	1,178
Time less than $100	3,194	723	921
Time $100 through $250	3,859	489	454
Time greater than $250	1,171	209	257
Interest on short-term borrowings	3,273	861	258
Interest on long-term debt	653	159	159
Total interest expense	28,927	7,924	4,643
Net interest income	40,155	44,497	42,127
(Reversal of) provision for credit losses	(844)	(850)	458
Net interest income after provision for loan losses	40,999	45,347	41,669
Non-interest income			
Net unrealized gain (loss) on investment equity securities	250	(1,026)	926
Net (loss) gain on sale of investment securities	(2,077)	266	1,806
Net (loss) gain on investment securities	(1,827)	(760)	2,732
Fees for services to customers	1,651	1,614	1,326
ATM and debit card	2,735	2,719	2,682
Retail brokerage and advisory	862	788	786
Bank-owned life insurance	320	361	497
Merchant	394	394	451
Net gain on sale of loans	16	6	595
Other	686	609	712
Total non-interest income	4,837	5,731	9,781
Non-interest expense			
Salaries and employee benefits	19,026	17,306	17,453
Net occupancy	2,223	2,195	2,228
Furniture and equipment	3,602	2,917	2,787
Marketing	964	870	922
Third party services	2,422	2,474	2,160
Telephone, postage and supplies	571	748	715
State taxes	367	1,004	1,013
FDIC insurance premiums	1,058	768	793
Other	3,876	3,210	2,926
Total non-interest expense	34,109	31,492	30,997
Income before income taxes	11,727	19,586	20,453
Provision for income taxes	2,244	3,665	3,961
Net income	$ 9,483	$ 15,921	$ 16,492
Earnings per share - basic	$ 2.63	$ 4.47	$ 4.64
Earnings per share - diluted	$ 2.63	$ 4.47	$ 4.64
Cash dividends per share	$ 1.48	$ 1.44	$ 1.40

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(in thousands)								
Year ended December 31,	**2023**			**2022**			**2021**		
	Before tax amount	**Tax expense (benefit)**	**Net of tax amount**	**Before tax amount**	**Tax expense (benefit)**	**Net of tax amount**	**Before tax amount**	**Tax expense (benefit)**	**Net of tax amount**
Net income	$ 11,727	$ 2,244	$ 9,483	$ 19,586	$ 3,665	$ 15,921	$ 20,453	$ 3,961	$ 16,492
Other comprehensive income/(loss):									
Net unrealized holding gain/(loss) on available-for-sale securities:									
Unrealized holding gain/(loss) arising during the period	16,388	3,441	12,947	(98,097)	(20,600)	(77,497)	(11,867)	(2,492)	(9,375)
Reclassification adjustment for loss/(gain) included in net income	2,058	432	1,626	139	29	110	(18)	(4)	(14)
Net unrealized holding loss on fair value hedge:									
Unrealized holding loss arising during the period	(1,693)	(355)	(1,338)	—	—	—	—	—	—
Reclassification adjustment for fair value remeasurements included in net income	(57)	(12)	(45)	—	—	—	—	—	—
Other comprehensive income/(loss):	16,696	3,506	13,190	(97,958)	(20,571)	(77,387)	(11,885)	(2,496)	(9,389)
Total comprehensive income (loss)	$ 28,423	$ 5,750	$ 22,673	$ (78,372)	$ (16,906)	$ (61,466)	$ 8,568	$ 1,465	$ 7,103

The accompanying notes are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2021	3,556,533	$ 2,328	$ 22,430	$ 106,644	$ 5,649	$ (2,606)	$ 134,445
Net income		—	—	16,492	—	—	16,492
Other comprehensive loss, net of tax		—	—	—	(9,389)	—	(9,389)
Cash dividends declared ($1.40 per share)		—	—	(4,973)	—	—	(4,973)
Treasury stock purchase	(38,017)	—	—	—	—	(1,356)	(1,356)
Stock issued in connection with dividend reinvestment and stock purchase plan	23,690	15	826	—	—	—	841
Stock issued for employee stock purchase plan	4,906	3	142	—	—	—	145
Stock issued for options exercised	6,517	4	183	—	—	—	187
Stock-based compensation expense		—	102	—	—	—	102
Balance, December 31, 2021	3,553,629	$ 2,350	$ 23,683	$ 118,163	$ (3,740)	$ (3,962)	$ 136,494
Net income		—	—	15,921	—	—	15,921
Other comprehensive loss, net of tax		—	—	—	(77,387)	—	(77,387)
Cash dividends declared ($1.44 per share)		—	—	(5,133)	—	—	(5,133)
Treasury stock purchase	(2,000)	—	—	—	—	(75)	(75)
Stock issued in connection with dividend reinvestment and stock purchase plan	31,531	20	897	—	—	—	917
Stock issued for employee stock purchase plan	5,102	3	133	—	—	—	136
Stock-based compensation expense		—	85	—	—	—	85
Balance, December 31, 2022	3,588,262	$ 2,373	$ 24,798	$ 128,951	$ (81,127)	$ (4,037)	$ 70,958
Cumulative change in accounting principle			—	857	—	—	857
Balance at Janaury 2, 2023 (as adjusted for change in accounting principle)		2,373	24,798	129,808	(81,127)	(4,037)	71,815
Net income		—	—	9,483	—	—	9,483
Other comprehensive gain, net of tax		—	—	—	13,190	—	13,190
Cash dividends declared ($1.48 per share)		—	—	(5,346)	—	—	(5,346)
Stock issued in connection with dividend reinvestment and stock purchase plan	56,622	36	1,327	—	—	—	1,363
Stock issued for employee stock purchase plan	6,630	4	130	—	—	—	134
Stock issued for non-employee director compensation	1,740	1	(1)	—	—	—	—
Stock-based compensation expense		—	185	—	—	—	185
Balance, December 31, 2023	3,653,254	$ 2,414	$ 26,439	$ 133,945	$ (67,937)	$ (4,037)	$ 90,824

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(in thousands)		
Year ended December 31,	**2023**	**2022**	**2021**
Operating Activities			
Net income	$ 9,483	$ 15,921	$ 16,492
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,714	1,724	1,828
(Reversal of provision) provision for credit losses	(844)	(850)	458
Net loss (gain) on sales of investment debt and equity securities	2,077	(266)	(1,806)
Net unrealized (gain) loss on equity securities	(250)	1,026	(926)
Net gain on sale of loans	(16)	(6)	(595)
Proceeds from sales of residential mortgages held-for-sale	989	304	16,773
Origination of residential mortgages held-for-sale	(1,522)	(298)	(4,892)
Incrrease on bank-owned life insurance	(320)	(361)	(497)
Stock-based compensation expense	185	85	102
Deferred income tax (benefit) provision	52	(57)	113
Net decrease in income taxes payable	(2,094)	(534)	(78)
Net (increase) decrease in accrued interest receivable	(1,063)	(934)	721
Fair value remeasurements on interest rate swap	(57)	—	—
Amortization of mortgage servicing rights and change in valuation allowance	61	71	118
Net amortization of premiums and discounts on investment securities	1,665	2,222	3,152
Net increase (decrease) in accrued interest payable	4,827	256	(139)
Operating lease payments	(626)	(620)	(631)
Increase in other assets	(91)	(298)	(507)
Increase (decrease) in other liabilities	287	(550)	703
Net cash provided by operating activities	14,457	16,835	30,389
Investing Activities			
Proceeds from payments, maturities and calls of investment debt securities available-for-sale	50,042	72,965	113,911
Proceeds from the sale of investment securities available-for-sale	33,213	7,551	282
Purchases of investment securities available-for-sale	(14,381)	(35,001)	(385,926)
Proceeds from the sale of equity securities	8,556	1,594	7,768
Purchases of equity securities	(2,179)	(1,860)	(4,615)
Proceeds from redemption of investment in restricted bank stock	7,629	5,155	573
Purchase of restricted bank stock	(5,166)	(9,019)	(861)
Net increase in loans	(53,910)	(112,718)	(11,244)
Net purchases of premises and equipment	(765)	(552)	(3,175)
Redemption of Bank Owned Life Insurance investment	—	239	797
Net cash provided (used) in investing activities	23,039	(71,646)	(282,490)
Financing Activities			
Net (decrease) increase in non-interest bearing deposits	(46,751)	(11,157)	38,422
Net increase (decrease) in interest-bearing deposits	117,095	(20,219)	183,256
Net (decrease) increase in short-term borrowings	(67,233)	92,851	9,638
Issuance of long-term debt	20,000	—	—
Repayment of long-term debt	(10,000)	—	—
Treasury stock purchase	—	(75)	(1,356)
Cash dividends paid, net of reinvestment	(4,671)	(4,498)	(4,375)
Proceeds from issuance of common stock	822	418	575
Net cash provided by financing activities	9,262	57,320	226,160
Increase (decrease) in cash and cash equivalents	46,758	2,509	(25,941)
Cash and cash equivalents at beginning of year	15,899	13,390	39,331
Cash and cash equivalents at end of period	$ 62,657	$ 15,899	$ 13,390
Supplemental Cash Flow Disclosures			
Interest paid	$ 24,100	$ 7,668	$ 4,782
Income taxes paid, net of refunds received	4,286	4,257	3,925
Non-cash transactions:			
Cumulative change in accounting principal	857	—	—
Trade-date settlements for matured securities	500	—	—
Right-of-use assets obtained in exchange for new operating lease liabilities	369	43	698

The accompanying notes are an integral part of the consolidated financial statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Business

QNB Corp. (the "Company"), through its wholly-owned subsidiary, QNB Bank (the "Bank"), has been serving the residents and businesses of Bucks, Lehigh, and Montgomery counties in Pennsylvania since 1877. The Bank is a locally managed community bank that provides a full range of commercial, retail banking and retail brokerage services. The Bank encounters vigorous competition for market share in the communities it serves from bank holding companies, other community banks, thrift institutions, credit unions and other non-bank financial organizations such as mutual fund companies, insurance companies and brokerage companies. The Company manages its business as a single operating segment.

The Bank is a Pennsylvania chartered commercial bank. The Company and the Bank are subject to regulations of certain state and Federal agencies. These regulatory agencies periodically examine the Company and the Bank for adherence to laws and regulations.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The consolidated entity is referred to herein as "QNB". All significant inter-company accounts and transactions have been eliminated in the Consolidated Financial Statements.

Tabular information, other than share and per share data, is presented in thousands of dollars. Certain prior period amounts have been reclassified to conform with the current year's presentation.

Use of Estimates

These statements are prepared in accordance with Accounting Principles Generally Accepted in the United States of America ("US GAAP") and predominant practices within the banking industry. The preparation of these Consolidated Financial Statements requires QNB to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. QNB evaluates estimates on an on-going basis. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of the valuation of other real estate owned, the fair value of financial instruments, other-than-temporary impairment of investment securities, the determination of impairment of restricted bank stock and the valuation of deferred tax assets and income taxes. QNB bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Significant Group Concentrations of Credit Risk

Most of the QNB's activities are with customers located within Bucks, Montgomery and Lehigh Counties in southeastern Pennsylvania. Note 4 discusses the types of investment securities in which the QNB invests. Note 5 discusses the types of lending in which QNB engages. QNB does not have any significant concentrations to any one industry or customer. Although QNB has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash items in process of collection, amounts due from banks, interest-bearing deposits in the Federal Reserve Bank and other banks and Federal funds sold. QNB maintains a portion of its interest-bearing deposits at various commercial financial institutions. At times, the balances exceed the FDIC insured limits; QNB has not experienced a loss due to the balances exceeding FDIC limits.

Trading Securities

QNB may engage in trading activities for its own account. Interest and dividends are included in interest income. Debt securities that are bought and held principally for the purpose of selling in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

Investment Securities

Investment debt securities that QNB has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Interest is included in interest income. Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale debt securities and reported at fair value, with unrealized gains and losses, net of tax, excluded from earnings and reported in other comprehensive income or loss, a separate component of shareholders' equity. Management determines the appropriate classification of securities at the time of purchase.

Available-for-sale debt securities include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in credit ratings, changes in market interest rates and related changes in the securities' prepayment risk or to meet liquidity needs.

Premiums and discounts on debt securities are recognized in interest income using a constant yield method. Gains and losses on sales of available-for-sale securities are recorded on the trade date and are computed on the specific identification method and included in non-interest income.

Equity investments with readily determinable fair values are measured at fair value. The changes in fair value are recognized in net income. Dividends are included in interest income.

Impairment of Investment Securities

Securities are evaluated periodically to determine whether a decline in their value is impairment. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is impairment. The term impairment is not intended to indicate that the decline is permanent, it indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. For equity securities that do not have readily-determinable fair values, once a decline in value is determined to be impairment, the value of the equity security is reduced and a corresponding charge to earnings is recognized.

QNB follows the accounting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 326-10 as it relates to the recognition and presentation of impairment. This accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an impairment recorded in other comprehensive income for the non-credit portion of a previous impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Derivatives and Hedges

The fair value hedges are accounted for under Derivatives and Hedging (Topic 815). QNB adopted ASU 2022-01 Derivatives and Hedging (Topic 815): Fair Value Hedging--Portfolio Layer Method ("ASC 2022-01") as of January 1, 2023. ASC 2022-01 allows for the use of an amortizing notional swap when entering a portfolio layer method hedge. This guidance allows the interest rate swap to be considered a hedge of a single layer of portfolio. QNB's risk management objective with respect to derivative financial instruments is to hedge the risk of changes in the fair value of certain fixed-rate investment securities, included in a closed portfolio, for changes in the Secured Overnight Financing Rate ("SOFR"). The effective and ineffective portions of changes in the fair value of each derivative financial instrument is reported in accumulated other comprehensive (loss) income, net of tax, and are reclassified to interest income as interest payments are made or received on the hedged portfolios. QNB assesses the effectiveness of each hedging relationship using a regression analysis of prior periodic changes in fair value of both the hedge and the hedged item. In the assessment of hedge effectiveness, QNB considers the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that could require the counterparty to make payments (counterparty default risk). If the likelihood that the counterparty will not default ceases to be probable, the hedge may no longer be highly effective and hedge ineffectiveness due to counterparty payment risk will be assessed.

Restricted Investment in Stock

Restricted stock is comprised of Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $1,718,000, the Atlantic Community Bankers Bank in the amount of $12,000, VISA Class B stock with a carrying cost of $0, and Senior Housing Crime Prevention Investment Corporation ("SHCPFIC") preferred stock of $1,000,000 at December 31, 2023. Federal law requires a member institution of the FHLB to hold stock of its district bank according to a predetermined formula. These restricted securities are carried at cost. The Bank owns 6,502 shares of Visa Class B stock, which was necessary to participate in Visa services in support of the Bank's credit card, debit card, and related payment programs (permissible activities under banking regulations) as a member institution. Following the resolution of Visa's covered litigation, shares of Visa's Class B stock will be converted to Visa Class A shares using a conversion factor (1.5875 as of September 28, 2023), which is periodically adjusted to reflect VISA's ongoing litigation costs. There is a very limited market for this stock, as only current owners of Class B shares are permitted to transact in Class B. Due to the lack of orderly trades and public information of such trades, Visa Class B does not have a readily determinable fair value. The Bank owns 100 shares of preferred stock of SHCPFIC. These shares are not transferable without the consent of SHCPFIC and does not have a readily determinable fair value. These restricted investments are carried at cost and evaluated for impairment periodically. As of December 31, 2023, there was no impairment associated with these securities.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination and commitment fees and related direct costs are deferred and amortized to income over the term of the respective loan and loan commitment period as a yield adjustment.

Loans held-for-sale consist of residential mortgage loans and are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance charged to income. Gains and losses on residential mortgages held-for-sale are included in non-interest income.

Non-Performing Assets

Non-performing assets are comprised of accruing loans past due 90 days or more, non-accrual loans and investment securities, modified loans, other real estate owned and repossessed assets. Non-accrual loans and investment securities are those on which the accrual of interest has ceased. Loans are placed on non-accrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and collateral is insufficient to cover principal and interest. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. Subsequent cash receipts are applied either to the outstanding principal or recorded as interest income, depending on management's assessment of the ultimate collectability of principal and interest. Loans are returned to an accrual status when the borrower's ability to make periodic principal and interest payments has returned to normal (i.e. brought current with respect to principal or interest or restructured) and the paying capacity of the borrower and/or the underlying collateral is deemed sufficient to cover principal and interest.

Since the implementation of ASU 326 on January 1, 2023, QNB measures loan modifications to borrowers in financial distress as a troubled debt modification ("TDM"). A TDM could involve principal forgiveness, term extension, an other-than-insignificant payment delay, interest rate reduction or exchanging or paying off existing debt for new debt with QNB. Any amount forgiven would be charged to the allowance for credit losses. There were no TDMs in 2023.

The Company had extended, restructured, or otherwise modified the terms of loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers that had been experiencing financial difficulties. A loan was considered to be a troubled debt restructuring ("TDR") loan when QNB granted a concession to the borrower because of the borrower's financial condition that it would not have otherwise considered. Such concessions included a reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates to less than the current market rate for new obligations with similar risk. Loans that had been classified as TDRs are considered non-performing.

Accounting for impairment in the performance of a loan is required when it is probable that all amounts, including both principal and interest, will not be collected in accordance with the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, at the loan's observable market price or the fair value of the collateral if the loans are collateral dependent. Impairment criteria are applied to the loan portfolio exclusive of smaller homogeneous loans such as residential mortgage and consumer loans which are evaluated collectively for impairment.

Loans are fully charged-off or charged down to net realizable value (fair value of collateral less estimated costs to sell) when deemed uncollectible due to bankruptcy or other factors, or when they reach a defined number of days past due based on loan product, industry practice, terms and other factors.

Loans are considered past due when contractually required principal or interest payments have not been made on the due dates.

Allowance for Credit Losses on Loans

QNB maintains an allowance for credit losses on loans, which is intended to absorb probable known and inherent losses in the outstanding loan portfolio. The allowance is reduced by actual credit losses and is increased or decreased by the provision (reversal) for loan losses and increased by recoveries of previous losses. The provisions or reversals for credit losses are charged to earnings to bring the total allowance for loan losses to a level considered necessary by management.

The allowance for credit losses is measured on a pool basis when similar risk characteristics exist; these pools are identified in the first table below. QNB establishes a general valuation allowance for performing loans, including non-accrual student loans. QNB calculates each segment's historical loss rate using a full economic cycle of loan balance and historical loss experienced. The level of the allowance is determined by assigning specific reserves to all non-accrual loans, except the homogeneous pool of student loans which are measured in the general reserve. An allowance on these non-accrual loans is established when the discounted cash flows (or collateral value) of the loan is lower than the carrying value of that loan. The portion of the allowance that is allocated to non-accrual loans is determined by estimating the inherent loss on each credit after giving consideration to the value of underlying collateral. The general component is adjusted for qualitative factors. These qualitative risk factors include:

1. Concentrations: QNB adjusts historic loss for concentrations in the current portfolio that were not present during the down-turn of economic cycle.
2. Economic Forecast: The QNB utilizes an entire economic cycle of data to determine loss rates by segment. This approach reflects an inherent reversion to the historical losses during life of the loans within the pool considering prepayments and loss experience throughout an entire economic cycle. However, QNB feels it is prudent to maintain a floor in its model to assure that there is enough reserve on hand to sustain any losses upon an upcoming recession.

Management emphasizes loan quality and close monitoring of potential problem credits. Credit risk identification and review processes are utilized in order to assess and monitor the degree of risk in the loan portfolio. QNB’s lending and credit administration staff are charged with reviewing the loan portfolio and identifying changes in the economy or in a borrower’s circumstances which may affect the ability to repay debt or the value of pledged collateral. A loan classification and review system exists that identifies those loans with a higher than normal risk of collectability. Each commercial loan is assigned a grade based upon an assessment of the borrower’s financial capacity to service the debt and the presence and value of collateral for the loan. An independent firm reviews risk assessment and evaluates the adequacy of the allowance for loan losses. Management meets monthly to review the credit quality of the loan portfolio and quarterly to review the allowance for loan losses.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review QNB's allowance for credit losses on loans. Such agencies may require QNB to recognize additions to the allowance based on their judgments using information available to them at the time of their examination.

Management believes that it uses the best information available to make determinations about the adequacy of the allowance and that it has established its existing allowance for credit losses on loans in accordance with U.S. GAAP. If circumstances differ substantially from the current calculation, future adjustments to the allowance for credit losses on loans may be necessary and results of operations could be affected. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary should the quality of any loans deteriorate.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from QNB, (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) QNB does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing Assets

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. When mortgage loans are sold, a portion of the cost of originating the loan is allocated to the servicing rights based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company subsequently measures servicing rights using the amortization method where servicing rights are amortized in proportion to and over the period of estimated net servicing income. On a quarterly basis, an independent third party determines the fair value of QNB’s servicing assets. These assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranches. If QNB later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the valuation allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into other non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as other non-interest income when earned and netted against the amortization of mortgage servicing rights.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance of foreclosed assets are included in other non-interest expense. At both December 31, 2023 and 2022 QNB had no foreclosed assets.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated principally on an accelerated or straight-line basis over the estimated useful lives of the assets, or the shorter of the estimated useful life or lease term for leasehold improvements, as follows:

Buildings	10 to 39 years
Furniture and equipment	3 to 15 years
Leasehold improvements	5 to 30 years

Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses upon disposition are reflected in earnings as realized.

The “Premises and equipment, net” category on the Consolidated Balance Sheets also includes the right-of-use assets associated with operating leases. The discount rates used in determining the initial value of the right of use assets are based on the FHLB Amortizing Fixed Loan Rate for the term of each lease. QNB typically enters into lease agreements with an initial term of 5 to 10 years and subsequent additional optional terms in increments of 5 years. The lease agreements also contain termination options. None of the leases contain purchase options and none transfer the ownership of the leased asset. QNB has renewed one operating lease during 2023. Operating lease liabilities are included with “Other liabilities” on the Consolidated Balance Sheets. All operating lease costs are included in non-interest expense within “Net occupancy” on the Consolidated Statements of Income.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a select group of employees. The Bank is the owner and beneficiary of the policies. Income from the increase in cash surrender value of the policies as well as the receipt of death benefits is included in non-interest income on the Consolidated Statements of Income. The BOLI policies are an asset that can be liquidated, if necessary, with associated tax costs. However, the Bank intends to hold these policies and, accordingly, has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

The Bank follows the accounting guidance for postretirement benefit aspects of endorsement split-dollar life insurance arrangements which applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain bank-owned life insurance policies. It requires an employer to recognize a liability and related compensation costs for future benefits that extend to postretirement periods. The expense recorded during 2023, 2022 and 2021 was approximately $56,000, $118,000 and $87,000, respectively, and is included in non-interest expense under "Salaries and employee benefits" expense.

Stock-Based Compensation

At December 31, 2023, QNB sponsored 2015 Stock Incentive Plan (the "2015 Plan"), administered by a Board committee, under which both qualified and non-qualified stock options may be granted periodically to certain employees. QNB accounts for all awards granted under stock-based compensation plans in accordance with FASB ASC 718, *Compensation - Stock Compensation*. Compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period.

Stock-based compensation expense related to the 2015 Plan was approximately $90,000, $70,000 and $71,000 for the years ended December 31, 2023, 2022 and 2021, respectively. There were $3,000, $2,000 and $4,000 in tax benefits recognized related to the nonqualified compensation and disqualifying dispositions for the years ended December 31, 2023, 2022 and 2021, respectively.

The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. QNB estimated the fair value of stock options on the date of the grant using the Black-Scholes option pricing model. The model requires the use of numerous assumptions, many of which are highly subjective in nature. The following assumptions were used in the option pricing model in determining the fair value of options granted during the periods presented.

Year ended December 31,	2023	2022	2021
Risk free interest rate	3.64%	1.25%	0.20%
Dividend yield	4.80%	3.64%	4.17%
Volatility	20.36%	22.68%	21.14%
Expected life (years)	8.35	4.05	4.03

The weighted average fair value per share of options granted during 2023, 2022 and 2021 was $4.11, $5.20 and $3.08, respectively. The risk-free interest rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued. Historical information was the primary basis for the selection of the expected dividend yield, expected volatility and expected lives of the options.

Income Taxes

QNB accounts for income taxes under the asset/liability method in accordance with income tax accounting guidance, ASC 740 - *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available. Because the judgment about the level of future taxable income is dependent to a great extent on matters that may, at least in part, be beyond QNB's control, it is at least reasonably possible that management's judgment about the need for a valuation allowance for deferred taxes could change in the near term.

In connection with the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions, QNB has evaluated its tax positions as of December 31, 2023. A tax position 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 more than a 50 percent likelihood of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, QNB believes no significant uncertain tax positions exist, either individually or in the aggregate, which would give rise to the non-recognition of an existing tax benefit. As of December 31, 2023, QNB had a valuation allowance of $4,000 for unrecognized tax benefits related to non-qualified stock option expense on options that are more likely than not to be exercised prior to expiring. As of December 31, 2023 QNB had no interest expense and no tax penalties. QNB’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company and its subsidiary are subject to U.S. Federal income tax as well as income tax of the Commonwealth of Pennsylvania and the State of New Jersey. Tax years from 2020 to date remain subject to examination by the tax authorities.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Earnings Per Share

Basic earnings per share excludes any dilutive effects of options and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares that were outstanding during the period. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business entity during a period due to transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. Comprehensive income (loss) consists of net income and other comprehensive income (loss). For QNB, the primary component of other comprehensive income (loss) is the unrealized holding gains or losses on available-for-sale investment securities and unrealized losses on available-for-sale investment securities related to factors other than credit on debt securities.

Advertising Costs

Advertising costs are recorded in the period they are incurred within operating expenses in non-interest expense in the Consolidated Statements of Income.

Financial Instruments with Off-Balance-Sheet Risk

QNB’s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. QNB uses the same credit policies in making commitments and contractual obligations as it does for on-balance-sheet instruments. QNB reflects its estimate of credit risk for these instruments in “Other liabilities” on the Consolidated Balance Sheet with the corresponding expense recorded in “Other” non-interest expense in the Consolidated Statements of Income.

Subsequent Events

QNB has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023 through the date the Consolidated Financial Statements are being issued for items that should potentially be recognized or disclosed in these Consolidated Financial Statements.

Recent Accounting Pronouncements

On January 1, 2023, QNB adopted ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326), as amended ("ASU 326"), which replaces the incurred loss methodology with an expected credit losses (“CECL”) for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The measurement under CECL is applicable to loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. Additionally, ASU 326 made changes to the accounting for available-for-sale debt securities, requiring credit losses to be presented as an allowance rather as a write-down on available-for-sale debt securities management does not intend to sell or believes it is more-likely-than-not they will be required to sell. QNB made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans, available for sale securities, and held to maturity securities. Accrued interest receivable is reported as a component of "Accrued interest receivable" on the Consolidated Balance Sheets.

QNB adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after December 31, 2022 are presented under ASU 326 while prior period amounts continue to be reported in accordance with previously applicable US GAAP. QNB recorded a net increase of $857,000 to retained earnings as of January 1, 2023 for the cumulative effect of adopting ASU 326.

The following table illustrates the impact of ASC 326:

January 1, 2023	As Reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Commercial loans:			
Revolving real estate secured by 1-4 family properties	$ 5,255	$ —	$ 5,255
Retail loans:			
1-4 family residential mortgages	105,524	105,654	(130)
Construction-individual	130	—	130
Revolving home equity secured by 1-4 family properties	36,732	41,987	(5,255)
Allowance for credit losses on loans (ACL):			
Commercial:			
Commercial and industrial	(1,246)	(1,316)	70
Construction and land development	(745)	(755)	10
Real estate secured by multi-family properties	(1,679)	(995)	(684)
Real estate secured by owner-occupied properties	(1,175)	(1,549)	374
Real estate secured by other commercial properties	(1,330)	(2,458)	1,128
Revolving real estate secured by 1-4 family properties-business	(32)	(25)	(7)
Real estate secured by 1st lien on 1-4 family properties-business	(1,700)	(1,210)	(490)
Real estate secured by junior lien on 1-4 family properties-business	(16)	(30)	14
State and political subdivisions	(74)	(94)	20
Retail:			
1-4 family residential mortgages	(486)	(682)	196
Construction-individual	(1)	(1)	—
Revolving home equity secured by 1-4 family properties-personal	(292)	(299)	7
Real estate secured by 1st lien on 1-4 family properties-personal	(72)	(57)	(15)
Real estate secured by junior lien on 1-4 family properties-personal	(84)	(55)	(29)
Student loans	(466)	(454)	(12)
Overdrafts	(11)	(8)	(3)
Other consumer	(33)	(41)	8
Unallocated	—	(502)	502
Total ACL	(9,442)	(10,531)	1,089
Deferred tax assets	4,540	4,767	(227)
Liabilities:			
Allowance for credit losses on unused commitments	$ 122	$ 117	$ 5
Equity:			
Retained earnings	$ 129,808	$ 128,951	$ 857

QNB adopted ASU 2022-01 Derivatives and Hedging (Topic 815): Fair Value Hedging--Portfolio Layer Method ("ASC 2022-01") as of the first fiscal year beginning after 12/15/2022. ASC 2022-01 allows for the use of an amortizing notional swap when entering a portfolio layer method hedge. This guidance now allows the interest rate swap to be considered a hedge of a single layer of portfolio.

Note 2 – Earnings Per Share and Share Repurchase Plan

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

Year ended December 31,	2023	2022	2021
Numerator for basic and diluted earnings per share - net income	$ 9,483	$ 15,921	$ 16,492
Denominator for basic earnings per share - weighted average shares outstanding	3,610,713	3,564,481	3,553,949
Effect of dilutive securities - employee stock options	-	-	189
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	3,610,713	3,564,481	3,554,138
Earnings per share - basic	$ 2.63	$ 4.47	$ 4.64
Earnings per share - diluted	$ 2.63	$ 4.47	$ 4.64

There were 121,550, 109,150, and 89,950 stock options that were anti-dilutive as of December 31, 2023, 2022, and 2021 respectively. These stock options were not included in the above calculation.

QNB's current stock repurchase plan was originally approved by the Board of Directors on January 21, 2008 and authorized the repurchase of up to 50,000 shares, increased the amount on February 9, 2009 to 100,000 shares, and subsequently increased on April 27, 2021 up to 200,000 shares of its common stock in the open market or privately negotiated transactions. The repurchase authorization has no termination date. There were no shares purchased during the year ended December 31, 2023, 2,000 shares purchased during the year ended December 31, 2022, and 38,017 shares repurchased during the year ended December 31, 2021. As of December 31, 2023, 102,000 shares were purchased under this authorization at an average price of $24.93 and a total cost of $2,543,000 and were recorded to Treasury stock.

Note 3 – Cash and Cash Equivalents

Included in cash and cash equivalents are deposits with the Federal Reserve Bank of Philadelphia. As of December 31, 2023 and 2022, QNB was not required to maintain reserves with the Federal Reserve Bank of Philadelphia. At December 31, 2023, there was $1,850,000 held as collateral against the fair value swaps held a correspondent bank.

Note 4 - Investment Securities

Available-For-Sale Debt Securities

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

December 31, 2023	Fair value	Gross unrealized holding gains	Gross unrealized holding losses	Gross unrealized fair value hedge losses	Amortized cost
U.S. Treasuries	$ 6,451	$ 3	$ —	$ —	$ 6,448
U.S. Government agency	74,122	—	(10,828)	—	84,950
State and municipal	89,189	—	(18,714)	(445)	108,348
U.S. Government agencies and sponsored enterprises (GSEs):					
Mortgage-backed	224,238	—	(37,831)	(1,304)	263,373
Collateralized mortgage obligations (CMOs)	89,973	—	(16,383)	—	106,356
Corporate debt and money market funds	6,209	2	(496)	—	6,703
Total investment securities available-for-sale	$ 490,182	$ 5	$ (84,252)	$ (1,749)	$ 576,178

December 31, 2022	Fair value	Gross unrealized holding gains	Gross unrealized holding losses	Amortized cost
U.S. Treasuries	$ 301	$ 2	$ —	$ 299
U.S. Government agency	86,709	—	(15,233)	101,942
State and municipal	95,367	—	(23,494)	118,861
U.S. Government agencies and sponsored enterprises (GSEs):				
Mortgage-backed	256,161	—	(45,303)	301,464
Collateralized mortgage obligations (CMOs)	101,672	—	(18,338)	120,010
Corporate debt	6,315	—	(326)	6,641
Total investment securities available-for-sale	$ 546,525	$ 2	$ (102,694)	$ 649,217

The amortized cost and fair value of debt securities available-for-sale by contractual maturity at December 31, 2023 are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities are assigned to categories based on contractual maturity except for mortgage-backed securities and CMOs which are based on the estimated average life of these securities and state and municipal securities which are based on pre-refunded date, if applicable.

December 31, 2023	Fair value	Amortized cost
Due in one year or less	$ 8,814	$ 8,895
Due after one year through five years	159,745	179,738
Due after five years through ten years	247,158	296,154
Due after ten years	74,465	91,391
Total investment securities available-for-sale	$ 490,182	$ 576,178

Proceeds from sales of investment debt securities available-for-sale were $33,213,000, $7,551,000 and $282,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

The following table presents information related to QNB's gains and losses on the sales of debt securities, and losses recognized for impairment of these investments.

December 31,	2023	2022	2021
Gross realized gains	$ —	$ 8	$ 18
Gross realized losses	(2,058)	(147)	—
Impairment	—	—	—
Total net (losses) gains on available-for-sale securities	$ (2,058)	$ (139)	$ 18

The tax benefit applicable to the net realized losses on debt securities was $432,000 for the year ended December 31, 2023. The tax benefit applicable to the net realized losses on debt securities was $29,000 for the year ended December 31, 2022. The tax expense applicable to the net realized gains on debt securities was $4,000 for the year ended December 31, 2021.

There were no impairment charges recognized for debt securities still held by QNB for the years ended December 31, 2023, 2022 or 2021.

No credit impairments were recognized in 2023, 2022 or 2021. The following table presents a summary of the cumulative credit-related impairment charges recognized as components of earnings for debt securities still held by QNB:

Year ended December 31,	2023	2022	2021
Balance, beginning of year	$ 1	$ 1	$ 1
Reductions: sale, collateralized debt obligation	—	—	—
Additions:			
Initial credit impairments	—	—	—
Subsequent credit impairments	—	—	—
Balance, end of year	$ 1	$ 1	$ 1

At December 31, 2023 and 2022, investments in debt securities available-for-sale totaling $289,935,000 and $237,645,000, respectively, were pledged as collateral for repurchase agreements and deposits of public funds.

Debt securities that have been in a continuous unrealized loss position are as follows:

December 31, 2023		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasuries	1	$ 494	$ —	$ —	$ —	$ 494	$ —
U.S. Government agency	39	—	—	74,122	(10,828)	74,122	(10,828)
State and municipal	191	380	—	89,238	(18,714)	89,618	(18,714)
U.S. Government agencies and sponsored enterprises (GSEs):							
Mortgage-backed	165	1	—	225,500	(37,831)	225,501	(37,831)
Collateralized mortgage obligations (CMOs)	126	—	—	89,973	(16,383)	89,973	(16,383)
Corporate debt and money markets	4	—	—	6,101	(496)	6,101	(496)
Total	526	$ 875	$ —	$ 484,934	$ (84,252)	$ 485,809	$ (84,252)

December 31, 2022

	No. of securities	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or longer Fair value	12 months or longer Unrealized losses	Total Fair value	Total Unrealized losses
U.S. Government agency	46	$ 3,647	$ (353)	$ 83,062	$ (14,880)	$ 86,709	$ (15,233)
State and municipal	216	50,156	(7,816)	45,210	(15,678)	95,366	(23,494)
U.S. Government agencies and sponsored enterprises (GSEs):							
Mortgage-backed	197	58,811	(6,775)	197,351	(38,528)	256,162	(45,303)
Collateralized mortgage obligations (CMOs)	129	35,797	(3,983)	65,875	(14,355)	101,672	(18,338)
Corporate debt	4	6,262	(318)	53	(8)	6,315	(326)
Total	592	$ 154,673	$ (19,245)	$ 391,551	$ (83,449)	$ 546,224	$ (102,694)

Management evaluates debt securities, which are comprised of U.S. Government Agencies, state and municipalities, mortgage-backed securities, CMOs and other issuers, for impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. The unrealized losses at December 31, 2023 in U.S. Government securities, state and municipal securities, mortgage-backed securities, CMOs and corporate debt securities are primarily the result of interest rate fluctuations. If held to maturity, these bonds will mature at par, and QNB will not realize a loss. QNB has the intent to hold the securities and does not believe it will be required to sell the securities before recovery occurs.

QNB holds one trust preferred security, PreTSL IV which is classified as available-for-sale and carried at fair value. This security has been in an unrealized loss position for more than twelve months.

The following table provides additional information related to PreTSL IV as of December 31, 2023:

Deal	Class	Book value	Fair value	Unrealized gains (losses)	Realized OTTI credit loss (YTD 2023)	Total recognized OTTI credit loss	Moody's ratings	Current number of performing banks	Actual deferrals and defaults as a % of total collateral	Total performing collateral as a % of outstanding bonds
PreTSL IV	Mezzanine*	$ 60	$ 52	$ (7)	$ —	$ 1	Ba1	3	0.0%	305.9%

Mezzanine - class of bonds still outstanding, represents the senior-most obligation of the trust)*

Marketable Equity Securities

QNB's equity securities consist of investments with readily determinable fair values in large cap stock companies. Changes in the fair value of these equity securities are recorded to earnings in non-interest income, in accordance with ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities.

At December 31, 2023 and 2022, QNB had $5,910,000 and $12,056,000, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during 2023, 2022 and 2021:

December 31,	2023	2022	2021
Net gain (loss) recognized during the period on equity securities	$ 231	$ (621)	$ 2,714
Less: Net (loss) gain recognized during the period on equity securities sold during the period	(19)	405	1,788
Net unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	$ 250	$ (1,026)	$ 926

Tax expense applicable to the net realized gains for the year ended December 31, 2023 was $67,000. Tax benefit applicable to the net realized losses for the year ended December 31, 2022 was $179,000. Tax expense applicable to the net realized gains for the year ended December 31, 2021 was $784,000. Proceeds from sales of investment equity securities were $8,556,000, $1,594,000 and $7,768,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

Note 5 - Loans Receivable and the Allowance for Credit Losses on Loans

Major classes of loans are as follows:

December 31,		2023
Commercial:		
Commercial and industrial	$	137,086
Construction and land development		116,173
Real estate secured by multi-family properties		109,193
Real estate secured by owner-occupied properties		160,695
Real estate secured by other commercial properties		265,101
Revolving real estate secured by 1-4 family properties-business		5,442
Real estate secured by 1st lien on 1-4 family properties-business		103,572
Real estate secured by junior lien on 1-4 family properties-business		3,445
State and political subdivisions		18,708
Retail:		
1-4 family residential mortgages		108,906
Construction-individual		—
Revolving home equity secured by 1-4 family properties-personal		34,231
Real estate secured by 1st lien on 1-4 family properties-personal		11,981
Real estate secured by junior lien on 1-4 family properties-personal		15,625
Student loans		1,662
Overdrafts		194
Other consumer		1,757
Total loans		1,093,771
Net unearned (fees) costs		(238)
Allowance for credit losses on loans		(8,852)
Loans receivable, net	$	1,084,681

December 31,		2022
Commercial:		
Commercial and industrial	$	160,875
Construction		62,955
Secured by commercial real estate		518,070
Secured by residential real estate		103,419
State and political subdivisions		20,971
Retail:		
1-4 family residential mortgages		105,654
Home equity loans and lines		63,580
Consumer		4,113
Total loans		1,039,637
Net deferred (fees) costs		(252)
Allowance for loan losses		(10,531)
Loans receivable, net	$	1,028,854

Loans secured by commercial real estate include all loans collateralized at least in part by commercial real estate. These loans may not be for the express purpose of conducting commercial real estate transactions.

Overdrafts are reclassified as loans and are included in consumer loans above and total loans on the balance sheet and at December 31, 2022 are included in consumer loans. At December 31, 2022, overdrafts were $132,000.

QNB generally lends in Bucks, Lehigh, and Montgomery counties in southeastern Pennsylvania. To a large extent, QNB makes loans collateralized at least in part by real estate. Its lending activities could be affected by changes in the general economy, the regional economy, or real estate values. Other than disclosed in the table above, at December 31, 2023, there was a concentration of loans to lessors of residential buildings and dwellings of 21.5% of total loans and to lessors of nonresidential buildings of 24.7% of total loans, compared with 20.0% and 22.5% of total loans, respectively, at December 31, 2022. These concentrations were primarily within the commercial real estate categories.

QNB engages in a variety of lending activities, including commercial, residential real estate and consumer transactions. QNB focuses its lending activities on individuals, professionals and small to medium sized businesses. Risks associated with lending activities include economic conditions and changes in interest rates, which can adversely impact both the ability of borrowers to repay their loans and the value of the associated collateral.

Commercial and industrial loans, commercial real estate loans, construction loans and residential real estate loans with a business purpose are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers and are more susceptible to a risk of loss during a downturn in the business cycle. These loans may involve greater risk because the availability of funds to repay these loans depends on the successful operation of the borrower's business. The assets financed are used within the business for its ongoing operation. Repayment of these types of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Typical collateral for commercial and industrial loans includes the borrower's accounts receivable, inventory and machinery and equipment. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the southeastern Pennsylvania market area at conservative loan-to-value ratios and often backed by the individual guarantees of the borrowers or owners. Repayment of this kind of loan is 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 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, as well as the factors affecting residential real estate borrowers.

Loans to state and political subdivisions are tax-exempt or taxable loans to municipalities, school districts and housing and industrial development authorities. These loans can be general obligations of the municipality or school district repaid through their taxing authority, revenue obligations repaid through the income generated by the operations of the authority, such as a water or sewer authority, or loans issued to a housing and industrial development agency, for which a private corporation is responsible for payments on the loans.

QNB originates fixed-rate and adjustable-rate real estate-residential mortgage loans for personal purposes that are secured by first liens on the underlying 1-4 family residential properties. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-income ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

The real estate-home equity portfolio consists of fixed-rate home equity loans and variable-rate home equity lines of credit. Risks associated with loans secured by residential properties are generally lower than commercial loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

QNB offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and is more likely to decrease in value than real estate. Credit risk in this portfolio is controlled by conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values.

QNB employs a ten-grade risk rating system related to the credit quality of commercial loans and loans to state and political subdivisions of which the first six categories are pass categories (credits not adversely rated). The following is a description of the internal risk ratings and the likelihood of loss related to each risk rating.

1 - Excellent - no apparent risk

2 - Good - minimal risk

3 - Acceptable - lower risk

4 - Acceptable - average risk

5 - Acceptable – higher risk

6 - Pass watch

7 - Special Mention - potential weaknesses

8 - Substandard - well defined weaknesses

9 - Doubtful - full collection unlikely

10 - Loss - considered uncollectible

QNB maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential problem loans. Each loan officer assigns a rating to commercial loans and loans to state and political subdivisions at the time the loan is originated. Loans with risk ratings of one through five are reviewed annually based on the borrower's fiscal year. Loans with risk ratings of six are reviewed every six to twelve months based on the dollar amount of the relationship with the borrower. Loans with risk ratings of seven through ten are reviewed at least quarterly, and as often as monthly, at management's discretion. QNB also utilizes an outside loan review firm to review the portfolio on a semi-annual basis to provide the Board of Directors and senior management an independent review of the Bank's loan portfolio on an ongoing basis. These reviews are designed to recognize deteriorating credits in their earliest stages in an effort to reduce and control risk in the lending function as well as identifying potential shifts in the quality of the loan portfolio. The examinations by the outside loan review firm include the review of lending activities with respect to underwriting and processing new loans, monitoring the risk of existing loans and to provide timely follow-up and corrective action for loans showing signs of deterioration in quality. In addition, the outside firm reviews the methodology for the allowance for loan losses to determine compliance to policy and regulatory guidance.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the QNB's internal risk rating system as of December 31, 2023 and 2022:

	Term Loans by Origination Year							
December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving**	**Total**
Commercial Loans								
Commercial and industrial:								
Risk rating								
Pass	$ 20,473	$ 14,439	$ 8,574	$ 5,913	$ 8,626	$ 7,175	$ 70,716	$ 135,916
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	1,170	1,170
Doubtful	—	—	—	—	—	—	—	—
Total commercial and industrial	$ 20,473	$ 14,439	$ 8,574	$ 5,913	$ 8,626	$ 7,175	$ 71,886	$ 137,086
Construction and land development:								
Risk rating								
Pass	$ 46,171	$ 43,472	$ 14,630	$ 3,434	$ 4,028	$ 4,395	$ —	$ 116,130
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	43	—	43
Doubtful	—	—	—	—	—	—	—	—
Total construction and land development	$ 46,171	$ 43,472	$ 14,630	$ 3,434	$ 4,028	$ 4,438	$ —	$ 116,173
Real estate secured by multi-family properties:								
Risk rating								
Pass	$ 10,826	$ 28,858	$ 23,430	$ 9,808	$ 5,804	$ 27,609	$ —	$ 106,335
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	704	2,154	—	2,858
Doubtful	—	—	—	—	—	—	—	—
Total real estate secured by multi-family properties	$ 10,826	$ 28,858	$ 23,430	$ 9,808	$ 6,508	$ 29,763	$ —	$ 109,193
Real estate secured by owner-occupied properties:								
Risk rating								
Pass	$ 14,430	$ 29,576	$ 26,908	$ 18,693	$ 12,239	$ 53,030	$ —	$ 154,876
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—		—	—	5,819	—	5,819
Doubtful	—	—	—	—	—	—	—	—

December 31, 2023	Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving	Total
Total real estate secured by owner-occupied properties	$ 14,430	$ 29,576	$ 26,908	$ 18,693	$ 12,239	$ 58,849	$ —	$ 160,695
Real estate secured by other commercial properties:								
Risk rating								
Pass	$ 32,297	$ 44,526	$ 42,582	$ 17,798	$ 28,947	$ 98,173	$ —	$ 264,323
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	778	—	778
Doubtful	—	—	—	—	—	—	—	—
Total real estate secured by other commercial properties	$ 32,297	$ 44,526	$ 42,582	$ 17,798	$ 28,947	$ 98,951	$ —	$ 265,101
Revolving real estate secured by 1-4 family properties-business:								
Risk rating								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 5,442	$ 5,442
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total revolving real estate secured by 1-4 family properties-business	$ —	$ —	$ —	$ —	$ —	$ —	$ 5,442	$ 5,442
Real estate secured by 1st lien on 1-4 family properties-business:								
Risk rating								
Pass	$ 14,697	$ 28,596	$ 20,890	$ 9,794	$ 8,441	$ 20,262	$ —	$ 102,680
Special mention	—	—	137	—	—	—	—	137
Substandard	—	189	—	—	423	143	—	755
Doubtful	—	—	—	—	—	—	—	—
Total real estate secured by 1st lien on 1-4 family properties-business	$ 14,697	$ 28,785	$ 21,027	$ 9,794	$ 8,864	$ 20,405	$ —	$ 103,572
Real estate secured by junior lien on 1-4 family properties-business:								
Risk rating								
Pass	$ 558	$ 604	$ 542	$ 580	$ 40	$ 934	$ —	$ 3,258
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	187	—	187
Doubtful	—	—	—	—	—	—	—	—
Total real estate secured by junior lien on 1-4 family properties-business	$ 558	$ 604	$ 542	$ 580	$ 40	$ 1,121	$ —	$ 3,445
State and political subdivisions:								
Risk rating								
Pass	$ 707	$ —	$ 4,247	$ 18	$ 5,444	$ 8,292	$ —	$ 18,708
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—

December 31, 2023	Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving	Total
Total real estate secured by junior lien on 1-4 family properties-business	$ 707	$ —	$ 4,247	$ 18	$ 5,444	$ 8,292	$ —	$ 18,708
Total Commercial Loans:								
Risk rating								
Pass	$ 140,159	$ 190,071	$ 141,803	$ 66,038	$ 73,569	$ 219,870	$ 76,158	$ 907,668
Special mention	—	—	137	—	—	—	—	137
Substandard	—	189	—	—	1,127	9,124	1,170	11,610
Doubtful	—	—	—	—	—	—	—	—
Total Commercial loans	$ 140,159	$ 190,260	$ 141,940	$ 66,038	$ 74,696	$ 228,994	$ 77,328	$ 919,415

December 31, 2022	Pass	Special mention	Substandard	Doubtful	Total
Commercial:					
Commercial and industrial	$ 157,914	$ 23	$ 2,938	$ —	$ 160,875
Construction	62,955	—	—	—	62,955
Secured by commercial real estate	505,657	2,597	9,816	—	518,070
Secured by residential real estate	102,295	194	930	—	103,419
State and political subdivisions	20,971	—	—	—	20,971
Total	$ 849,792	$ 2,814	$ 13,684	$ —	$ 866,290

The following tables present the recorded investment in the retail classes of the loan portfolio based on payment activity as of December 31, 2023 and 2022:

December 31, 2023	Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving	Total
Retail Loans								
1-4 family residential mortgages:								
Payment performance								
Performing	$ 12,641	$ 14,635	$ 30,495	$ 20,304	$ 4,526	$ 25,500	$ —	$108,101
Nonperforming	—	—	—	—	—	805	—	805
Total 1-4 family residential mortgages	$ 12,641	$ 14,635	$ 30,495	$ 20,304	$ 4,526	$ 26,305	$ —	$108,906
Construction-individual:								
Payment performance								
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nonperforming	—	—	—	—	—	—	—	—
Total construction-individual	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Revolving home equity secured by 1-4 family properties-personal:								
Payment performance								
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 33,936	$ 33,936
Nonperforming	—	—	—	—	—	—	295	295
Total revolving home equity secured by 1-4 family properties-personal	$ —	$ —	$ —	$ —	$ —	$ —	$ 34,231	$ 34,231
Real estate secured by 1st lien on 1-4 family properties-personal:								
Payment performance								
Performing	$ 2,591	$ 1,613	$ 2,933	$ 1,030	$ 931	$ 2,767	$ —	$ 11,865
Nonperforming	—	—	—	—	—	116	—	116
Total real estate secured by 1st lien Real estate secured by 1st lien on 1-4 family properties-personal	$ 2,591	$ 1,613	$ 2,933	$ 1,030	$ 931	$ 2,883	$ —	$ 11,981
Real estate secured by junior lien on 1-4 family properties-personal:								

December 31, 2023	Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving	Total
Payment performance								
Performing	$ 6,438	$ 1,613	$ 2,184	$ 1,180	$ 676	$ 3,515	$ —	$ 15,606
Nonperforming	—	19	—	—	—	—	—	19
Total real estate secured by junior lien on 1-4 family properties-personal	$ 6,438	$ 1,632	$ 2,184	$ 1,180	$ 676	$ 3,515	$ —	$ 15,625
Student loans:								
Payment performance								
Performing	$ —	$ —	$ —	$ —	$ —	$ 1,645	$ —	$ 1,645
Nonperforming	—	—	—	—	—	17	—	17
Total student loans	$ —	$ —	$ —	$ —	$ —	$ 1,662	$ —	$ 1,662
Overdrafts:								
Payment performance								
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 194	$ 194
Nonperforming	—	—	—	—	—	—	—	—
Total overdrafts	$ —	$ —	$ —	$ —	$ —	$ —	$ 194	$ 194
Other consumer:								
Payment performance								
Performing	$ 793	$ 290	$ 245	$ 89	$ 73	$ 41	$ 189	$ 1,720
Nonperforming	—	—	—	—	—	37	—	37
Total other consumer	$ 793	$ 290	$ 245	$ 89	$ 73	$ 78	$ 189	$ 1,757
Total Retail Loans:								
Payment performance								
Performing	$ 22,463	$ 18,151	$ 35,857	$ 22,603	$ 6,206	$ 33,468	$ 34,319	$173,067
Nonperforming	—	19	—	—	—	975	295	1,289
Total Retail Loans	$ 22,463	$ 18,170	$ 35,857	$ 22,603	$ 6,206	$ 34,443	$ 34,614	$174,356

December 31, 2022	Performing	Non-performing	Total
Retail:			
1-4 family residential mortgages	$ 105,193	$ 461	$ 105,654
Home equity loans and lines	63,178	402	63,580
Consumer	4,051	62	4,113
Total	$ 172,422	$ 925	$ 173,347

Retail revolving lines of credit that were termed out during 2023 were $4,534,000; all which are performing.

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 (excluding deferred fees and costs) summarized by the past due status, regardless of whether the loan is on non-accrual status, as of December 31, 2023 and 2022:

December 31, 2023	30-59 days past due	60-89 days past due	90 days or more past due	Total past due loans	Current	Total loans receivable
Commercial:						
Commercial and industrial	$ 77	$ —	$ —	$ 77	$ 137,009	$ 137,086
Construction and land development	—	—	—	—	116,173	116,173
Real estate secured by multi-family properties	—	—	—	—	109,193	109,193
Real estate secured by owner-occupied properties	186	—	—	186	160,509	160,695
Real estate secured by other commercial properties	9,675	—	—	9,675	255,426	265,101
Revolving real estate secured by 1-4 family properties-business	—	—	—	—	5,442	5,442
Real estate secured by 1st lien on 1-4 family properties-business	323	—	—	323	103,249	103,572
Real estate secured by junior lien on 1-4 family properties-business	—	—	—	—	3,445	3,445
State and political subdivisions	—	—	—	—	18,708	18,708
Retail:						
1-4 family residential mortgages	433	381	481	1,295	107,611	108,906
Construction-individual	—	—	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	56	—	129	185	34,046	34,231
Real estate secured by 1st lien on 1-4 family properties-personal	—	96	—	96	11,885	11,981
Real estate secured by junior lien on 1-4 family properties-personal	—	—	18	18	15,607	15,625
Student loans	—	11	6	17	1,645	1,662
Overdrafts	21	2	—	23	171	194
Other consumer	—	8	—	8	1,749	1,757
Total	$ 10,771	$ 498	$ 634	$ 11,903	$ 1,081,868	$ 1,093,771

December 31, 2022	30-59 days past due	60-89 days past due	90 days or more past due	Total past due loans	Current	Total loans receivable
Commercial:						
Commercial and industrial	$ —	$ 1,157	$ —	$ 1,157	$ 159,718	$ 160,875
Construction	—	—	—	—	62,955	62,955
Secured by commercial real estate	—	—	—	—	518,070	518,070
Secured by residential real estate	—	—	13	13	103,406	103,419
State and political subdivisions	—	—	—	—	20,971	20,971
Retail:						
1-4 family residential mortgages	703	168	216	1,087	104,567	105,654
Home equity loans and lines	95	—	—	95	63,485	63,580
Consumer	37	50	—	87	4,026	4,113
Total	$ 835	$ 1,375	$ 229	$ 2,439	$ 1,037,198	$ 1,039,637

As previously discussed, QNB maintains a loan review system, which includes a continuous review of the loan portfolio by internal and external parties to aid in the early identification of potential impaired loans. A loan is considered impaired when, based on current information and events, it is probable that QNB will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. When placing a loan on non-accrual status, management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. All non-accrual loans, except student loans, are individually evaluated for an allowance for credit losses ("ACL"). This ACL is measured using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for credit loss is established for a non-accrual loan if its carrying value exceeds its estimated fair value. The estimated fair values of the majority of QNB's non-accrual loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The following tables disclose the recorded investment in loans receivable that are either on non-accrual status or past due 90 days or more and still accruing interest as of December 31, 2023 and 2022:

December 31, 2023	**90 Days or More Past Due-Still Accruing**	**Nonaccrual With No Specifically-Related ACL**	**Nonaccrual With Related ACL**	**Total Nonaccrual Loans**
Commercial:				
Commercial and industrial	$ —	$ 278	$ 33	$ 311
Construction and land development	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—
Real estate secured by owner-occupied properties	—	175	—	175
Real estate secured by other commercial properties	—	—	—	—
Revolving real estate secured by 1-4 family properties-business	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-business	—	—	—	—
Real estate secured by junior lien on 1-4 family properties-business	—	—	165	165
State and political subdivisions	—	—	—	—
Retail:				
1-4 family residential mortgages	—	805	—	805
Construction-individual	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	—	21	274	295
Real estate secured by 1st lien on 1-4 family properties-personal	—	116	—	116
Real estate secured by junior lien on 1-4 family properties-personal	—	19	—	19
Student loans	—	17	—	17
Other consumer	—	37	—	37
Total	$ —	$ 1,468	$ 472	$ 1,940

QNB recognized interest income of $557,000 on non-accrual loans for the year ended December 31, 2023.

The following table presents the collateral-dependent loans by loan category at December 31, 2023:

December 31, 2023	Real Estate Secured	Other (1)	Deficiency in Collateral	Total Collateral Dependent Nonaccrual Loans
Commercial:				
Commercial and industrial	$ —	$ 278	$ 33	$ 311
Construction and land development	—	—	—	—
Real estate secured by multi-family properties	—	—	—	—
Real estate secured by owner-occupied properties	175	—	—	175
Real estate secured by other commercial properties	—	—	—	—
Revolving real estate secured by 1-4 family properties-business	—	—	—	—
Real estate secured by 1st lien on 1-4 family properties-business	—			—
Real estate secured by junior lien on 1-4 family properties-business	—	—	165	165
State and political subdivisions	—	—	—	—
Retail:				
1-4 family residential mortgages	805	—	—	805
Construction-individual	—	—	—	—
Revolving home equity secured by 1-4 family properties-personal	185	—	110	295
Real estate secured by 1st lien on 1-4 family properties-personal	116	—	—	116
Real estate secured by junior lien on 1-4 family properties-personal	19	—	—	19
Other consumer	—	37	—	37
Total	$ 1,300	$ 315	$ 308	$ 1,923

(1) Secured by business assets, personal property and equipment or guarantees

The following tables disclose the recorded investment in loans receivable that are either on non-accrual status or past due 90 days or more and still accruing interest as of December 31, 2022

December 31, 2022	90 days or more past due (still accruing)	Non-accrual
Commercial:		
Commercial and industrial	$ —	$ 1,575
Construction	—	—
Secured by commercial real estate	—	2,031
Secured by residential real estate	—	289
State and political subdivisions	—	—
Retail:		
1-4 family residential mortgages	—	461
Home equity loans and lines	—	402
Consumer	—	62
Total	$ —	$ 4,820

The following table present the balance in the allowance for loan losses at December 31, 2022 disaggregated on the basis of QNB's impairment method by class of loans receivable along with the balance of loans receivable by class, excluding unearned fees and costs, disaggregated on the basis of QNB's impairment methodology:

	Allowance for Loan Losses			Loans Receivable		
December 31, 2022	**Balance**	**Balance related to loans individually evaluated for impairment**	**Balance related to loans collectively evaluated for impairment**	**Balance**	**Balance individually evaluated for impairment**	**Balance collectively evaluated for impairment**
Commercial:						
Commercial and industrial	$ 1,316	$ 125	$ 1,191	$ 160,875	$ 1,821	$ 159,054
Construction	755	—	755	62,955	—	62,955
Secured by commercial real estate	5,002	131	4,871	518,070	5,309	512,761
Secured by residential real estate	1,240	321	919	103,419	1,362	102,057
State and political subdivisions	94	—	94	20,971	—	20,971
Retail:						
1-4 family residential mortgages	683	—	683	105,654	628	105,026
Home equity loans and lines	437	119	318	63,580	402	63,178
Consumer	502	—	502	4,113	45	4,068
Unallocated	502	N/A	N/A	N/A	N/A	N/A
Total	$ 10,531	$ 696	$ 9,333	$1,039,637	$ 9,567	$ 1,030,070

The following table summarizes additional information, in regards to impaired loans by loan portfolio class, as of December 31, 2022:

	December 31, 2022		
	Recorded investment (after charge-offs)	Unpaid principal balance	Related allowance
With no specific allowance recorded:			
Commercial:			
Commercial and industrial	$ 1,402	$ 1,694	
Construction	—	—	
Secured by commercial real estate	2,198	2,608	
Secured by residential real estate	430	482	
Retail:			
1-4 family residential mortgages	628	678	
Home equity loans and lines	240	296	
Consumer	45	62	
Total	$ 4,943	$ 5,820	
With an allowance recorded:			
Commercial:			
Commercial and industrial	$ 419	$ 601	$ 125
Construction	—	—	—
Secured by commercial real estate	3,111	3,312	131
Secured by residential real estate	932	1,065	321
Retail:			
1-4 family residential mortgages	—	—	—
Home equity loans and lines	162	191	119
Consumer	—	—	—
Total	$ 4,624	$ 5,169	$ 696
Total:			
Commercial:			
Commercial and industrial	$ 1,821	$ 2,295	$ 125
Construction	—	—	—
Secured by commercial real estate	5,309	5,920	131
Secured by residential real estate	1,362	1,547	321
Retail:			
1-4 family residential mortgages	628	678	—
Home equity loans and lines	402	487	119
Consumer	45	62	—
Total	$ 9,567	$ 10,989	$ 696

Activity in the allowance for loan losses for the years ended December 31, 2023, 2022 and 2021 are as follows:

Year ended December 31, 2023	Beginning balance prior to adoption of ASC 326	Impact of adopting ASC 326	Credit loss expense (reversal)	Charge-offs	Recoveries	Balance, end of period
Commercial:						
Commercial and industrial	$ 1,316	$ (70)	$ (771)	$ (313)	$ 661	$ 823
Construction and land development	755	(10)	507	—	—	1,252
Real estate secured by multi-family properties	995	684	56	—	—	1,735
Real estate secured by owner-occupied properties	1,549	(374)	(174)	—	—	1,001
Real estate secured by other commercial properties	2,458	(1,128)	(163)	—	—	1,167
Revolving real estate secured by 1-4 family properties-business	25	7	(5)	—	—	27
Real estate secured by 1st lien on 1-4 family properties-business	1,210	490	(203)	—	10	1,507
Real estate secured by junior lien on 1-4 family properties-business	30	(14)	(2)	—	—	14
State and political subdivisions	94	(20)	(19)	—	—	55
Retail:						
1-4 family residential mortgages	682	(196)	(59)	—	—	427
Construction-individual	1	-	(1)	—	—	—
Revolving home equity secured by 1-4 family properties-personal	299	(7)	(154)	—	—	138
Real estate secured by 1st lien on 1-4 family properties-personal	57	15	110	—	—	182
Real estate secured by junior lien on 1-4 family properties-personal	55	29	15	—	6	105
Student loans	454	12	(48)	(57)	8	369
Overdrafts	8	3	70	(91)	26	16
Other consumer	41	(8)	13	(14)	2	34
Unallocated	502	(502)	—	N/A	N/A	—
Total	$ 10,531	$ (1,089)	$ (828)	$ (475)	$ 713	$ 8,852

Year ended December 31, 2022	Balance, beginning of period	Provision for (credit to) loan losses	Charge-offs	Recoveries	Balance, end of period
Commercial:					
Commercial and industrial	$ 3,368	$ (2,320)	$ (38)	$ 306	$ 1,316
Construction	363	392	—	—	755
Secured by commercial real estate	4,280	722	—	—	5,002
Secured by residential real estate	1,035	160	—	45	1,240
State and political subdivisions	69	25	—	—	94
Retail:					
1-4 family residential mortgages	646	37	—	—	683
Home equity loans and lines	376	55	—	6	437
Consumer	542	82	(158)	36	502
Unallocated	505	(3)	N/A	N/A	502
Total	$ 11,184	$ (850)	$ (196)	$ 393	$ 10,531

Year ended December 31, 2021	Balance, beginning of period	Provision for (credit to) loan losses	Charge-offs	Recoveries	Balance, end of period
Commercial:					
Commercial and industrial	$ 4,050	$ (774)	$ —	$ 92	$ 3,368
Construction	346	17	—	—	363
Secured by commercial real estate	3,736	544	—	—	4,280
Secured by residential real estate	871	181	(38)	21	1,035
State and political subdivisions	89	(20)	—	—	69
Retail:					
1-4 family residential mortgages	533	113	—	—	646
Home equity loans and lines	386	32	(49)	7	376
Consumer	265	410	(176)	43	542
Unallocated	550	(45)	N/A	N/A	505
Total	$ 10,826	$ 458	$ (263)	$ 163	$ 11,184

Since the implementation of ASU 326 on January 1, 2023, the Company measures loan modifications to borrowers in financial distress as a troubled debt modification ("TDM"). A TDM could involve principal forgiveness, term extension, an other-than-insignificant payment delay, interest rate reduction or exchanging or paying off existing debt for new debt with the Company. Any amount forgiven would be charged to the allowance for credit losses. There were no TDMs in 2023.

QNB had extended, restructured, or otherwise modified the terms of loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers that had been experiencing financial difficulties. A loan was considered to be a troubled debt restructuring ("TDR") loan when QNB granted a concession to the borrower because of the borrower's financial condition that it would not have otherwise considered. Such concessions included a reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates to less than the current market rate for new obligations with similar risk. Loans that had been classified as TDRs are considered non-performing.

The concessions made for the TDRs reported in the following disclosures involve lowering the monthly payments on loans through periods of interest only payments, a reduction in interest rate below a market rate or an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these three methods. The restructurings rarely result in the forgiveness of principal or accrued interest. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance. QNB closely monitors the performance of loans that are modified to understand the effectiveness of its modification efforts. There were no payment default (60 days or more past due) during the year ended December 31, 2022 on loans modified within 12 months prior to December 31, 2022.

Performing TDRs (not reported as non-accrual or past due 90 days or more and still accruing) totaled $4,301,000 as of December 31, 2022. Non-performing TDRs totaled $371,000 as of December 31, 2022. All TDRs are included in the specific reserve calculation in 2022.

The following table illustrates the specific reserve for loan losses allocated to TDMs and TDRs. These specific reserves are included in the allowance for credit losses on loan for loans individually evaluated for impairment.

December 31,	2023		2022	
	Unpaid principal balance	Related allowance	Unpaid principal balance	Related allowance
TDMs/TDRs with no specific allowance recorded	$ —	$ —	$ 1,272	$ —
TDMs/TDRs with an allowance recorded	—	—	3,400	392
Total	$ —	$ —	$ 4,672	$ 392

There were no charge-offs resulting from TDRs during the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, QNB had commitments of $5,000 to lend additional funds to customers with loans whose terms have been modified in troubled debt restructurings.

QNB had no loans secured by residential real estate for which foreclosure proceedings were in process as of December 31, 2023. There was one mortgage loan secured by residential real estate with a recorded investment of $120,000 for which foreclosure proceedings were in process at December 31, 2022.

Note 6 - Premises and Equipment

Premises and equipment, stated at cost less accumulated depreciation and amortization, are summarized below:

December 31,	2023	2022
Land and buildings	$ 16,102	$ 15,970
Furniture and equipment	14,470	16,640
Leasehold improvements	3,632	3,622
Right-of-use asset	2,722	2,909
Book value	36,926	39,141
Accumulated depreciation and amortization	(21,974)	(23,678)
Net book value	$ 14,952	$ 15,463

Depreciation and amortization expense on premises and equipment, which excludes operating lease costs in the table below, amounted to $1,714,000, $1,115,000, and $1,200,000 for the years ended December 31, 2023, 2022 and 2021, respectively. During 2023 QNB renewed one operating lease and recorded a right-of-use asset of $369,000 and an operating liability of $369,000.

The following table summarized the quantitative attributes of QNB's operating leases:

Year ended December 31,	2023	2022
Lease cost		
Operating lease cost	$ 618	$ 609
Total lease cost	618	609
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Cashflows from operating leases	$ 626	$ 620
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 369	$ 43
Weighted average remaining lease terms:		
Operating leases	13.1 years	13.8 years
Weighted average discount rates:		
Operating leases	2.90%	2.78%

Note 7 - Intangible Assets and Loan Servicing

Loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of mortgage loans serviced for others were $68,349,000 and $75,205,000 at December 31, 2023 and 2022, respectively.

The following table reflects the activity of mortgage servicing rights for the periods indicated:

Year ended December 31,	2023	2022	2021
Balance at beginning of year	$ 469	$ 538	$ 533
Mortgage servicing rights capitalized	7	2	123
Mortgage servicing rights amortized	(61)	(80)	(132)
Fair market value adjustments	—	9	14
Balance at end of year	$ 415	$ 469	$ 538

The balance of these mortgage servicing rights is included in "Other assets at December 31, 2023 and 2022 and the fair value of these rights was $583,000 and $638,000, respectively. The fair value of servicing rights was determined using discount rates ranging from 12.0% to 12.5% for both 2023 and 2022; and prepayment speeds ranging from 104% to 214% for 2023 compared to 113% to 235% for 2022.

The annual estimated amortization expense of intangible assets for each of the five succeeding fiscal years is as follows:

2024	$ 63
2025	55
2026	47
2027	41
2028	35

Note 8 - Time Deposits

The aggregate amount of time deposits was $314,981,000 and $175,449,000 at December 31, 2023 and 2022, respectively. Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2023 and 2022 were $43,337,000 and $24,470,000, respectively.

At December 31, 2023, the scheduled maturities of time deposits were as follows:

2024	$ 258,244
2025	29,865
2026	16,919
2027	7,389
2028	2,564
Thereafter	—
Total time deposits	$ 314,981

Note 9 - Short-Term Borrowings

December 31,	Securities sold under agreements to repurchase [(a)]	Other short - term borrowings [(b)]
2023		
Balance	$ 44,094	$ 50,000
Maximum indebtedness at any month end	69,343	136,799
Daily average indebtedness outstanding	53,154	55,708
Average rate paid for the year	1.39%	4.55%
Average rate on period-end borrowings	4.59	4.39
2022		
Balance	$ 69,309	$ 92,018
Maximum indebtedness at any month end	71,847	92,018
Daily average indebtedness outstanding	68,650	17,226
Average rate paid for the year	0.50%	3.01%
Average rate on period-end borrowings	1.82	4.51

(a) Securities sold under agreements to repurchase mature overnight. The repurchase agreements were collateralized by U.S. Government mortgage-backed securities and CMOs with an amortized cost of $72,012,000 and $92,158,000 and a fair value of $61,650,000 and $79,014,000 and at December 31, 2023 and 2022 respectively. These securities are held in safekeeping at the Federal Reserve Bank of Boston.

(b) Other short-term borrowings include Federal funds purchased, overnight borrowings from the FHLB and short-term FRB borrowings.

During the first quarter of 2023, QNB borrowed $50,000,000 from the FRB under its Bank Term Funding Program and locked in a rate of 4.39%; there are no pre-payment penalties. The Bank has five unsecured Federal funds lines granted by correspondent banks totaling $91,000,000. Federal funds purchased under these lines were $0 at both December 31, 2023 and 2022.

Note 10 - Long-Term Debt

FHLB advances are collateralized by certain mortgage loans and also require the purchase of FHLB capital stock, which is included within "Restricted investment in stocks" on the Consolidated Balance Sheets. QNB's FHLB stock was $1,718,000 and $5,181,000 at December 31, 2023 and 2022, respectively.

QNB has a maximum borrowing capacity with the FHLB of approximately $409,624,000. At December 31, 2023 QNB had $20,000,000 in long-term advances outstanding with the FHLB at fixed rates, no short-term borrowings as reported in Note 9 and a letter of credit issued of $283,000. At December 31, 2022 QNB had $10,000,000 in long-term debt outstanding with the FHLB, $92,018,000 in short term borrowings as reported in Note 9 and a letter of credit of $350,000.

Long-term advances at the FHLB mature as follows:

As of December 31, 2023	Balance Maturing	Weighted-Average Rate
2024	$ —	— %
2025	20,000	4.36
2026	—	—
2027	—	—
2028	—	—
Thereafter	—	—
Total long-term debt	$ 20,000	4.36%

Note 11 - Income Taxes

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

Year ended December 31,	2023	2022	2021
Current Federal income taxes	$ 2,109	$ 3,543	$ 3,629
Current state income taxes	83	180	219
Deferred Federal income taxes (benefits)	71	36	21
Deferred state income taxes (benefits)	(15)	(102)	92
Valuation adjustment	(4)	8	—
Net provision	$ 2,244	$ 3,665	$ 3,961

At December 31, 2023 and 2022, the tax effects of temporary differences that represent the significant portion of deferred tax assets and liabilities are as follows:

December 31,	2023	2022
Deferred tax assets		
Allowance for credit losses on loans	$ 1,859	$ 2,212
Net unrealized holding losses on investment securities available-for-sale	17,692	21,565
Net unrealized holding losses on investment rate swaps	367	—
Fair value adjustment on equity securities	—	10
Non-accrual interest income	170	52
Leasing liability	637	678
Deferred revenue	—	7
Incurred but not reported medical expense	27	28
Bonus	88	128
State net operating loss carryforward	30	—
Other	61	48
Total deferred tax assets	20,931	24,728
Deferred tax liabilities		
Deferred loan income	487	459
Depreciation	215	225
Mortgage servicing rights	87	98
Fair value remeasurements on interest rate swap	12	—
Fair value adjustment on equity securities	61	—
Prepaid expenses	203	232
Right of use asset	572	611
Other	—	18
Total deferred tax liabilities	1,637	1,643
Valuation allowance	4	8
Net deferred tax asset	$ 19,290	$ 23,077

The ability to realize deferred tax assets is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these and other factors, management believes it is more likely than not that QNB will realize the benefits of the above deferred tax assets except an $4,000 deferred tax asset related to non-qualified stock option that it is more likely than not that the options will expire unexercised due to the strike price. A valuation allowance was recorded for this amount.

A reconciliation of the tax provision on income before taxes computed at the statutory rates of 21% for 2023, 2022 and 2021 and the actual tax provision was as follows:

Year ended December 31,	2023		2022		2021	
	Dollar	%	Dollar	%	Dollar	%
Provision at statutory rate	$ 2,463	21.0%	$ 4,113	21.0%	$ 4,295	21.0%
Tax-exempt interest and dividend income	(267)	(2.3)	(504)	(2.6)	(527)	(2.6)
Bank-owned life insurance	(67)	(0.6)	(75)	(0.4)	(104)	(0.5)
Stock-based compensation expense	26	0.2	20	0.1	19	0.1
State income tax	53	0.5	62	0.3	245	1.2
Other	40	0.3	41	0.2	33	0.2
Income tax provision	2,248	19.2	3,657	18.7	3,961	19.4
Valuation Adjustment	(4)	(0.1)	8	0.0	—	—
	$ 2,244	19.1%	$ 3,665	18.7%	$ 3,961	19.4%

Note 12 - Employee Benefit Plans

The QNB Bank Retirement Savings Plan provides for elective employee contributions up to the maximum allowed by the IRS and a matching company contribution limited to 3%. In addition, the plan provides for safe harbor non-elective contributions of 5% of total compensation by QNB. QNB contributed a matching contribution of $376,000, $345,000 and $340,000 for the years ended December 31, 2023, 2022, and 2021, respectively, and a safe harbor contribution of $669,000 for 2023, $606,000 for 2022, and $608,000 for 2021.

QNB's Employee Stock Purchase Plan (the Plan) offers eligible employees an opportunity to purchase shares of QNB Corp. common stock at a 10% discount from the lesser of fair market value on the first or last day of each offering period (as defined by the Plan). At the 2021 Annual Meeting, shareholders approved the 2021 Employee Stock Purchase Plan (the 2021 Plan), which authorizes the issuance of 30,000 shares. As of December 31, 2023, 6,630 shares were issued under the 2021 Plan. The 2021 Plan expires May 31, 2026.

Shares issued pursuant to the Plan were as follows:

Year ended December 31,	2023	2022	2021
Shares	6,630	5,102	4,906
Price per share	$23.10	$29.48 and $24.21	$27.36 and $32.29

QNB implemented the Nonqualified Deferred Compensation Plan (NDCP) during 2023 for the benefit of a select group of its management or highly compensated employees. The purpose of the NDCP is to provide a deferred compensation vehicle to which QNB may credit discretionary amounts on behalf of the participants for recruitment and reward. QNB contributed $108,000 to the NDCP in 2023.

Note 13 - Stock Option Plan and Non-Employee Director Compensation Plan

QNB has a stock option plan (the 2015 Plan) administered by a committee which consists of three or more members of QNB's Board of Directors. The 2015 Plan provides for the granting of either (i) Non-Qualified Stock Options (NQSOs) or (ii) Incentive Stock Options (ISOs). The exercise price of an option, as defined by the 2015 Plan, is the fair market value of QNB's common stock at the date of grant. The 2015 Plan provides for the exercise either in cash or in securities of the Company or in any combination thereof. The 2015 Plan, which expires March 15, 2025, authorizes the issuance of 300,000 shares. The time period by which any option is exercisable under this Plan is determined by the Committee but shall not commence before the expiration of six months after the date of grant. The 2015 Plan was amended, effective January 1, 2023, to increase the maximum term of any options granted under the plan from five years to ten years, and to also require that awards granted under the Plan will vest 20% each consecutive year commencing on the first anniversary date of the award unless otherwise specified in an award agreement. There were 212,550 options granted, 70,175 options forfeited, 20,825 options exercised and 121,550 options outstanding under the 2015 Plan as of December 31, 2023.

As of December 31, 2023, there was approximately $154,000 of unrecognized compensation cost related to unvested stock option awards granted. That cost is expected to be recognized over the next 50 months.

Stock option activity during 2023, 2022, and 2021 was as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2020	116,550	$ 37.42		
Exercised	(19,025)	30.97		
Forfeited	(8,575)	35.27		
Granted	25,000	32.50		
Outstanding at December 31, 2021	113,950	37.58		
Exercised	—	—		
Forfeited	(34,150)	37.07		
Granted	29,350	37.26		
Outstanding at December 31, 2022	109,150	37.65		
Exercised	—	—		
Forfeited	(22,600)	43.15		
Granted	35,000	29.51		
Outstanding at December 31, 2023	121,550	$ 34.29	3.83	$ —
Exercisable at December 31, 2023	41,375	$ 37.37	0.60	$ —

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

	Options outstanding	Exercise price	Remaining life (in years)	Options exercisable	Exercise price
	35,000	$ 29.51	9.13	—	$ —
	19,825	32.50	2.13	—	—
	19,650	36.50	1.13	19,650	36.50
	25,350	37.26	3.13	—	—
	21,725	38.15	0.13	21,725	38.15
Outstanding at December 31, 2023	121,550	$ 34.29	3.83	41,375	$ 37.37

The intrinsic value related to total stock options exercised during 2023, 2022, and 2021 are as follows:

	2023	2022	2021
Intrinsic value of stock options exercised	$ —	$ —	$ 31

The QNB Corp. 2023 Non-Employee Director Compensation Plan was approved by shareholders on May 23, 2023 (The "Director Compensation Plan"). The Director Compensation Plan authorized the issuance of 50,000 shares, is effective January 1, 2023 and expires on January 1, 2033. The Plan requires each non-employee director of the QNB, or any subsidiary of QNB designated by the Board (including QNB Bank), to receive $8,000 of their total annual compensation for service as a director in the form of the QNB's common stock. Under the Director Compensation Plan, commencing with the six-month period ended June 30, 2023, each non-employee director will receive, in addition to any cash compensation otherwise payable, a semi-annual grant of such number of shares of the QNB's common stock determined by dividing (i) the Semi-Annual Stock Payment Amount of $4,000 by (ii) the market value of a share of common stock determined as of June 30 or December 31 of any year, as applicable. Payments will be made under the Director Compensation Plan only to non-employee directors in office on the applicable payment date. As of December 31, 2023, 1,740 shares were issued to non-employee directors and there were 48,260 shares remaining under the Director Compensation Plan. Stock-based compensation expense related to the Director Compensation Plan was $80,000 for the for the year ended December 31, 2023.

Note 14 - Related Party Transactions

QNB 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 shareholders, their immediate families and affiliated companies. The following table presents activity and amounts due from directors, principal officers, and their related interests. All of these transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. These transactions did not involve more than normal risk of collectability or present any other unfavorable features.

Balance, December 31, 2022	$	1,762
New loans		1,941
Repayments		(312)
Balance, December 31, 2023	$	3,391

The following table provides additional information regarding transactions with related parties.

December 31,		2023		2022
Commitments to extend credit	$	1,617	$	3,287
Letters of credit		1,696		1,696
Deposits received		6,602		6,101

Note 15 - Commitments and Contingencies

Financial instruments with off-balance sheet risk:

In the normal course of business there are various legal proceedings, commitments, and contingent liabilities which are not reflected in the Consolidated Financial Statements. Management does not anticipate any material losses as a result of these transactions and activities. They include, among other things, commitments to extend credit and standby letters of credit. The maximum exposure to credit loss, which represents the possibility of sustaining a loss due to the failure of the other parties to a financial instrument to perform according to the terms of the contract, is represented by the contractual amount of these instruments. QNB uses the same lending standards and policies in making credit commitments as it does for on-balance sheet instruments. The activity is controlled through credit approvals, control limits, and monitoring procedures.

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

December 31,		2023		2022
Commitments to extend credit and unused lines of credit	$	378,954	$	339,312
Standby letters of credit		18,820		19,512
Total financial instrument commitments	$	397,774	$	358,824

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. QNB evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the financial or performance obligation of a customer to a third party. QNB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments. Standby letters of credit totaling $16,417,000 expire within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral and personal guarantees supporting these letters of credit as deemed necessary. The amount of collateral obtained for letters of credit and commitments to extend credit is based on management's credit evaluation of the customer. Collateral varies, but may include real estate, accounts receivable, marketable securities, pledged deposits, inventory or equipment. Management believes that the proceeds obtained through a liquidation of such collateral and the enforcement of personal guarantees would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2023 and 2022 for guarantees under standby letters of credit issued is not material.

Other commitments:

QNB has committed to various operating leases for several of their branch and office facilities. Some of these leases include specific provisions relating to rent increases. A maturity analysis of the operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

	Operating Leases
2024	$ 554
2025	534
2026	382
2027	335
2028	274
Thereafter	2,180
Total undiscounted cashflows	4,259
Total discount on cashflows	(1,227)
Total lease liabilities	$ 3,032

Some of the leases contain renewal options to extend the initial terms of the lease for periods ranging from five to ten years and certain leases allow for multiple extensions, the commitment for such renewals is not included above if they have not been exercised as of December 31, 2023. Operating lease costs, which include common area maintenance costs not included in the minimum lease payments above, for the years ended December 31, 2023, 2022 and 2021, was $723,000, $712,000 and $749,000, respectively.

Note 16 - Accumulated Other Comprehensive Income (Loss)

The following shows the components of accumulated other comprehensive income (loss) during the periods ended December 31, 2023, 2022 and 2021:

December 31,	2023	2022	2021
Unrealized net holding loss on available-for-sale securities	$ (84,247)	$ (102,692)	$ (4,734)
Unrealized loss on available-for-sale securities for which a portion of an other-than-temporary impairment loss has been recognized in earnings	—	—	—
Unrealized net holding loss on interest rate swaps	(1,749)	—	—
Accumulated other comprehensive loss	(85,996)	(102,692)	(4,734)
Tax effect*	18,059	21,565	994
Accumulated other comprehensive (loss) income, net of tax	$ (67,937)	$ (81,127)	$ (3,740)

* *At tax rates of 21%*

The following table presents amounts reclassified out of accumulated other comprehensive income (loss) for the years ended December 31, 2023, 2022 and 2021:

	Amount reclassified from accumulated other comprehensive income (loss)			
Details about accumulated other comprehensive (loss) income	2023	2022	2021	Affected line item in statement of income
Realized net holding (loss) gain on available-for-sale securities	$ (2,058)	$ (139)	$ 18	Net (loss) gain on sales of investment securities
Impairment loss on investment securities	—	—	—	Net impairment loss on investment securities
Fair value remeasurements on fair value hedges	57	—	—	Interest and dividends on investment securities (AFS & Equity)
	(2,001)	(139)	18	
Tax effect*	420	29	(4)	Provision for income taxes
Total reclassification out of accumulated other comprehensive (loss) income, net of tax	$ (1,581)	$ (110)	$ 14	Net of tax

* *At rate of 21%*

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (fair values are not adjusted for transaction costs). ASC 820 also establishes a framework (fair value hierarchy) for measuring fair value under US GAAP and expands disclosures about fair value measurements.

ASC 820 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.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the security's relationship to other benchmark quoted securities.

For financial assets measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used were as follows:

December 31, 2023	Quoted prices in active markets for identical assets (Level 1)	Significant other observable input (Level 2)	Significant unobservable inputs (Level 3)	Balance at end of period
Recurring fair value measurements				
Securities available-for-sale				
U.S. Treasuries	$ —	$ 6,451	$ —	$ 6,451
U.S. Government agency securities	—	74,122	—	74,122
State and municipal securities	—	89,189	—	89,189
U.S. Government agencies and sponsored enterprises (GSEs):				
Mortgage-backed securities	—	224,238	—	224,238
Collateralized mortgage obligations (CMOs)	—	89,973	—	89,973
Corporate debt securities and money market funds	—	6,157	52	6,209
Total securities available-for-sale	—	490,130	52	490,182
Equity securities	5,910	—	—	5,910
Total recurring fair value measurements	$ 5,910	$ 490,130	$ 52	$ 496,092
Nonrecurring fair value measurements *				
Impaired loans	$ —	$ —	$ 164	$ 164
Mortgage servicing rights	—	—	7	7
Total nonrecurring fair value measurements	$ —	$ —	$ 171	$ 171

* *impairment*

December 31, 2022	Quoted prices in active markets for identical assets (Level 1)	Significant other observable input (Level 2)	Significant unobservable inputs (Level 3)	Balance at end of period
Recurring fair value measurements				
Securities available-for-sale				
U.S. Treasuries	$ —	$ 301	$ —	$ 301
U.S. Government agency securities	—	86,709	—	86,709
State and municipal securities	—	95,367	—	95,367
U.S. Government agencies and sponsored enterprises (GSEs):				
Mortgage-backed securities	—	256,161	—	256,161
Collateralized mortgage obligations (CMOs)	—	101,672	—	101,672
Corporate debt securities	—	6,262	53	6,315
Total securities available-for-sale	—	546,472	53	546,525
Equity securities	12,056	—	—	12,056
Total recurring fair value measurements	$ 12,056	$ 546,472	$ 53	$ 558,581
Nonrecurring fair value measurements *				
Impaired loans	$ —	$ —	$ 3,928	$ 3,928
Mortgage servicing rights	—	—	1	1
Total nonrecurring fair value measurements	$ —	$ —	$ 3,929	$ 3,929

* *impairment*

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which QNB has utilized Level 3 inputs to determine fair value:

	Quantitative information about Level 3 fair value measurements			
December 31, 2023	**Fair value**	**Valuation techniques**	**Unobservable input**	**Value or range of values**
Impaired loans	$ 164	Appraisal of collateral(1)	Appraisal adjustments(2)	-20% to -100%
			Liquidation expenses(3)	-10%
Impaired loans	—	Financial statement values for UCC collateral	Financial statement(4) value discounts	-100%
Mortgage servicing rights	7	Discounted cash flow	Remaining term	2 to 30 yrs
			Prepayment Speeds	104% to 214%
			Discount rate	12.0% to 12.5%

	Quantitative information about Level 3 fair value measurements			
December 31, 2022	**Fair value**	**Valuation techniques**	**Unobservable input**	**Value or range of values**
Impaired loans	$ 3,634	Appraisal of collateral(1)	Appraisal adjustments(2)	-15% to -100%
			Liquidation expenses(3)	-10%
Impaired loans	294	Financial statement values for UCC collateral	Financial statement(4) value discounts	-30 to -100%
Mortgage servicing rights	1	Discounted cash flow	Remaining term	2 to 28 yrs
			Prepayment Speeds	113% to 235%
			Discount rate	12.0% to 12.5%

(1) Fair value is primarily determined through appraisals of the underlying collateral by independent parties, which generally includes various level 3 inputs which are not always identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and the age of the appraisal. The range is presented as a percent of the initial appraised value.

(3) Appraisals and pending agreements of sale are adjusted by management for estimated liquidation expenses. The range is presented as a percent of the initial appraised value.

(4) Values obtained from financial statements for UCC collateral (fixed assets and inventory) are discounted to estimated realizable liquidation value.

The following table presents additional information about the securities available-for-sale measured at fair value on a recurring basis and for which QNB utilized significant unobservable inputs (Level 3 inputs) to determine fair value for the year ended December 31:

Securities available-for-sale	Fair value measurements using significant unobservable inputs (Level 3) 2023	2022
Balance, beginning of year	$ 53	$ 75
Payments received	(1)	(22)
Sale of securities	—	—
Total gains or losses (realized/unrealized)		
Included in earnings	—	—
Included in other comprehensive income	—	—
Transfers in and/or out of Level 3	—	—
Balance, end of year	$ 52	$ 53

There were also no transfers in or out of level 3 for the same periods. There were no losses included in earnings attributable to the change in unrealized gains or losses relating to the available-for-sale securities above with fair value measurements utilizing significant unobservable inputs for the years ended December 31, 2023 and 2022.

The Level 3 securities consist of one collateralized debt obligation security ("PreTSL"), which is backed by trust preferred securities issued by banks. The market for this security at December 31, 2023 was not active and markets for similar securities also are not active. The new issue market is also inactive and there are currently very few market participants who are willing and or able to transact for these securities.

Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- The few observable transactions and market quotations that are available are not reliable for purposes of determining fair value at December 31, 2023;
- An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates; and
- PreTSLs will be classified within Level 3 of the fair value hierarchy because significant adjustments are required to determine fair value at the measurement date.

The Bank used an independent third party to value this security using a discounted cash flow analysis. Based on management's review of the bond's single underlying issuer, there are no expected credit losses or prepayments; cashflows used were contractual based on the Bloomberg YA screen. The assumed cashflows have been discounted using an estimated market discount rate based on the 30-year swap rate. The 30-year swap rate is used as the reference rate since it is indicative of market expectation for short-term rates in the future. This is consistent with the 30-year nature of PreTSL securities, which are priced using the 3-month LIBOR as a reference rate. The discount rate of 8.33% includes the risk-free rate, a credit component and a spread for illiquidity.

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

The following methods and assumptions were used to estimate the fair values of each major classification of financial instrument and non-financial asset at December 31, 2023 and 2022:

Cash and cash equivalents, accrued interest receivable and accrued interest payable (carried at cost): The carrying amounts reported in the balance sheet approximate those assets' fair value.

Investment securities (including derivative instruments) (carried at fair value): The fair value of securities is primarily determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. Level 2 debt securities are valued by a third-party pricing service commonly used in the banking industry. Level 2 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 date, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

The fair value of derivatives instruments designated as fair value hedges are based on estimates QNB would receive or pay to terminate the contracts or agreement, taking into account current interest rates and when appropriate, the credit-worthiness of the counterparties; these values are included in Level 2.

Restricted investment in stocks (carried at cost): The fair value of stock in Atlantic Community Bankers Bank and the Federal Home Loan Bank and VISA Class B is the carrying amount, based on redemption provisions, and considers the limited marketability of such securities.

Loans Held for Sale (carried at lower of cost or fair value): The fair value of loans held for sale is determined, when possible, using quoted secondary market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Loans Receivable (carried at cost): The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (generally carried at fair value): Impaired loans are loans in which QNB 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. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Mortgage Servicing Rights (carried at lower of cost or fair value): The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The mortgage servicing rights are stratified into tranches based on predominant characteristics, such as interest rate, loan type and investor type. The valuation incorporates assumptions that market participants would use in estimating future net servicing income.

Deposit liabilities (carried at cost): The fair value of deposits with no stated maturity (e.g. demand deposits, interest-bearing demand accounts, money market accounts and savings accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). This approach to estimating fair value excludes the significant benefit that results from the low-cost funding provided by such deposit liabilities, as compared to alternative sources of funding. Deposits with a stated maturity (time deposits) have been valued using the present value of cash flows discounted at rates approximating the current market for similar deposits.

Short-term borrowings (carried at cost): The carrying amount of short-term borrowings approximates their fair values.

Long-term debt (carried at cost): Long-term debt has stated maturities and have been valued using the present value of cash flows discounted at rates approximating the current market for similar debt instruments.

Off-balance-sheet instruments (disclosed at cost): The fair value for the Bank's off-balance sheet instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

Management uses its best judgment in estimating the fair value of QNB's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of the respective period ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

The estimated fair values and carrying amounts of QNB's financial and off-balance sheet instruments are summarized as follows:

			Fair value measurements		
December 31, 2023	**Carrying amount**	**Fair value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial assets					
Cash and cash equivalents	$ 62,657	$ 62,657	$ 62,657	$ —	$ —
Investment securities:					
Available-for-sale (1)	490,182	490,182	—	490,130	52
Equity	5,910	5,910	5,910	—	—
Restricted investment in bank stocks	2,730	2,730	—	2,730	—
Loand held for sale	549	560			
Net loans	1,084,681	1,077,544	—	—	1,077,544
Mortgage servicing rights	415	585	—	—	585
Accrued interest receivable	6,101	6,101	—	6,101	—
Financial liabilities					
Deposits with no stated maturities	$ 1,173,732	$ 1,173,732	$ 1,173,732	$ —	$ —
Deposits with stated maturities	314,981	311,735	—	311,735	—
Short-term borrowings	94,094	94,094	94,094	—	—
Long-term debt	20,000	19,906	19,906	—	—
Accrued interest payable	5,294	5,294	—	5,294	—
Off-balance sheet instruments					
Commitments to extend credit	$ —	$ —	$ —	$ —	$ —
Standby letters of credit	—	79	—	79	—

(1) Includes derivatives designated as fair value hedging instruments.

December 31, 2022		Carrying amount		Fair value	Fair value measurements Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)
Financial assets									
Cash and cash equivalents	$	15,899	$	15,899	$ 15,899	$	—	$	—
Investment securities:									
Available-for-sale		546,525		546,525	—		546,472		53
Equity		12,056		12,056	12,056		—		—
Restricted investment in bank stocks		5,193		5,193	—		5,193		—
Net loans		1,028,854		1,001,103	—		—		1,001,103
Mortgage servicing rights		469		638	—		—		638
Accrued interest receivable		5,038		5,038	—		5,038		—
Financial liabilities									
Deposits with no stated maturities	$	1,242,920	$	1,242,920	$ 1,242,920	$	—	$	—
Deposits with stated maturities		175,449		168,554	—		168,554		—
Short-term borrowings		161,327		161,327	161,327		—		—
Long-term debt		10,000		10,000	10,000		—		—
Accrued interest payable		467		467	—		467		—
Off-balance sheet instruments									
Commitments to extend credit	$	—	$	—	$ —	$	—	$	—
Standby letters of credit		—		69	—		69		—

Note 18 - Derivatives and Hedging Activities

QNB's risk management objective with respect to derivative financial instruments is to hedge the risk of changes in the fair value of certain fixed-rate investment securities, included in a closed portfolio, for changes in the Secured Overnight Financing Rate ("SOFR"). The effective and ineffective portions of changes in the fair value of each derivative financial instrument is reported in accumulated other comprehensive (loss) income, net of tax, and are reclassified to interest income as interest payments are made or received on the hedged portfolios. QNB assesses the effectiveness of each hedging relationship using a regression analysis of prior periodic changes in fair value of both the hedge and the hedged item. In the assessment of hedge effectiveness, QNB will consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that could require the counterparty to make payments (counterparty default risk). If the likelihood that the counterparty will not default ceases to be probable, the hedge may no longer be highly effective and hedge ineffectiveness due to counterparty payment risk will be assessed.

The following table presents the notional amounts of derivatives designated as fair value hedging instruments at December 31, 2023. QNB pledges cash or securities to cover the negative fair value of derivatives instruments. Cash collateral associated with the derivative instruments are not added to or netted against the fair value amounts. QNB did not have any derivatives designated as fair value hedging instruments at December 31, 2022.

	At December 31, 2023 Interest Rate Swaps-Fair Value Hedges		
Balance Sheet Classification	**Notional Amount**	**Amortized Cost of Hedged Portfolio**	**Cumulative Amount of Fair Value Hedging Adjustment Included in Carrying Amount of Hedged Asset**
Investment Securities Available-for-sale:			
State and municipal securities	$ 75,000	$ 97,373	$ (445)
U.S. Government agencies and GSE mortgage backed securities	225,000	343,453	(1,304)
Total	$ 300,000	$ 440,826	$ (1,749)

The following table presents amounts of included in the Consolidated Statements on Income for derivatives designated as fair value hedging instruments for the year ended December 31, 2023.

For the year ended **Income Sheet Classification**	**December 31, 2023**
Interest and dividends on available-for-sale and equity securities:	
State and municipal securities	
Recognized on fair value hedge	$ 2,180
Recognized on hedge portfolio	(1,470)
Recognized on remeasurement of fair value hedge	16
U.S. Government agencies and GSE mortgage backed securities	
Recognized on fair value hedge	6,517
Recognized on hedge portfolio	(4,483)
Recognized on remeasurement of fair value hedge	41
Total	$ 2,801

The following table presents amounts included in accumulated other comprehensive (loss) income for derivatives designated as fair value hedging instruments at December 31, 2023.

Balance Sheet Classification	**At December 31, 2023**
Accumulated other comprehensive loss, net of tax	$ (1,382)
Total	$ (1,382)

Note 19 - Revenue Recognition from Contracts with Customer

QNB generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in non-interest income within the Consolidated Statements of Income are as follows:

- Fees for services to customers—fees include service charges on deposits which are included as liabilities in the consolidated statement of financial position and consist of transaction-based fees, stop payment fees, Automated Clearing House (ACH) fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. These fees are charged as earned on the day of the transaction or within the month of the service, with the exception of Enhanced Account Analysis Fees, which are calculated on the previous month's activity and assessed on the following month. The Enhanced Account Analysis Fees are currently being accrued; the revenue is currently being recorded in the month it is earned. Service charges on deposits are withdrawn directly from the customer's account balance.
- ATM and debit card – fees are recognized at the time the transaction is executed as that is the point in time QNB fulfills the customer's request.
- Retail brokerage and advisory—fee income and related expenses are accrued monthly to properly record the revenues in the month they are earned. Advisory fees are collected in advance on a quarterly basis. These advisory fees are received in the first month of the quarter for which the service is being performed and recognized evenly in each month of the quarter. Fees that are transaction based are recognized at the point in time that the transaction is executed (i.e. trade date).
- Merchant – QNB earns interchange fees from credit/debit cardholder transactions conducted through VISA/MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder within the month.
- Other—includes credit card fees, sales of checks to depositors, miscellaneous fees and gain/losses on sale of other reals estate owned (OREO).
    - Credit card fees are recognized monthly, concurrently with the transaction processing services provided to the cardholder within the month.
    - Sales of checks to depositors are commissions earned from a third-party who provides checks to QNB's customers. There is a pre-paid incentive with the third party which is recognized over the term of the contract. Other commissions on the sales of checks are recorded weekly.
    - Miscellaneous fees, such as wire, cashier check and garnishment fees, are charged as earned on the day of the transaction.
    - Gain (loss) on sales of OREO – QNB records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When QNB finances the sale of OREO to the buyer, QNB 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 OREO asset is derecognized and 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, QNB adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

Note 20 - Parent Company Financial Information

Condensed financial statements of QNB Corp. only:

Balance Sheets **December 31,**	**2023**	**2022**
Assets		
Cash and cash equivalents	$ 565	$ 353
Investment securities:		
Available-for-sale (amortized cost $6,448 and $299)	6,451	301
Equity securities (cost of $5,695 and $12,091)	5,910	12,056
Investment in subsidiary	77,173	58,140
Other assets	752	146
Total assets	$ 90,851	$ 70,996
Liabilities		
Other liabilities	$ 27	$ 38
Shareholders' equity	90,824	70,958
Total liabilities and shareholders' equity	$ 90,851	$ 70,996

Statements of Income Year ended December 31,	2023	2022	2021
Dividends from subsidiary	$ 4,407	$ 4,329	$ 5,733
Interest, dividend and other income	517	358	386
Securities (losses) gains	(19)	405	1,788
Net unrealized gain (loss) on investment equity securities	250	(1,026)	926
Total income	5,155	4,066	8,833
Expenses	661	496	491
Income before applicable income taxes and equity in undistributed income of subsidiary	4,494	3,570	8,342
Provision for income tax (benefit) expense	(1)	(235)	724
Income before equity in undistributed income of subsidiary	4,495	3,805	7,618
Equity in undistributed income of subsidiary	4,988	12,116	8,874
Net income	$ 9,483	$ 15,921	$ 16,492

Statements of Comprehensive Income Year ended December 31,	(in thousands)								
	2023			2022			2021		
	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
Net income	$ 11,727	$ 2,244	$ 9,483	$ 19,586	$ 3,665	$ 15,921	$ 20,453	$ 3,961	$ 16,492
Other comprehensive income/(loss):									
Net unrealized holding gain/(loss) on available-for-sale securities:									
Unrealized holding gain/(loss) arising during the period	16,388	3,441	12,947	(98,097)	(20,600)	(77,497)	(11,867)	(2,492)	(9,375)
Reclassification adjustment for loss/(gain) included in net income	2,058	432	1,626	139	29	110	(18)	(4)	(14)
Net unrealized holding loss on fair value hedge:									
Unrealized holding loss arising during the period	(1,693)	(355)	(1,338)	—	—	—	—	—	—
Reclassification adjustment for fair value remeasurements included in net income	(57)	(12)	(45)	—	—	—	—	—	—
Other comprehensive income/(loss):	16,696	3,506	13,190	(97,958)	(20,571)	(77,387)	(11,885)	(2,496)	(9,389)
Total comprehensive income (loss)	$ 28,423	$ 5,750	$ 22,673	$ (78,372)	$ (16,906)	$ (61,466)	$ 8,568	$ 1,465	$ 7,103

Statements of Cash Flows **Year ended December 31,**	**2023**	**2022**	**2021**
Operating Activities			
Net income	$ 9,483	$ 15,921	$ 16,492
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income from subsidiary	(4,988)	(12,116)	(8,874)
Net securities losses (gains)	19	(405)	(1,788)
Net unrealized (gain) loss on investment equity securities	(250)	1,026	(926)
Stock-based compensation expense	185	85	102
Accretion of discounts on investment securities	(174)	(6)	—
(Decrease) increase in other liabilities	(36)	(266)	222
(Increase) decrease in other assets	(122)	(121)	2
Deferred income tax (benefit) provision	42	(285)	265
Net cash provided by operating activities	4,159	3,833	5,495
Investing activities			
Purchase of investment equity securities	(2,179)	(1,860)	(4,615)
Purchase of investment securities available-for-sale	(14,275)	(1,193)	—
Proceeds from sale of investment equity securities	8,556	1,594	7,768
Proceeds from maturities of investment securities available-for-sale	7,800	900	—
Capital contribution to Bank	—	—	(2,500)
Net cash (used) provided by investing activities	(98)	(559)	653
Financing activities			
Cash dividend paid	(4,671)	(4,498)	(4,375)
Treasury stock purchase	—	(75)	(1,356)
Proceeds from issuance of common stock	822	418	575
Net cash used by financing activities	(3,849)	(4,155)	(5,156)
Increase (decrease) in cash and cash equivalents	212	(881)	992
Cash and cash equivalents at beginning of year	353	1,234	242
Cash and cash equivalents at end of year	$ 565	$ 353	$ 1,234

Note 21 - Regulatory Restrictions

Dividends payable by the Company and the Bank are subject to various limitations imposed by statutes, regulations and policies adopted by bank regulatory agencies. Under Pennsylvania and Federal banking law, the Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Under Federal Reserve regulations, the Bank is limited as to the amount it may lend affiliates, including the Company, unless such loans are collateralized by specific obligations.

Both the Company and the Bank are subject to regulatory capital requirements administered by Federal bank regulatory agencies. Failure to meet minimum capital requirements can initiate actions by regulators that could have an effect on the financial statements. Under the framework for prompt corrective action, both the Company and the Bank must meet capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items. The capital amounts and classification are also subject to qualitative judgments by the regulators. Management believes, as of December 31, 2023, that the Company and the Bank met capital adequacy requirements to which they were subject.

The Bank is presently considered to be "well capitalized" under the regulatory framework. To be categorized as well capitalized, the Company and the Bank must maintain minimum ratios set forth in the table below. The Company and the Bank's actual capital amounts and ratios are presented as follows:

	Capital levels					
	Actual		Adequately capitalized		Well capitalized	
As of December 31, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital (to risk-weighted assets):						
Consolidated	$ 167,711	13.09%	102,513	8.00%	128,142	10.00%
Bank	154,062	12.20	101,032	8.00	126,290	10.00
Tier I capital (to risk-weighted assets):						
Consolidated	158,753	12.39	76,885	6.00	76,885	6.00
Bank	145,104	11.49	75,774	6.00	101,032	8.00
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	158,753	12.39	57,664	4.50	N/A	N/A
Bank	145,104	11.49	56,830	4.50	82,088	6.50
Tier I capital (to average assets):						
Consolidated	158,753	8.92	71,185	4.00	N/A	N/A
Bank	145,104	8.18	70,961	4.00	88,701	5.00

	Capital levels					
	Actual		Adequately capitalized		Well capitalized	
As of December 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital (to risk-weighted assets):						
Consolidated	$ 162,725	13.19%	98,701	8.00%	123,376	10.00%
Bank	149,908	12.52	95,796	8.00	119,746	10.00
Tier I capital (to risk-weighted assets):						
Consolidated	152,077	12.33	74,025	6.00	74,025	6.00
Bank	139,260	11.63	71,847	6.00	95,796	8.00
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	152,077	12.33	55,519	4.50	N/A	N/A
Bank	139,260	11.63	53,886	4.50	77,835	6.50
Tier I capital (to average assets):						
Consolidated	152,077	8.75	69,507	4.00	N/A	N/A
Bank	139,260	8.07	69,009	4.00	86,261	5.00

Note 22 - Consolidated Quarterly Financial Data (Unaudited)

The unaudited quarterly results of operations for the years ended 2023 and 2022 are in the following table:

	Quarters Ended 2023				Quarters Ended 2022			
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Interest income	$ 15,463	$ 15,865	$ 18,497	$ 19,257	$ 11,809	$ 12,327	$ 13,546	$ 14,739
Interest expense	5,046	6,532	8,284	9,065	1,073	1,224	2,167	3,460
Net interest income	10,417	9,333	10,213	10,192	10,736	11,103	11,379	11,279
(Reversal of) provision for credit losses	(1,805)	209	459	293	—	—	—	(850)
Non-interest income	1,219	1,580	1,755	283	1,611	639	484	2,997
Non-interest expense	8,200	8,492	8,671	8,746	7,813	7,746	7,814	8,119
Income before income taxes	5,241	2,212	2,838	1,436	4,534	3,996	4,049	7,007
Provision for income taxes	1,123	325	494	302	824	647	634	1,560
Net Income	$ 4,118	$ 1,887	$ 2,344	$ 1,134	$ 3,710	$ 3,349	$ 3,415	$ 5,447
Earnings Per Share - basic *	$ 1.15	$ 0.52	$ 0.65	$ 0.31	$ 1.04	$ 0.94	$ 0.96	$ 1.52
Earnings Per Share - diluted *	$ 1.15	$ 0.52	$ 0.65	$ 0.31	$ 1.04	$ 0.94	$ 0.96	$ 1.52

** Due to rounding, quarterly earnings per share may not sum to annual earnings per share*

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of QNB's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer), management has evaluated the effectiveness of the design and operation of QNB's disclosure controls and procedures as of December 31, 2023. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to QNB's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Report.

b) Internal Control over Financial Reporting

Information required by this item is set forth in Management's Report included under Item 8, which is incorporated by reference into this item.

c) Changes in Internal Control over Financial Reporting

On May 14, 2013, COSO issued an updated version of its Internal Control – Integrated Framework, referred to as the 2013 COSO Framework. Management's assessment of the overall effectiveness of our internal controls over financial reporting for the year ended December 31, 2023 was based on the 2013 COSO Framework.

There were no changes to the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act) during the quarter ended December 31, 2023 that materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

ITEM 9B. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the three months ended December 31, 2023, none of QNB's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the QNB's securities that was intended to satisfy the affirmation defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408 of SEC Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to information appearing in QNB Corp.'s definitive proxy statement to be used in connection with the 2024 Annual Meeting of Shareholders under the captions:

- "Election of Directors"
- "Governance of the Company - Code of Ethics"
- "Meetings and Committees of the Board of Directors of QNB and the Bank"
- "Executive Officers of QNB and/or the Bank"

The Company has adopted a Code of Business Conduct and Ethics applicable to its CEO, CFO and Controller as well as its long-standing Code of Ethics which applies to all directors and employees. The codes are available on the Company's website at www.qnbbank.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the information appearing in QNB Corp.'s definitive proxy statement to be used in connection with the 2024 Annual Meeting of Shareholders under the captions:

- "Compensation Committee Report"
- "Executive Compensation"
- "Director Compensation"
- "Compensation Tables"

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

Equity Compensation Plan Information

The following table summarizes QNB's equity compensation plan information as of December 31, 2023. Information is included for both equity compensation plans approved by QNB shareholders and equity compensation plans not approved by QNB shareholders.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares available for future issuance under equity compensation plans [excluding securities reflected in column (a)]
	(a)	(b)	(c)
Equity compensation plans approved by QNB shareholders			
2015 Stock option plan	121,550	$ 34.29	157,625
2021 Employee stock purchase plan	—	—	16,106
Equity compensation plans not approved by QNB shareholders			
None	—	—	—
Total	121,550	$ 34.29	173,731

Additional information required by Item 12 is incorporated by reference to the information appearing in QNB Corp.'s definitive proxy statement to be used in connection with the 2023 Annual Meeting of Shareholders under the captions:

- "Security Ownership of Certain Beneficial Owners and Management"

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the information appearing in QNB Corp.'s definitive proxy statement to be used in connection with the 2024 Annual Meeting of Shareholders under the captions:

- "Certain Relationships and Related Party Transactions"
- "Governance of the Company - Director Independence"

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the information appearing in QNB Corp.'s definitive proxy statement to be used in connection with the 2024 Annual Meeting of Shareholders under the captions:

- "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors"
- "Audit Fees, Audit Related Fees, Tax Fees, and All Other Fees"

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements are included by reference in Part II, Item 8 hereof.

2. Financial Statement Schedules

The financial statement schedules required by this Item are omitted because the information is either inapplicable, not required or is in the Consolidated Financial Statements as a part of this Report.

3. The following exhibits are incorporated by reference herein or filed with this Form 10-K:

3.1- Articles of Incorporation of Registrant, as amended. (Incorporated by reference to Exhibit 3(i) of Registrant's Annual Report on Form 10-K, SEC File No. 0-17706, filed with the Commission on March 13, 2015)
3.2- By-laws of Registrant, as amended January 26, 2021. (Incorporated by reference to Exhibit 3.1 of the Registrant's Report on Form 8-K, SEC File No. 0-17706, filed with the Commission on January 27, 2021)
4.1- Description of Capital Securities (Incorporated by reference to Exhibit 4.1 of Registrant's Annual Report on Form 10-K, SEC File No. 0-17706, filed with the Commission on March 11, 2021)
10.1- Employment Agreement between Registrant and David W. Freeman. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K, SEC File No. 0-17706, filed with the Commission on December 28, 2012)*
10.2- Change of Control Agreement between Registrant and Scott G. Orzehoski. (Incorporated bu reference to Exhibit 10.2 of the registrant's Annual Report on Form 10-K, SEC File No. 0-17706 filed with the Commission on March 14, 2023)*
10.3- Change of Control Agreement between Registrant and Jeffrey Lehocky. (Incorporated by reference to Exhibit 10.1 of Registrant's Annual Report on Form 8-K, SEC File No. 0-17706, filed with the Commission on November 3, 2022)*
10.4- Change of Control Agreement between Registrant and Christopher T. Cattie. (Incorporated by reference to Exhibit 10.9 of Registrant's Annual Report on Form 10-K, SEC File No. 0-17706, filed with the Commission on March 14, 2016)*
10.5- Change of Control Agreement between Registrant and Courtney L. Covelens. (Incorporated bu reference to Exhibit 10.5 of the registrant's Annual Report on Form 10-K, SEC File No. 0-17706 filed with the Commission on March 14, 2023)*
10.6- Change of Control Agreement between Registrant and Christina S. McDonald. (Incorporated bu reference to Exhibit 10.6 of the registrant's Annual Report on Form 10-K, SEC File No. 0-17706 filed with the Commission on March 14, 2023*
10.7- QNB Corp 2015 Stock Incentive Plan (Incorporated by reference to Exhibit A to QNB Corp.'s proxy statement, filed April 15, 2015)*
10.8- Amendment to the QNB Corp 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to QNB Corp.'s Form 8-K statement, filed October 31, 2022)*
10.9- QNB Corp. 2021 Employee Stock Purchase Plan. (Incorporated by reference to Exhibit A to QNB Corp.'s proxy statement, filed with the Commission on April 15, 2021)
10.10 QNB Corp. 2023 Non-Employee Director Compensation Plan. (Incorporated by reference to Appendix A to QNB Corp.'s proxy statement, filed April 11, 2023)*
10.11 QNB Bank Nonqualified Deferred Compensation Plan effective August 1, 2023*
21.1- Subsidiaries of the Registrant
23.1- Consent of Independent Registered Public Accounting Firm
31.1- Section 302 Certification of the Chief Executive Officer
31.2- Section 302 Certification of the Chief Financial Officer
32.1- Section 906 Certification of the Chief Executive Officer
32.2- Section 906 Certification of the Chief Financial Officer

* Indicates compensatory plan or arrangement

The following Exhibits are being furnished ** as part of this report:

No.	**Description**
101.INS	Inline XBRL Instance Document **
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents **
104	Cover page interactive data file (formatted as inline XBRL and continued in Exhibit 101).

** These interactive data files are being furnished as part of this Annual Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

SIGNATURES

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

QNB Corp.

March 15, 2024

BY: /s/ David W. Freeman
David W. Freeman
Chief Executive Officer

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

/s/ Dennis Helf Dennis Helf	Director, Chairman	March 15, 2024
/s/ David W. Freeman David W. Freeman	Chief Executive Officer, Principal Executive Officer and Director	March 15, 2024
/s/ Autumn R. Bayles Autumn R. Bayles	Director	March 15, 2024
/s/ Laurie A. Bergman Laurie A Bergman	Director	March 15, 2024
/s/ Randy S. Bimes Randy S. Bimes	Director	March 15, 2024
/s/ Thomas J. Bisko Thomas J. Bisko	Director	March 15, 2024
/s/ Kenneth F. Brown, Jr. Kenneth F. Brown, Jr.	Director	March 15, 2024
/s/ Gerald E.Gorski Gerald E. Gorski	Director	March 15, 2024
/s/ Jennifer L. Mann Jennifer L. Mann	Director	March 15, 2024
/s/ Ranajoy Ray-Chaudhuri Ranajoy Ray-Chaudhuri	Director	March 15, 2024
/s/ W. Randall Stauffer W. Randall Stauffer	Director	March 15, 2024
/s/ Scott R. Stevenson Scott R. Stevenson	Director	March 15, 2024
/s/ Jeffrey Lehocky Jeffrey Lehocky	Chief Financial Officer (Principal Financial Officer)	March 15, 2024
/s/ Mary E. Liddle Mary E. Liddle	Chief Accounting Officer (Principal Accounting Officer)	March 15, 2024

QNB BANK
NONQUALIFIED DEFERRED COMPENSATION PLAN

RECITALS

This Nonqualified Deferred Compensation Plan (the "Plan") is adopted by QNB Bank (the "Bank"), a Pennsylvania banking corporation and wholly owned subsidiary of QNB Corp., for the benefit of a select group of the Bank's management or highly compensated employees. The purpose of the Plan is to provide a deferred compensation vehicle to which the Bank may credit discretionary amounts on behalf of Participants for recruitment and reward.

The Plan is intended to be a "top-hat" plan (i.e., an unfunded deferred compensation plan maintained for a select group of management or highly-compensated employees) under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as may be amended from time to time ("ERISA"). The Bank intends that this Plan shall be construed and interpreted for all purposes as intended to be in compliance with the requirements set forth in Internal Revenue Code Section 409A ("Section 409A") and the Treasury Regulations issued thereunder.

Accordingly, the Plan is effective as of August 1, 2023.

ARTICLE 1
DEFINITIONS

This Article provides definitions of terms used throughout this Plan, and whenever used herein in a capitalized form, except as otherwise expressly provided, the terms shall be deemed to have the following meaning:

1.1 **"Account"** shall mean a bookkeeping account established and maintained by the Bank on behalf of a Participant and shall be used solely as a device to measure and determine the amounts to be paid to a Participant or a Beneficiary under the terms of the Plan. A Participant's Account balance shall equal: (a) the sum of the Bank Contributions, plus or minus (b) Deemed Investment gains and/or losses credited or debited thereon, less (c) distributions made to the Participant or his or her Beneficiary pursuant to this Plan. The Plan Administrator or Plan recordkeeper shall establish additional subaccounts that the Plan Administrator considers necessary to reflect the entire interest of the Participant under the Plan.

1.2 **"Affiliate"** shall mean any corporation, partnership, joint venture, association, or similar organization or entity, other than the Bank, that is a member of a controlled group of corporations in which the Bank is a member, as defined in Code Section 414(b) and all other trade or business (whether or not incorporated) under common control of or with the Bank, as defined in Code Section 414(c).

1.3 **"Bank"** shall mean QNB Bank, and its successors and assigns, unless otherwise provided in this Plan, or any other corporation or business organization which, with the consent of QNB Bank, or its successors or assigns, assumes the Bank's obligations under this Plan, or any Affiliate which agrees, with the consent of QNB Bank, or its successors or assigns, to become a party to the Plan.

1.4 **"Bank Contributions"** shall mean the deferred compensation amounts credited on behalf of a Participant by the Bank to the Participant's Account, as described in Article 3.

1.5 **"Beneficiary" or "Beneficiaries"** shall mean the person or persons, natural or otherwise, designated by a Participant in accordance with the Plan to receive applicable payments in the event of the death of the Participant prior to the Participant's receipt of the entire amount credited to his or her Account.

1.6 **“Beneficiary Designation Form”** shall mean the form established from time to time by the Plan Administrator that a Participant completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.7 **“Board”** shall mean the board of directors of the Bank, as from time to time constituted.

1.8 **“Cause”** shall mean conduct by a Participant determined by the Bank to be: (a) gross negligence or willful malfeasance in the performance of his or her duties; (b) actions or omissions that harm the Bank and are undertaken or omitted knowingly or are criminal or fraudulent or involve material dishonesty or moral turpitude; (c) being indicted in a court of law for any felony or for a crime involving misuse or misappropriation of Bank funds; or (d) breach of fiduciary duty to the Bank.

1.9 **“Claimant”** shall mean a Participant or a Beneficiary who believes that he or she is entitled to a benefit under this Plan or is being denied a benefit to which he or she is entitled hereunder.

1.10 **“Code”** shall mean the U.S. Internal Revenue Code of 1986 and the Treasury Regulations or other authoritative guidance issued thereunder, as amended from time to time.

1.11 **“Deemed Investment”** shall mean the notional conversion of the balance held in a Participant’s Account(s) into shares or units of the Deemed Investment Options that are used as measuring devices for determining the value of a Participant’s Account(s).

1.12 **“Deemed Investment Options”** shall mean the hypothetical securities or other investments described under Section 4.1 from which the Plan Administrator may select to be used as measuring devices to determine the Deemed Investment gains or losses of the Participant’s Account(s). A Participant shall have no real or beneficial ownership in the Deemed Investment Options or any other asset of the Bank resulting from participation in the Plan.

1.13 **“Disability” or “Disabled”** shall mean a condition of a Participant whereby he or she has been deemed totally disabled by the Social Security Administration or has been determined to be disabled in accordance with a long-term disability insurance program of the Bank, provided that the program covers the Participant and the definition of disability applied under such program complies with Code Section 409A. Upon the request of the Plan Administrator, the Participant must submit proof to the Plan Administrator of the Social Security Administration’s or disability insurance provider’s determination

1.14 **“Effective Date”** shall mean August 1, 2023.

1.15 **“Eligibility Date”** shall mean the date designated by the Plan Administrator on which an Eligible Employee shall become eligible to participate in the Plan.

1.16 **“Eligible Employee”** shall mean for any calendar year (or applicable portion of a calendar year), an Employee who is determined by the Bank, or its designee, to be eligible to participate in the Plan.

1.17 **“Employee”** shall mean an individual who provides services to the Bank in the capacity of a common law employee of the Bank

1.18 **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and the regulations and guidance promulgated thereunder.

1.19 **“Participant”** shall mean an Eligible Employee of the Bank who has met the requirements of participation under Article 2 and who participates in the Plan in accordance with the terms and conditions of the Plan.

1.20 **“Participation Agreement”** shall mean the agreement executed by the Eligible Employee whereby the Eligible Employee agrees to participate in the Plan.

1.21 **“Plan”** shall mean the QNB Bank Nonqualified Deferred Compensation Plan, as evidenced by this written instrument and Participation Agreements, as amended from time to time. For purposes of applying Code Section 409A requirements, the benefit of each Participant under this Plan is a nonelective account balance plan under Treasury Regulation §1.409A-1(c)(2)(i)(B).

1.22 **“Plan Administrator”** shall mean the Bank or such committee or person as the Bank shall appoint. A Participant may not vote in any Bank decision relating solely to his or her individual benefits under this Plan.

1.23 **"Plan Year"** shall mean, for the first Plan Year, the period beginning on the Effective Date and ending December 31 of the same calendar year, and thereafter shall mean a twelve (12) month period beginning January 1 of each calendar year and continuing through December 31 of such calendar year.

1.24 **"Retirement Age"** shall mean age sixty-five (65), unless otherwise described in a Participant's Participation Agreement.

1.25 **"Section 409A"** shall mean Code Section 409A and the Treasury Regulations or other authoritative guidance issued thereunder.

1.26 **"Separation from Service" or "Separates from Service"** shall mean an anticipated permanent reduction in the level of bona fide services to be performed by a Participant to twenty percent (20%) or less of the average level of bona fide services performed by the Participant over the immediately preceding 36-month period (or the full period during which the Participant performed services for the Bank, if that is less than 36 months). Whether a Participant has had a Separation from Service shall be determined pursuant to Treasury Regulation Section 1.409A-1(h).

1.27 **"Specified Employee"** shall mean a Participant meets the definition of a "key employee" as such term is defined in Code Section 416(i)(1)(A)(i), (ii) or (iii) (without regard to the Treasury Regulations thereunder and Section 416(i)(5)). However, a Participant is not a Specified Employee unless any stock of the Bank or QNB Corp. is publicly traded on an established securities market or otherwise, as defined in Treasury Regulation §1.897-1(m). If a Participant is a key employee at any time during the twelve (12) months ending on December 31, the identification date, the Participant is a Specified Employee for the twelve (12) month period ending on the first day of the fourth month following the identification date. The determination of a Participant as a Specified Employee shall be made by the Plan Administrator in accordance with Code Section 416(i) and the "specified employee" requirements of Section 409A.

1.28 **"Treasury Regulation" or "Treasury Regulations"** shall mean the regulations promulgated by the Internal Revenue Service for the U.S. Department of the Treasury, as they may be amended from time to time.

1.29 **"Valuation Date"** shall mean the date through which Deemed Investment gains and/or losses are credited or debited to a Participant's Account. The Valuation Date shall be as close to the payout or other event triggering valuation as is administratively feasible. The Valuation Date shall be interpreted as each day at the close of business of the New York Stock Exchange (currently 4:00 p.m. Eastern Time), on days that the New York Stock Exchange is open for trading or any other day on which there is sufficient trading in securities of the applicable fund to materially affect the unit value of the fund and the corresponding unit value of the Participant's Deemed Investment Option(s).

ARTICLE 2
ELIGIBILITY AND PARTICIPATION

2.1 **Selection**. Participation in this Plan shall be limited to those Eligible Employees of the Bank or Affiliates, as determined by the Plan Administrator in its sole and absolute discretion.

2.2 **Enrollment Requirements.** As a condition of participation in this Plan, each Eligible Employee shall complete, execute, and submit to the Plan Administrator a Participation Agreement, and any other election forms required by the Plan Administrator within the time specified by the Plan Administrator in accordance with the terms and conditions of the Plan. In addition, the Plan Administrator shall establish such other enrollment requirements as it determines necessary or advisable.

2.3 **Re-employment.** The re-employment of a former Participant by the Bank shall not entitle such individual to become a Participant hereunder. Such individual shall not become a Participant until the individual is again designated as an Eligible Employee in accordance with Section 2.1. If a Participant who has experienced a Separation from Service is receiving installment distributions pursuant to the terms of the Plan and is re-employed by the Bank, distributions due to the Participant shall not be suspended.

2.4 **Termination of Active Participation.** The Plan Administrator may remove an Eligible Employee from further active participation in the Plan at its discretion. If this occurs, a Participant shall not have additional amounts credited to the Account. Such individual shall continue to be subject to all the terms and conditions of the Plan, including the crediting or debiting of Deemed Investment gains or losses, as described in Article 4, until the amounts credited or debited to a Participant's Account(s) are distributed or forfeited. A Participant will cease to be a Participant as of the date on which his or her entire Account balance has been distributed or forfeited.

ARTICLE 3
BANK CONTRIBUTIONS

3.1 **Bank Contributions.** Bank Contributions credited to a Participant's Account for a particular Plan Year shall be an amount (if any) determined by the Bank in its discretion. The amount so credited on behalf of a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a given Plan Year may be zero. No Participant shall have a right to compel the Bank to credit a Bank Contribution and no Participant shall have the right to share in any such contribution for any year unless selected by the Plan Administrator in its sole and absolute discretion. Bank Contributions for any given Plan Year under this Section shall be credited to the applicable Participant's Account, as provided herein, at such time or times established by the Plan Administrator in its sole discretion.

ARTICLE 4
DEEMED INVESTMENT GAINS OR LOSSES

4.1 **Deemed Investment Options.** The Plan Administrator will determine the available Deemed Investment Options for purposes of crediting or debiting the Deemed Investment gains or losses to a Participant's Account. The Plan Administrator may discontinue, substitute, or add Deemed Investment Options in its sole discretion on a prospective basis. Any discontinuance, substitution, or addition of a Deemed Investment Option will take effect as soon as administratively practicable. The Deemed Investment Options are to be used for measurement purposes only, and the Plan Administrator's selection of any such Deemed Investment Option, the allocation of such Deemed Investment Options to the Account, the calculation of additional amounts, and the crediting or debiting of such amounts to the Account shall not be considered or construed in any manner as an actual investment of the Account. The Plan Administrator will not be responsible in any manner to any Participant, Beneficiary or other person for any damages, losses, liabilities, costs or expenses of any kind arising in connection with any designation or elimination of a Deemed Investment Option. Without limiting the foregoing, the Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Plan Administrator.
The Participant (or Beneficiary, if applicable) shall at all times remain an unsecured creditor of the Bank. Any liability or obligation of the Bank to any Participant, former Participant, or Beneficiary with respect to a right to payment shall be based solely upon contractual obligations created by this Plan.

4.2 **Allocation of Deemed Investment Options.** The Plan Administrator shall decide how Bank Contributions shall be deemed to be invested among the Deemed Investment Options in its sole discretion. The Plan Administrator may elect to index the value of the Account to one Deemed Investment Option or by allocating percentages of the Deemed Investment Options to the Account, equal to one hundred percent (100%). As of each Valuation Date, the Account will be credited or debited to reflect the performance of the Deemed Investment Options elected by the Plan Administrator. If a Deemed Investment Option sustains a loss, the Account shall be reduced to reflect such loss.

4.3 **Participant Responsibilities.** A Participant, as a condition of participation in the Plan, agrees to indemnify and hold harmless the Plan Administrator and the Bank from any losses or damages of any kind relating to the Deemed Investment election of the Account.

4.4 **Valuation of Account(s).** A Participant's Account(s) as of each Valuation Date shall consist of the balance of the Participant's Account(s) as of the immediately preceding Valuation Date, plus (or minus) Deemed Investment gains or losses, minus the amount of any distributions made and any applicable tax withheld since the immediately preceding Valuation Date.

4.5 **No Required Investment of Bank Assets.** Notwithstanding anything contained herein to the contrary, the Bank reserves the right to invest its assets, including any assets that may have been set aside for the purpose of funding the benefits to be provided under the Plan, at its own discretion, and such assets shall remain the property of the Bank, subject to the claims of the general creditors of the Bank, and no Participant shall have any right to any portion of such assets other than as an unsecured general creditor of the Bank.

ARTICLE 5
VESTING / FORFEITURES / TAXES / FEES

5.1 **Vesting.** Unless otherwise described in a Participant's Participation Agreement, a Participant is one hundred percent (100%) vested in his or her Account upon the Participant's Eligibility Date.

5.2 **Forfeitures.** In the event a Participant's employment is terminated for Cause, no benefits of any kind will be due or payable by the Bank under the terms of this Plan and all rights of the Participant, his or her designated Beneficiary, executors, or administrators, or any other person, to receive payments thereof shall be forfeited. Additionally, a Participant will forfeit any portion of his or her Account that is unvested upon Separation from Service.

5.3 **Removal.** Notwithstanding any provision of this Plan to the contrary, the Bank shall not distribute any benefit under this Plan if a Participant is subject to a final removal or prohibition order issued by an appropriate banking agency pursuant to Section 8(e) of the Federal Deposit Insurance Act.

5.4 **Taxes and Withholding.** Bank Contributions (including earnings thereon) are subject to the Federal Insurance Contribution Act (FICA) and the Federal Unemployment Tax Act (FUTA) to the extent provided under applicable Code provisions, and benefits payable under the Plan are subject to all applicable federal, state, city, income, employment or other taxes as may be required to be withheld or paid. A Participant is solely responsible for the payment of all individual tax liabilities relating to any such benefits.

ARTICLE 6
PAYMENT OF BENEFITS

6.1 **Payments in General.**

(a) **Amount of Benefit.** A Participant (or, in the event of the death of a Participant, the Participant's Beneficiary) shall be entitled to a benefit equal to the Participant's vested Account balance as of the earliest payment event to occur under the terms of this Article 6.

(b) **Source of Payments.** All payments made under the Plan shall be made in cash from the Bank's general assets.

(c) **Changes in Time or Form of Payment.** If approved by the Bank, a Participant may delay the time of a payment or change the form of a payment as expressly provided under this Section 6.1(c) and Section 409A (hereinafter, a "Subsequent Deferral Election"). A Subsequent Deferral Election cannot accelerate any payment. A Subsequent Deferral Election which delays or changes payment is permitted only if all of the following requirements are met:

(i) The Subsequent Deferral Election does not take effect until at least twelve (12) months after the date on which the Subsequent Deferral Election is made and approved by the Plan Administrator;

(ii) If the Subsequent Deferral Election relates to a payment based on Separation from Service or at a specified time, the Subsequent Deferral Election must result in payment being deferred for a period of not less than five (5) years from the date the first amount was scheduled to be paid;

(iii) If the Subsequent Deferral Election relates to a payment at a specified time, the Participant must make the Subsequent Deferral Election not less than twelve (12) months before the date the first amount was scheduled to be paid.

For purposes of applying a Subsequent Deferral Election, installment payments shall be treated as a "single payment." Any election made pursuant to this Section shall be made on such election forms or electronic media as is required by the Plan Administrator, in accordance with the rules established by the Plan Administrator and shall comply with all requirements of Section 409A.

(d) **Calculation of Installments.** To calculate installments, a Participant's vested Account balance as of the date immediately prior to the first installment shall be divided by the number of installments to be paid to the Participant. Each January 1st thereafter, the installments shall be recalculated using the preceding December 31st Account balance divided by the remaining installments to be made. Any unpaid Account balance shall continue to be deemed to be invested, in which case any deemed income, gains, losses, or expenses shall be reflected in the actual payments. Notwithstanding the foregoing, if a Participant's vested Account balance is equal to or less than thirty thousand dollars ($30,000) at the due date of the first installment, payment shall instead be made in a lump sum and no installments shall be available hereunder.

(e) **Participant Elections.** Within thirty (30) days following a Participant's Eligibility Date, the Participant must elect to be paid in a lump sum or up to ten (10) years in monthly installments for every payment event; and for a Separation from Service prior to Retirement Age, a Participant must elect to be paid on the first day of the second month following Separation from Service or the first day of the second month following attainment of age sixty-five (65).

6.2 **Separation from Service.**

(a) **Prior to Retirement Age.** In the event of a Participant's Separation from Service (other than for Cause or death) prior to Retirement Age, the Bank shall pay to the Participant his or her vested Account balance in the form of payment elected by the Participant in accordance with Section 6.1(e). Payment shall be made or commence, as applicable, on the date elected by the Participant in accordance with Section 6.1(e). Vesting shall be calculated as of the date of Separation from Service, and installments, if applicable, shall be calculated in accordance with Section 6.1(d).

(b) **On or After Retirement Age.** In the event of a Participant's Separation from Service (other than for Cause or death) on or after Retirement Age, the Bank shall pay to the Participant his or her vested Account balance in the form of payment elected by the Participant in accordance with Section 6.1(e). Payment shall be made or commence on the first day of the second month following the date of the Participant's Separation from Service, with subsequent installments, if any, paid each month thereafter. Vesting shall be calculated as of the date of the Participant's Separation from Service, and installments, if applicable, shall be calculated in accordance with Section 6.1(d).

6.3 **Disability.** In the event a Participant becomes Disabled while employed by the Bank, the Bank shall pay to the Participant his or her vested Account balance in the form of payment elected by the Participant in accordance with Section 6.1(e). Payment shall be made or commence, as applicable, on the first day of the second month following the later of the Participant's Disability or attainment of the Participant's full Social Security Retirement Age. Subsequent installments, if any, shall be paid each month thereafter. Vesting shall be calculated as of the date of Disability, and installments, if applicable, shall be calculated in accordance with Section 6.1(d).

6.4 **Death.**

(a) **While Employed.** In the event a Participant dies while employed by the Bank, the Bank shall pay to the Participant's Beneficiary the Participant's vested Account balance in the form of payment elected by the Participant in accordance with Section 6.1(e). Payment shall be made or commence on the first day of the second month following the date of the Participant's death, with subsequent installments, if any, paid each month thereafter. Vesting shall be calculated as of the date of the Participant's death, and installments, if applicable, shall be calculated in accordance with Section 6.1(d).

(b) **During Installments.** In the event a Participant dies after installments have commenced but prior to receiving all installments owed under the Plan, the Bank shall continue to pay any remaining installments to the Participant's Beneficiary in accordance with the schedule the installments would have otherwise been paid to the Participant.

(c) **During a Delay.** In the event a Participant dies after becoming entitled to a benefit but prior to the commencement of payment, a Participant's Beneficiary shall be paid the same benefit to which the Participant was entitled except that the distribution shall be made in accordance with the Participant's distribution election for death under Section 6.4(a). Payment shall be made or commence, as applicable, on the first day of the second month following the date of the Participant's death, with subsequent installments, if any, paid each month thereafter.

6.5 **6-Month Delay for Specified Employees.** Solely to the extent necessary to avoid penalties under Section 409A, payments to be made as a result of a Separation from Service under this Article may not commence earlier than six (6) months after the Participant's Separation from Service if, pursuant to Section 409A, the Participant is considered a Specified Employee. In the event a distribution is delayed pursuant to this paragraph, any amounts otherwise payable during the six months shall be accumulated and paid in a lump sum on the first day of the seventh month following Separation from Service.

6.6 **Permissible Payment Accelerations.** Except as specifically permitted herein or in other sections of this Plan, no acceleration of the time or schedule of any payment may be made hereunder. Notwithstanding the foregoing, payments may be accelerated hereunder by the Bank (without any direct or indirect election on the part of any Participant), in accordance with the provisions of Treasury Regulation §1.409A-3(j)(4) and any subsequent guidance issued by the United States Treasury Department. Accordingly, payments may be accelerated, in accordance with the provisions of Treasury Regulation §1.409A-3(j)(4) in the following circumstances: (a) in limited cashouts (but not in excess of the limit under Code Section 402(g)(1)(B)); (b) to pay employment-related taxes; or (c) to pay any taxes that may become due at any time that the Plan fails to meet the requirements of Section 409A (but in no case shall such payments exceed the amount to be included in income as a result of the failure to comply with the requirements of Section 409A).

6.7 **Unsecured General Creditor Status of Participant.**

(a) The establishment of this Plan does not represent an employment contract between the Bank and a Participant and shall not be construed as giving any Participant the right to be retained in the Bank's service or employ, or the right to receive any benefit not specifically provided by the Plan. Neither Participants nor Beneficiaries shall have any interest in a benefit provided under this Plan, until such benefit is distributed in accordance with the Plan. Until paid to the Participant or Beneficiary, all assets required to fund this Plan shall remain the sole property of the Bank, subject to the claim of its general creditors. With respect to amounts to be paid to a Participant or his or her Beneficiaries hereunder, the Participant and his or her Beneficiaries are each a general unsecured creditor of the Bank.

(b) In the event that the Bank purchases an insurance policy or policies insuring the life of a Participant, to allow the Bank to recover or meet the cost of providing benefits, in whole or in part, hereunder, the Participant or Beneficiary shall not have any rights whatsoever in said policy or the proceeds. The Bank, or trust (if any), shall be the primary owner and beneficiary of any such insurance policy or property and shall possess and may exercise all incidents of ownership therein. The Participant further agrees to sign any forms and consent necessary for such life insurance, including the consent under Code Section 101(j), for the Bank or trust (as applicable), to be owner and beneficiary of the insurance on the Participant's life.

(c) In the event that the Bank purchases an insurance policy or policies on the life of a Participant as provided for above, then all of such policies shall be subject to the claims of the creditors of the Bank.

(d) If the Bank chooses to obtain insurance on the life of a Participant in connection with its obligations under this Plan, the Participant hereby agrees to take such physical examinations and to truthfully and completely supply such information as may be required by the Bank or the insurance company designated by the Bank.

6.8 **Discharge of Obligations.** The payment to a Participant or his or her Beneficiary of the Account in full shall discharge all obligations of the Bank to such Participant or Beneficiary under the Plan with respect to the Participant's Account.

ARTICLE 7
BENEFICIARY DESIGNATION

7.1 **Designation of Beneficiaries.**

(a) Each Participant may designate on a Beneficiary Designation Form any person or persons (who may be named contingently or successively) to receive any benefits payable under the Plan upon the Participant's death, and the designation may be changed from time to time by the Participant by filing a new designation. Each designation will revoke all prior designations by the same Participant, shall be in the form prescribed by the Plan Administrator, and shall be effective only when filed with the Plan Administrator during the Participant's lifetime.

(b) In the absence of a valid Beneficiary designation, or if, at the time any benefit payment is due to a Beneficiary, there is no living Beneficiary validly named by the Participant, the Bank shall pay the benefit payment to the Participant's spouse, if then living, and if the spouse is not then living to the Participant's then living descendants, if any, *per stirpes*, and if there are no living descendants, to the Participant's estate. In determining the existence or identity of anyone entitled to a benefit payment, the Bank may rely conclusively upon information supplied by the Participant's personal representative, executor, or administrator.

(c) A Participant's designation of a Beneficiary will not be revoked or changed automatically by any future marriage or divorce. Should the Participant wish to change the designated Beneficiary in the event of a future marriage or divorce, the Participant must do so by filing a new Beneficiary Designation Form with the Plan Administrator.

(d) If a question arises as to the existence or identity of anyone entitled to receive a death benefit payment under the Plan, or if a dispute arises with respect to any death benefit payment under the Plan, as determined by the Plan Administrator in its discretion, the Bank may distribute the payment to the Participant's estate without liability for any tax or other consequences, or may take any other action which the Bank deems to be appropriate.

7.2 **Information to be furnished by Participants and Beneficiaries; Inability to Locate Participants or Beneficiaries.** Any communication, statement or notice addressed to a Participant or to a Beneficiary at his or her last post office address as shown on the Bank's records shall be binding on the Participant or Beneficiary for all purposes of the Plan. The Bank shall not be obliged to search for any Participant or Beneficiary beyond the sending of a registered letter to such last known address.

7.3 **Facility of Payment.** If the Plan Administrator determines in its discretion that a benefit is to be paid to a minor, to a person legally declared incompetent, or to a person legally deemed incapable of handling the disposition of that person's property, the Plan Administrator may direct payment of such benefit to the guardian, legal representative or person having care or custody of such minor, incompetent person or incapable person. The Plan Administrator may require proof of incompetence, minority or guardianship as it may deem appropriate prior to payment of the benefit. Any distribution of a benefit shall be a distribution for the account of the Participant and the Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such distribution amount.

ARTICLE 8
PLAN AMENDMENT

8.1 **Right to Amend.** Subject to Section 409A, the Bank shall have the right to unilaterally amend the Plan, at any time and with respect to any provisions hereof, and all parties hereto or claiming any interest hereunder shall be bound by such amendment; provided, however, that no such amendment shall deprive a Participant or a Beneficiary of a benefit amount described hereunder prior to the date of the amendment without written consent of the Participant or Beneficiary.

8.2 **Amendments Required By Law.** Notwithstanding the provisions of Section 8.1, the Plan may be unilaterally amended by the Bank without consent from Participants or Beneficiaries at any time, retroactively if required, if found necessary, in the opinion of the Bank, in order to ensure that the Plan is characterized as a "tophat" plan of deferred compensation maintained for a select group of management or highly compensated employees as described under ERISA Sections 201(2), 301(a)(3), and 401(a)(1), to conform the Plan to the provisions of Section 409A and to conform the Plan to the requirements of any other applicable law (including ERISA and the Code).

ARTICLE 9
PLAN TERMINATION

9.1 **Bank's Right to Suspend Plan.** Although the Bank anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee it will do so. The Bank reserves the right to suspend the operation of the Plan for a fixed or indeterminate period of time, in its sole discretion. In the event of a suspension of the Plan, during the period of the suspension, the Bank shall continue all aspects of the Plan other than crediting of Contribution amounts. Payments of distributions will continue to be made during the period of the suspension in accordance with Article 6.

9.2 **Plan Termination and Liquidation under Section 409A.** Notwithstanding anything to the contrary in Section 9.1, any acceleration of the payment of benefits due to Plan termination and liquidation shall comply with the following subparagraphs, but only as permitted in accordance with Section 409A and Treasury Regulation §1.409A-3(j)(4)(ix). The Bank may distribute the vested balance of all Accounts, determined as of the date of the termination of the Plan, to Participants subject to the terms below.

(a) Upon the Bank's termination of this and all other arrangements that would be aggregated with this Plan pursuant to Treasury Regulation §1.409A-1(c) if a Participant participated in such arrangements ("Similar Arrangements"), provided that: (i) the termination does not occur proximate to a downturn in the financial health of the Bank; (ii) all termination distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination; and (iii) the Bank does not adopt any new arrangement that would be a Similar Arrangement for a minimum of three (3) years following the date the Bank takes all necessary action to irrevocably terminate and liquidate the Plan.

(b) Upon the Bank's dissolution taxed under Code Section 331, or with approval of a bankruptcy court, provided that the amounts deferred under the Plan are included in the Participant's gross income in the latest of: (i) the calendar year in which the Plan terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the payment is administratively practicable; or

(c) Within thirty (30) days before or twelve (12) months following a "change in control," as defined in Treasury Regulation §1.409A-3(i)(5), provided that all distributions are made no later than twelve (12) months following such termination of the Plan and further provided that all the Bank's Similar Arrangements are terminated so the Participant and all participants in the Similar Arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the termination of the Plan.

ARTICLE 10
PLAN ADMINISTRATION

10.1 **Plan Administrator Duties.** The Plan Administrator shall be responsible for the management, operation, and administration of the Plan. When making a determination or calculation, the Plan Administrator shall be entitled to rely on information furnished by the Bank, the Participants, or Beneficiaries. No provision of this Plan shall be construed as imposing on the Plan Administrator any fiduciary duty under ERISA or other law, or any duty similar to any fiduciary duty under ERISA or other law.

10.2 **Plan Administrator Authority.** The Plan Administrator shall enforce this Plan in accordance with its terms, shall be charged with the general administration of this Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To construe and interpret the terms and provisions of this Plan and to reconcile any inconsistency, in its sole and absolute discretion;

(b) To compute and certify the amount payable to a Participant and his or her Beneficiaries; to determine the time and manner in which such benefits are paid; and to determine the amount of any withholding taxes to be deducted;

(c) To maintain all records that may be necessary for the administration of this Plan;

(d) To provide for the disclosure of all information and the filing or provision of all reports and statements to a Participant, Beneficiaries, and governmental agencies as shall be required by law;

(e) To make and publish such rules for the regulation of this Plan and procedures for the administration of this Plan so long as such rules or procedures are not inconsistent with the terms hereof;

(f) To administer this Plan's claims procedures;

(g) To approve the forms and procedures for use under this Plan; and

(h) To employ such persons or organizations, including without limitation, actuaries, attorneys, accountants, independent fiduciaries, recordkeepers and administrative consultants, to render advice or perform services with respect to the responsibilities of the Plan Administrator under the Plan.

10.3 **Binding Effect of Decision.** The decision or action of the Plan Administrator with respect to any question arising out of or in connection with the administration, interpretation, and application of this Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in this Plan.

10.4 **Compensation and Expenses.** The Plan Administrator shall serve without compensation for services rendered hereunder. The Plan Administrator is authorized at the expense of the Bank to employ such legal counsel and/or Plan recordkeeper as it may deem advisable to assist in the performance of its duties hereunder. Expenses and fees in connection with the administration of this Plan shall be paid by the Bank.

10.5 **Compliance with Section 409A.**

(a) Notwithstanding anything contained herein to the contrary, the interpretation and distribution of Participants' benefits under the Plan are intended to comply with all applicable provisions of Section 409A and the regulations and guidance promulgated thereunder, or an exception or exclusion therefrom to avoid the imposition of any accelerated or additional taxes. Any defined terms shall be construed consistent with Section 409A and any terms not specifically defined shall have the meaning set forth in Section 409A.

(b) The intent of this Section is to ensure that a Participant is not subject to any tax liability or interest penalty, by reason of the application of Code Section 409A(a)(1) as a result of any failure to comply with all the requirements of Section 409A, and this Section shall be interpreted in light of, and consistent with, such requirements. This Section shall apply to distributions under the Plan, but only to the extent required in order to avoid taxation of, or interest penalties on, the Participant under Section 409A. These rules shall also be deemed modified or supplemented by such other rules as may be necessary, from time to time, to comply with Section 409A. Notwithstanding the foregoing, neither the Bank nor the Plan Administrator shall provide any guarantee that this Plan is compliant with Section 409A in form or operation and neither the Bank nor the Plan Administrator shall have any liability to any Participant on account of such Participant incurring additional taxes or penalties as a result of a failure to comply with Section 409A.

ARTICLE 11
CLAIMS PROCEDURES

11.1 **Claims Procedure.** This Article is based on Department of Labor Regulation §2560.503-1. If any provision of this Article conflicts with the requirements of those regulations, the requirements of those regulations will prevail. A Claimant who has not received benefits under the Plan that he or she believes should be paid shall make a claim for such benefits as follows:

(a) **Initiation - Written Claim.** The Claimant initiates a claim by submitting a written request for the benefits to the Plan Administrator. The Plan Administrator will, upon written request of a Claimant, make available copies of all forms and instructions necessary to file a claim for benefits or advise the Claimant where such forms and instructions may be obtained. If the claim relates to Disability benefits, then the Plan Administrator shall designate a sub-committee to conduct the initial review of the claim (and applicable references below to the Plan Administrator shall mean such sub-committee).

(b) **Timing of Bank Response.** The Plan Administrator shall respond to such Claimant within ninety (90) days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional ninety (90) days by notifying the Claimant in writing prior to the end of the initial 90-day period that an additional period is required. In the event that the claim for benefits pertains to Disability, the Plan Administrator shall provide written response within forty-five (45) days, but can extend this response period by an additional thirty (30) days, if necessary, due to circumstances beyond the Plan Administrator's control. Any notice of extension must set forth the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render its decision.

(c) **Notice of Decision.** If the Plan Administrator denies the claim, in whole or in part, the Plan Administrator shall notify the Claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the Claimant. The notification shall set forth:

(i) The specific reasons for the denial;
(ii) A reference to the specific provisions of the Plan on which the denial is based;
(iii) A description of any additional information or material necessary for the Claimant to perfect the claim and an explanation of why it is needed;
(iv) An explanation of the Plan's review procedures and the time limits applicable to such procedures; and
(v) A statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

11.2 **Review Procedure.** If the Plan Administrator denies the claim, in whole or in part, the Claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial, as follows:

(a) **Initiation - Written Request.** To initiate the review, the Claimant, within sixty (60) days after receiving the Plan Administrator's notice of denial, must file with the Plan Administrator a written request for review.

(b) **Review of a Disability Benefit Claim.** If the Claimant's initial claim is for Disability benefits, any review of a denied claim shall be made by members of the Plan Administrator other than the original decision maker(s) and such person(s) shall not be a subordinate of the original decision maker(s).

(c) **Additional Submissions-Information Access.** The Claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan

Administrator shall also provide the Claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits.

(d) **Considerations on Review.** In considering the review, the Plan Administrator shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. Additional considerations shall be required in the case of a claim for Disability benefits. For example, the claim will be reviewed without deference to the initial adverse benefits determination and, if the initial adverse benefit determination was based in whole or in part on a medical judgment, the Plan Administrator will consult with a health care professional with appropriate training and experience in the field of medicine involving the medical judgment. The health care professional who is consulted on appeal will not be the same individual who was consulted during the initial determination or the subordinate of such individual. If the Plan Administrator obtained the advice of medical or vocational experts in making the initial adverse benefits determination (regardless of whether the advice was relied upon), the Plan Administrator will identify such experts.

(e) **Timing of Bank Response.** The Plan Administrator shall respond in writing to such Claimant within sixty (60) days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional sixty (60) days by notifying the Claimant in writing, prior to the end of the initial 60-day period that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

(f) **Notice of Decision.** The Plan Administrator shall notify the Claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the Claimant. The notification shall set forth:

(i) The specific reasons for the denial;
(ii) A reference to the specific provisions of the Plan on which the denial is based;
(iii) A statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
(iv) A statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

11.3 **Calculation of Time Periods.** For purposes of the time periods specified in this Article, the period of time during which a benefit determination is required to be made begins at the time a claim is filed in accordance with the Plan procedures without regard to whether all the information necessary to make a decision accompanies the claim. If a period of time is extended due to a Claimant's failure to submit all information necessary, the period for making the determination shall be tolled from the date the notification is sent to the Claimant until the date the Claimant responds.

11.4 **Exhaustion of Remedies.** A Claimant must follow the claims review procedures under this Plan and exhaust his or her administrative remedies before taking any further action with respect to a claim for benefits.

11.5 **Failure of Plan to Follow Procedures.** If the Plan fails to establish or follow the claims procedures required by this Article, a Claimant shall be deemed to have exhausted the administrative remedies available under the Plan and shall be entitled to immediately pursue any available remedy under ERISA Section 502(a) on the basis that the Plan has failed to provide a reasonable claims procedure that would yield a decision on the merits of the claim. The Claimant may request a written explanation of the violation from the Plan, and the Plan must provide such explanation within ten (10) days, including a specific description of its bases, if any, for asserting that the violation should not cause the administrative remedies to be deemed exhausted. If a court rejects the Claimant's request for immediate review on the basis that the Plan met the standards for the exception, the claim shall be considered as re-filed on appeal upon the Plan's receipt of the decision of the court. Within a reasonable time after the receipt of the decision, the Plan shall provide the claimant with notice of the resubmission.

11.6 **Arbitration.** If a Claimant continues to dispute the benefit denial based upon completed performance of the Plan or the meaning and effect of the terms and conditions thereof, then the Claimant must submit the dispute to an arbitrator for final arbitration. The arbitrator shall be selected by mutual agreement of the Bank and the Claimant. The arbitrator shall operate under any generally recognized set of arbitration rules. The parties hereto agree that they and their heirs, personal representatives, successors and assigns shall be bound by the decision of such arbitrator with respect to any controversy properly submitted to it for determination. Where a dispute arises as to the Bank's discharge of a Participant for Cause, such dispute shall likewise be submitted to arbitration as above described and the parties hereto agree to be bound by the decision thereunder.

ARTICLE 12
MISCELLANEOUS

12.1 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

12.2 **Nonassignability.** Neither any Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, alienate, or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part hereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency, or be transferable to a spouse as a result of a property settlement or otherwise. If any Participant, Beneficiary, or successor in interest is adjudicated bankrupt or purports to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber transfer, hypothecate, alienate, or convey in advance of actual receipt, the amount, if any, payable hereunder, or any part thereof, the Plan Administrator, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary, or successor in interest in such manner as the Plan Administrator shall direct.

12.3 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Bank and a Participant. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Bank as an Employee or otherwise or to interfere with the right of the Bank to discipline or discharge a Participant at any time.

12.4 **Governing Law.** The Plan shall be administered, construed and governed in all respects under and by the laws of the Commonwealth of Pennsylvania, without reference to the principles of conflicts of law (except and to the extent preempted by applicable federal law).

12.5 **Notice.** Any notice or filing required or permitted under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail or overnight delivery service to the Bank's address. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, or overnight delivery service as of the date shown on the postmark on the receipt for registration or certification. Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail or overnight delivery service, to the last known address of the Participant.

12.6 **Other Benefits.** The benefits provided for a Participant or a Participant's Beneficiary under this Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Bank. This Plan shall supplement and shall not supersede, modify, or amend any other such plan or program except as may otherwise be expressly provided herein.

12.7 **Unclaimed Benefits.** In the case of a benefit payable on behalf of such Participant, if the Plan Administrator is unable to locate the Participant or Beneficiary to whom such benefit is payable, such Plan benefit may be forfeited to the Bank upon the Plan Administrator's determination. Notwithstanding the foregoing, if, subsequent to any such forfeiture, the Participant or Beneficiary to whom such Plan benefit is payable makes a valid claim for such Plan benefit, such forfeited Plan benefit shall be paid by the Plan Administrator to the Participant or Beneficiary, without interest, from the date it would have otherwise been paid.

IN WITNESS WHEREOF, the Bank executes this Plan as of the date first written above.

QNB BANK:

By: /s/ David Freeman

Title: President/CEO

Printed Name: David Freeman

Exhibit 21.1

Subsidiaries of the Registrant

100% Voting Securities Owned by Registrant

1) QNB Bank – chartered in the Commonwealth of Pennsylvania

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-230602), and Form S-8 (Nos. 333-256486 and 333-206134) of QNB Corp. and subsidiary of our report dated March 15, 2024, relating to the consolidated financial statements which appears in the annual report on Form 10-K for the year ended December 31, 2023.

/s/ Baker Tilly US, LLP

Iselin, New Jersey
March 15, 2024

Exhibit 31.1

CERTIFICATION

I, David W. Freeman, certify that:

1. I have reviewed this annual report on Form 10-K of QNB Corp.

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 annual 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

(c) 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 (the Registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

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 Registrant's Board of Directors (or persons performing the equivalent function):

(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.

Date: March 15, 2024

By: /s/ David W. Freeman
David W. Freeman
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jeffrey Lehocky, certify that:

1. I have reviewed this annual report on Form 10-K of QNB Corp.

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 annual 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;

(c) 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 (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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 Registrant's Board of Directors (or persons performing the equivalent function):

(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.

Date: March 15, 2024

By: /s/ Jeffrey Lehocky
Jeffrey Lehocky
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of QNB Corp. (the Company) for the period ended December 31, 2023, as filed with the Securities and Exchange Commission (the Report), I, David W. Freeman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 15, 2024

By: /s/ David W. Freeman
David W. Freeman
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of QNB Corp. (the Company) for the period ended December 31, 2023, as filed with the Securities and Exchange Commission (the Report), I, Jeffrey Lehocky, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 15, 2024

By: /s/ Jeffrey Lehocky
Jeffrey Lehocky
Chief Financial Officer

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QNB Community Advisory Group Members

The QNB Community Advisory Group was initially formed in 2004. The program has been very beneficial to QNB and hopefully to the participating members as well. The Board is very appreciative for the input and feedback received from the individuals involved. The following is a list of the members who currently serve on the QNB Community Advisory Group:

Richard Adams – *Dick Adams Realtors*
Craig Adamson – *Buxmont Academy*
Todd Baringer – *The Baringer Group*
Aaron Baum – *Baum Precision Machining, Inc.*
Jeff Bell – *Precision Finishing, Inc.*
Edwin Bolton – *AGP Plastics, Inc.*
Elayne Brick – *Washington House/Sellersville Theater*
Edward Buchinski – *The Grand Theater*
Himanshu Dadarwala – *Himanshu, Inc.*
Susan Dale – *Spinnerstown Hotel*
Ray Derstine – *Altek Business Solutions, Inc.*
Zachariah Derstine – *Derstine's, Inc.*
Douglas Dolinar – *Guidemark, Inc.*
David Evans – *Housing Association & Development Corporation*
Derek Evans – *H2O Solutions, Inc.*
Gary Fetterman – *Milford Enterprises, Inc.*
Angie Floyd – *MP Filtri USA, Inc.*
Kevin Frantz – *Colebrook Property Managagment*
Brenda Frederick – *Indian Valley Bulk Carriers, Inc.*
Thomas Garrity – *Compass Point*
E. Alan Groff – *Associated Truck Sales Company*
Rose Hartle – *Baum, Smith & Clemens*
Kevin Hartsoe – *Neu Dynamics Corp.*
Ronald Herd, Jr. – *Daria Metal Fabricators*
Mark Horne – *Grand View Hospital*
Bryan Hunsberger – *Spring Hill Realty, Inc.*
Douglas Hutchinson – *Hutchinson, Gillahan & Freeh, PC*
Murtaza Jaffer – *EBC Printing*
Ian Jeffery – *Volvo Cars of Fort Washington*
Ed Knell – *Core Financial Outsourcing*
Mike Knieriem – *Finesse Flooring, Inc.*
Ed Knight – *EventQuip*
Richard Koze – *Kay Builders, Inc.*
Chris LaBonge – *Trolleybarn LLC*
Lisa Leatherman, CPA – *DunlapSLK, PC*
Marty Leber – *Leber Investments*
Celso Leite – *Costazul LLC*
Jennifer Lutteroty – *Frontier Hauling, LLC*
Jon Mayer – *Mayer Development*
Mike McKiernan – *The Gutter Guys (McKiernan-Williams, Inc.)*
Norman Mittman – *Mittman & Liebman*
Robert Moffett, Esq. – *Robert G. Moffett, Attorney at Law*
Kenneth Mohr, Jr. – *Mohr Management Resources*
Josh Moser – *Moser Real Estate Holdings, LLC*
Cynthia Novack – *Candles & Supplies.com, Inc.*
Alex Parzych – *Parzych Construction, Inc.*
Dennis Pfleiger – *St. Luke's Quakertown Hospital*
Andrew Przyuski, CPA – *DunlapSLK, PC*
Scott Rankin – *Vulcan Spring*
Brian Rocca – *Eastern Surfaces, Inc.*
Terry Sands – *Sands Auto Group*
Matt Sibley – *Mid-Atlantic Property Maintenance*
Trevor Smith – *Smith Property Group, LLC*
Andrew Stanten – *Altitude Marketing*
Randall E. Stauffer – *Stauffer Glove & Safety*
Steve Staugaitis – *Kreischer Miller*
Bernard Suh – *Pragma Holdings*
George Sweeney – *Canon Capital*
Leonard Tagliavia – *JD Byrider*
Paul Wagner – *The Program*
Brian Webb – *Webb Building Group*
Jason Wehrung – *Wehrung's Lumber & Home Center*
Donald Zabinski – *JJGD, Holdings, GP LLC*
Terry Zeigler – *Datacap Systems, Inc.*

As of March 15, 2024

Officers of QNB Bank

Brian A. Adzema, *AVP, Retail Mortgage Loan Officer*
Christopher R. Baker, *AVP, BSA Officer*
Jessica N. Bealer, *VP, International Services*
Christopher L. Berg, *VP, Commercial Loan Officer*
Lisa M. Bohner, *AVP, Compliance Analyst*
Rosalind S. Boice, *Retail Loan Processor/Junior Underwriter*
Kyle J. Bottmeyer, *Portfolio Administrator*
Melissa S. Brindley, *VP, Branch Manager III Downtown Quakertown*
Vicki A. Burgos, *VP, Assistant Controller*
Nathan S. Christman, *VP, LPL Financial Advisor, QNB Financial Services*
Janelle M. Clayton, *Commercial Credit Analyst II*
Maria V. Cuthill, *AVP, Commercial Credit Analyst III*
Benjamin L. Dale, *Commercial Lender Trainee*
Kirk DeVries, *Information Security Officer*
April B. Donahue, *SVP, Retail Lending Manager*
Gerald W. Donlon, *VP, Information Technology Director*
Tamara L. Dunn, *Retail Banking Specialist*
Mary K. Finlayson, *AVP, Client Services Associate, QNB Financial Services*
Carrie E. Foight, *Mortgage/Retail Loan Underwriter*
Maria L. Friendshuh, *Retail Mortgage Loan Officer*
Lea J. Garrard, *VP, Branch Manager II Warminster*
Justin M. Hartrum, *SVP, Commercial Lending Team Leader/ QNB Financial Services Program Manager*
Jonas L. Homa, S*VP, Commercial Loan Officer*
Lynn M. Housenick, *VP, Retail Banking Analyst*
Melanie A. Iezzi, *VP, Special Assets Manager*
Jennifer I. James, *AVP, Loan Porfolio Manager*
Dennis J. Keyser, *VP, LPL Financial Advisor, QNB Financial Services*
Thomas R. Klee, *SVP, Commercial Lending Senior Team Leader*
Lori R. Knerr, *VP, Branch Manager II Allentown*
Bruce W. Knipe, *SVP, Commercial Loan Officer*
Toby R. Kollar, *AVP, Training Manager*
Mitchell R. Lair, *Commercial Credit Analyst II*
Denise R. Landis, *AVP, Retail Loan Officer*
Brian A. Lawrence, *SVP, Commercial Loan Officer*
Deborah A. Lee, *AVP, Commercial Credit Analyst III*
Rhonda J. Leimbach, *VP, Branch Manager II Coopersburg*
Mary E. Liddle, *SVP, Chief Accounting Officer*
Lisa M. Lightcap, *VP, Commercial Loan Portfolio Manager*
Alex D. Lipyanik, *VP, Commercial Loan Officer*
Kimberly A. Lipyanik, *Human Resources Officer*
Amelia R. Lutz, *AVP, Branch Manager I Quakertown Commons*
Brian D. Mack, Sr., *Facilities Manager*
Mark Mascarinas, *VP, Branch Manager II Dublin Village*
Kevin J. McCrabb, *AVP, Branch Manager I Colmar*
Severine McQuirns, *SVP, Cash Management Officer*
Sharon M. Michael, *SVP, Commercial Loan Officer*
Jessica E. Mignone, *Security Officer*
Teresa M. Milazzo, S*VP, Treasury & Finance Officer*
Cheryl A. Morris, *SVP, Chief Credit Officer*
Lisa A. Otery, *SVP, Deposit Operations*
Lori P. Pinkerton, *VP, Credit Manager*
Tiffany M. Pompei, *SVP, Compliance Officer*
Joseph S. Rados, *Commercial Credit Analyst III*
Amanda L. Remick, *AVP, Customer Service Center Manager*
Sharon L. Rotenberger, *SVP, Chief Branch Officer*
Lawrence V. Roth, *SVP, Commercial Loan Officer*
Stephanie M. Rubilla, *VP, Branch Manager II Upper Perkiomen Valley*
Sarah R. Shank, *AVP, Deposit Operations Officer*
Amy M. Shimp, *VP, Loan Services Manager*
Mame O. Skelly, *VP, Deposit Operations Electronic Banking Officer*
Keri A. Smith, *Business Systems Analyst – Loans*
Tyler T. Stalletti, *Business Development Officer*
Donald A. States, *VP, Commercial Loan Officer*
Jacklyn M. Thomas, *VP, Branch Manager II Souderton*
Gary C. Trively, *VP, Branch Manager II Wescosville*
Cindy A. Vengels, *VP, Loan Documentation & Project Administrator*
Bonita A. Wade, *AVP, Special Assets*
Kimberly A. Walters, AVP, *Commercial Credit Analyst III*
Kelly Waterstradt, *AVP, Retail Lending Assistant Manager*
Suzanne B. Weisberg, *SVP, Human Resources*
Nicholas J. Yelicanin, *SVP, Commercial Loan Officer*
Nicole F. Yerger, *Loan Documentation Analyst II*
Stephanie M. Yerk, *AVP, Branch Manager I Perkasie*
Stephanie Zajkowski, *VP, Commercial Loan Portfolio Manager*
Robert S. Zukowski, *VP, Branch Manager III Country Square*

As of March 15, 2024

Promoted & Hired Officers

The long-term success of QNB Corp. is directly related to the quality of our employees. The following officers were promoted or hired in 2023.

Promoted Officers

Christopher L. Berg
VP, Commercial Loan Officer

Lisa M. Bohner
AVP, Compliance Analyst

Nathan S. Christman
VP, LPL Financial Advisor, QNB Financial Services

Mary K. Finlayson
AVP, Client Services Associate, QNB Financial Services

Christina S. McDonald
EVP, Chief Marketing & Chief Retail Lending Officer

Jessica E. Mignone
Security Officer

Amanda L. Remick
AVP, Customer Service Center Manager

Sarah R. Shank
AVP, Deposit Operations Officer

Keri A. Smith
Business Systems Analyst – Loans

Kimberly A. Walters
AVP, Credit Analyst III

Hired Officers

Christopher R. Baker
AVP, Bank Secrecy Act Officer

Benjamin L. Dale
Commercial Lender Trainee

Carrie E. Foight
Mortgage/Retail Underwriter

Dennis J. Keyser
VP, LPL Financial Advisor, QNB Financial Services

Mitchell R. Lair
Commercial Credit Analyst II

Brian A. Lawrence
SVP, Commercial Loan Officer

Lisa M. Lightcap
VP, Commercial Loan Portfolio Manager

Kevin J. McCrabb
AVP, Branch Manager I

Joseph S. Rados
Commercial Credit Analyst III

Donald A. States
VP, Commercial Loan Officer

Cindy A. Vengels
VP, Loan Documentation & Project Administrator

QNB MARKET AREA

QNB CORP.

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instagram.com/qnbbankofficial
linkedin.com/company/qnb-bank

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