2022 ANNUAL REPORT

SUSQUEHANNA
COMMUNITY FINANCIAL, INC.

SCB.BANK

PRESIDENT'S MESSAGE

DEAR SHAREHOLDERS:

It was a challenging year for all of us, but I am extremely proud of the **RESILIENCE** and dedication our team has shown in navigating these unprecedented times. I feel very privileged to work with such talented people who have dealt with such complex issues over the last several years such as the Pandemic, staffing shortages, and now the most aggressive hiking of interest rates in monetary policy history due to 40-year high inflation. This rapid rise in interest rates has been extraordinary and something I have not seen during my 30 years in banking. It has caused material fair market value reductions in the bank's investment portfolio. These unrealized losses, also referred to as Accumulated Other Comprehensive Income, (AOCI), are reflected in equity and resulted in a 41% decline in book value per share as of 12/31/22. This is a Generally Accepted Accounting Principle (GAAP) accounting requirement and does not affect our regulatory capital. Our regulatory capital remains strong.

Through all this adversity, our performance remained **RESILIENT**. The reduction in equity due to the AOCI boosted our Return on Equity to a strong 13.30% for 2022 and continues to rank us as one of the top 200 community banks in the nation <$2 billion dollars. We also paid our 14th consecutive increase in dividends and our overall dividend yield remains around 5.5%.
Net Income declined by 6% to $5,310,000 mainly due to a reduction in mortgage fees from the dramatic rise in interest rates as well as the loss of the Paycheck Protection Program (PPP) income as these loans were forgiven from the Pandemic program. Our growth remains **RESILIENT** as well. Loans and Deposits reached record highs and excluding the market value adjustments of Investments, total Assets would have increased by 5.15% to $582,589,000. We remain about the median size of the 130 banks headquartered in Pennsylvania. Our asset quality remains excellent as our delinquency and classified assets ratios are the lowest they have been in several years.

As I write this letter, the economy remains **RESILIENT** as well. As interest rates have risen higher and higher, new deposits have become scarcer due to competition among banks. This will have the effect of increasing our cost of funds in 2023 and thus narrowing our net interest margin. Moreover, higher mortgage rates continue to dampen the housing market and mortgage sales and overall fees are expected to be lower again in 2023. We expect these headwinds to continue in the new year with more pressure on earnings going forward. Every team goes through challenges. We are blessed to have your support and patience as shareholders so we can focus on our customers and communities and invest in the best employee talent to enhance long term shareholder value.

I know personally, focusing on **RESILIENCY** will be a theme this year as I recover from knee surgery from a torn meniscus. I am determined to get back walking every day and enjoying my rounds of golf. Just like most Americans find our logo the bald eagle resilient, I find my teammates to be **RESILIENT** in how they continue to overcome adversity due to factors outside their control. There is a cross stitched framed little picture on my desk that my wife made me back in the 1980's that has sat on every desk in my thirty years of banking. It is very relevant today. Robert H. Schuller "Tough times don't last…Tough people do." We have tough people.

On behalf of the Team at Susquehanna,

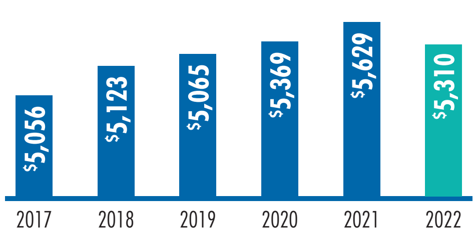
DAVID S. RUNK
PRESIDENT & CEO

2022 FINANCIAL HIGHLIGHTS

5-YEAR OVERVIEW	2018	2019	2020	2021	2022
Earnings Per Share	$1.74	$1.72	$1.85	$1.96	$1.87
Return on Average Assets	1.25%	1.08%	1.14%	1.06%	0.96%
Return on Average Equity	12.36%	10.73%	10.10%	10.25%	13.30%
Dividends Paid Per Share	$0.76	$0.80	$0.85	$0.90	$0.96

NET INCOME

(in thousands)



BOARD OF DIRECTORS

FROM LEFT TO RIGHT:

Peter L. Matson
Christian C. Trate | Chairman
William F. Kear
Suzanne T. Stopper
David S. Runk | President
Carl L. Pardoe
Robert M. Brubaker

MANAGEMENT COUNCIL

STANDING, LEFT TO RIGHT:

Rodney H. Smith
Christopher J. Sullivan
Lorraine S. Barone
Jeffrey G. Hollenbach
Jill D. Shambach
William H. Weber II
Diane L. Paulukinas
Stephen P. Stanko

SEATED, LEFT TO RIGHT:

Melissa S. Musser
David S. Runk
Tyler A. Mattern
Karla S. Landis

MARKET MAKER

JANNEY MONTGOMERY SCOTT LLC
EUGENE B. BODO

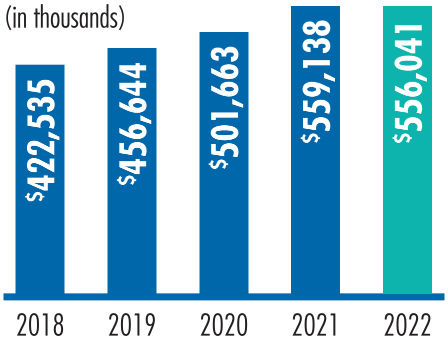
1717 Arch Street
Philadelphia, PA 19103
215.665.6566

TRANSFER AGENT

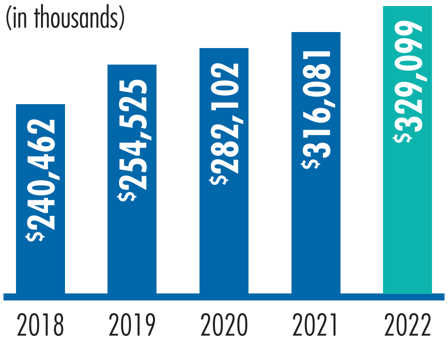
COMPUTERSHARE TRUST CO., N.A.

PO Box 30170
College Station, TX 77842-3170
800.368.5948

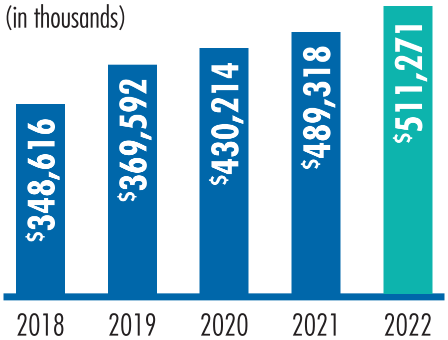
TOTAL ASSETS
(in thousands)



GROSS LOANS
(in thousands)



TOTAL DEPOSITS
(in thousands)



INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Susquehanna Community Financial, Inc.
West Milton, Pennsylvania

OPINION

We have audited the accompanying consolidated financial statements of Susquehanna Community Financial, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021; the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRIOR PERIOD FINANCIAL STATEMENTS

The financial statements of the Company as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated April 13, 2022, expressed an unmodified opinion on those statements.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

(CONTINUED ON NEXT PAGE)

INDEPENDENT AUDITORS' REPORT (CONT'D)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

OTHER INFORMATION INCLUDED IN ANNUAL REPORT

Management is responsible for the other information included in the annual report. The other information comprises the Letter from the President and Statistical Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 30, 2023

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,2022 AND 2021 (IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2022	2021
Cash and due from banks	$ 6,176	$ 7,430
Available-for-sale debt securities, at fair value	186,787	206,483
Marketable equity securities, at fair value	1,324	1,001
Restricted investment in bank stocks, at cost	4,517	4,786
Loans, net	325,870	312,917
Bank premises and equipment, net	10,956	11,062
Accrued interest receivable	2,534	2,204
Cash surrender value of life insurance	8,168	9,639
Other assets	9,709	3,616
TOTAL	**$ 556,041**	**$ 559,138**

LIABILITIES AND SHAREHOLDERS' EQUITY	2022	2021
Interest-bearing deposits	$ 478,607	$ 457,318
Noninterest-bearing deposits	32,664	32,000
TOTAL DEPOSITS	**511,271**	**489,318**
Other borrowings	10,000	11,625
Dividends payable	682	909
Accrued interest payable	94	116
Other liabilities	1,853	2,705
TOTAL LIABILITIES	**523,900**	**504,673**
Common stock, par value $1 per share, 5,000,000 shares authorized; 3,375,000 shares issued	3,375	3,375
Additional paid-in capital	455	455
Retained earnings	56,125	53,544
Accumulated other comprehensive (loss) income	(20,933)	3,972
Treasury stock at cost (533,686 shares at December 31, 2022 and 2021)	(6,881)	(6,881)
TOTAL SHAREHOLDERS' EQUITY	**32,141**	**54,465**
TOTAL	**$ 556,041**	**$ 559,138**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (IN THOUSANDS, EXCEPT PER SHARE DATA)

INTEREST INCOME	2022	2021
Interest and fees on loans	$ 14,254	$ 12,952
Interest on available-for-sale debt securities:		
Taxable interest	2,852	1,725
Tax-exempt interest	2,269	2,615
Dividends on marketable equity securities	61	48
Interest on deposits with other banks	58	8
TOTAL INTEREST INCOME	**19,494**	**17,348**
INTEREST EXPENSE		
Interest on deposits	3,509	1,800
Interest on other borrowings	110	208
TOTAL INTEREST EXPENSE	**3,619**	**2,008**
NET INTEREST INCOME	15,875	15,340
PROVISION FOR LOAN LOSSES	250	300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,625	15,040
OTHER INCOME		
Service charges on deposit accounts	519	464
Realized gains on available-for-sale debt securities, net	339	190
(Losses) gains on marketable equity securities, net	(37)	91
Realized gains on loan sales, net	635	1,421
Bank card and credit card interchange fees	600	612
Brokerage fees and commissions	412	476
Increase in cash surrender value of life insurance	187	202
Gain on bank-owed life insurance debts	473	-
Other operating income	677	521
TOTAL OTHER INCOME	**3,805**	**3,977**
OTHER EXPENSES		
Salaries and employee benefits	8,043	7,361
Occupancy expense	753	642
Furniture and equipment expenses	1,130	1,625
Automated teller machine expense	308	253
Data processing expenses	738	427
Pennsylvania corporate and shares taxes	461	498
Other operating expenses	2,080	1,881
TOTAL OTHER EXPENSES	**13,513**	**12,687**
INCOME BEFORE PROVISION FOR INCOME TAXES	5,917	6,330
PROVISION FOR INCOME TAXES	607	701
NET INCOME	**$ 5,310**	**$ 5,629**
EARNINGS PER SHARE - BASIC AND DILUTED	**$ 1.87**	**$ 1.96**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (IN THOUSANDS)

	2022	2021
Net Income	$ 5,310	$ 5,629
Unrealized gains on available-for-sale securities:		
Unrealized holding losses on available-for-sale debt securities	(31,187)	(2,527)
Reclassification adjustment for gains realized in earnings (a) (b)	(339)	(190)
Other comprehensive loss on available-for-sale securities	(31,526)	(2,717)
Taxes	6,621	570
Net other comprehensive loss income	(24,905)	(2,147)
TOTAL COMPREHENSIVE (LOSS) INCOME	**$(19,595)**	**$ 3,482**

(a) Realized gains on available-for-sale debt securities are included in the Consolidated Statements of Income as a separate element of Other Income.

(b) The tax effect on gains on sales of available-for-sale debt securities of $71 in 2022 and $47 in 2021 are included in the Provision for Income Taxes in the Consolidated Statements of Income. This resulted in reclassifications net of tax of $268 in 2022 and $176 in 2021.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, DEC. 31, 2020	**$ 3,375**	**$ 455**	**$ 50,489**	**$ 6,119**	**$ (6,061)**	**$ 54,377**
Net income			5,629			5,629
Other comprehensive loss				(2,147)		(2,147)
Treasury stock purchased, 44,000 shares					(820)	(820)
Dividends declared, $0.90 per share			(2,574)			(2,574)
BALANCE, DEC. 31, 2021	**3,375**	**455**	**53,544**	**3,972**	**(6,881)**	**54,465**
Net income			5,310			5,310
Other comprehensive loss				(24,905)		(24,905)
Dividends declared, $0.96 per share			(2,729)			(2,729)
BALANCE, DEC. 31, 2022	**$ 3,375**	**$ 455**	**$ 56,125**	**$(20,933)**	**$ (6,881)**	**$ 32,141**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Net income	$ 5,310	$ 5,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	849	773
Provision for loan losses	250	300
Increase in cash surrender value of life insurance	(187)	(202)
Gain on bank-owed life insurance benefits	(473)	-
Amortization and accretion of available-for-sale debt securities, net	470	780
Realized gains on available-for-sale debt securities, net	(339)	(190)
Losses (gains) on marketable equity securities, net	37	(92)
Deferred income tax provision	(72)	(133)
Gains on sales of loans, net	(635)	(1,421)
Origination of loans for sale	(15,043)	(38,045)
Proceeds from sales of loans	15,404	39,333
Change in:		
Accrued interest receivable	(330)	205
Other assets	(457)	285
Accrued interest payable	(22)	(117)
Other liabilities	206	103
NET CASH PROVIDED BY OPERATING ACTIVITIES	**4,968**	**7,208**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale debt securities	(53,448)	(57,185)
Proceeds from maturities of available-for-sale debt securities	12,528	24,565
Proceeds from sale of available-for-sale debt securities	29,013	6,175
Purchase of equity securities	(790)	(254)
Proceeds from sale of equity securities	375	100
Proceeds from bank-owned life insurance	2,131	-
Purchases of restricted investment in bank stocks	(1,938)	(1,881)
Redemption of restricted investment in bank stocks	2,207	1,414
Net increase in loans	(12,929)	(33,881)
Acquisition of bank premises and equipment	(743)	(1,315)
NET CASH USED IN INVESTING ACTIVITIES	**(23,594)**	**(62,262)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	21,953	59,104
Repayments Federal Home Loan Bank fixed-rate advances	(11,625)	(625)
Net increase in Federal Home Loan Bank line-of-credit	10,000	-
Acquisition of treasury stock	-	(820)
Dividends paid	(2,956)	(2,949)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**17,372**	**54,710**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,254)**	**(344)**
CASH AND CASH EQUIVALENTS, BEGINNING	**7,430**	**7,774**
CASH AND CASH EQUIVALENTS, ENDING	**$ 6,176**	**$ 7,430**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
INTEREST PAID	**$ 3,642**	**$ 2,125**
INCOME TAXES PAID	**$ 575**	**$ 625**

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Susquehanna Community Financial, Inc., and its wholly-owned subsidiaries, Susquehanna Community Bank ("Bank") and Susquehanna Financial Investment Corporation (collectively, the "Corporation"). All significant intercompany balances and transactions have been eliminated.

Accounting principles generally accepted in the United States of America ("GAAP") require a corporation's consolidated financial statements to include subsidiaries in which the corporation has a controlling financial interest. This requirement usually has been applied to subsidiaries in which a corporation has a majority voting interest.

Investments in companies in which the Corporation controls operating and financing decisions (principally defined as owning a voting or economic interest greater than 50%) are consolidated. Investments in companies in which the Corporation has significant influence over operating and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) are generally accounted for by the equity method of accounting.

NATURE OF OPERATIONS

Susquehanna Community Financial, Inc. is a financial holding company. The Bank provides a variety of financial services to individuals and corporate customers through its seven offices located in West Milton, Lewisburg, Mifflinburg, Watsontown, Beaver Springs, Northumberland, and Williamsport, Pennsylvania. The Bank's primary deposit products are checking accounts, savings accounts and certificates of deposit. Its primary lending products are residential, consumer and commercial loans. The Bank is subject to regulation by the Commonwealth of Pennsylvania, Department of Banking and Securities and the Federal Deposit Insurance Corporation. Susquehanna Community Financial, Inc. is subject to regulation by the Federal Reserve Bank of Philadelphia.

Susquehanna Financial Investment Corporation is a Delaware corporation formed for the purpose of holding investments.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairments ('OTTI") of securities, and the fair value of financial instruments.

SECURITIES

Trading Assets – Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest and dividends are included in net interest income. The Corporation did not hold any trading securities during 2022 or 2021.

Debt Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held to maturity or trading are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Purchase premiums are recognized in interest income using the interest method to the earliest call date of the securities. Purchase discounts are recognized in interest income using the interest method to the maturity date of the securities. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

Management evaluates debt securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Marketable equity securities are carried at fair value with unrealized gains and losses included in net income.

Restricted investment in bank stocks – Restricted investment in bank stocks consists of Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh) stock, and Atlantic Community Bankers Bank stock, and are carried at cost and evaluated for impairment. Dividends received on these securities are included in Other Operating Income in the Consolidated Statements of Income.

Susquehanna Community Bank is a member of the FHLB-Pittsburgh, which is one of 12 regional Federal Home Loan Banks. As a member, Susquehanna Community Bank is required to purchase and maintain stock in FHLB-Pittsburgh. There is no active market for FHLB-Pittsburgh stock, and it must ordinarily be redeemed by FHLB-Pittsburgh in order to be liquidated. The Bank's investment in FHLB-Pittsburgh stock was $4,505,000 at December 31, 2022 and $4,774,000 at December

31, 2021. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2022 and 2021. Both cash and stock dividends are reported as income.

LOANS

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

The loans receivable portfolio is segmented into agricultural, commercial, consumer, and state and political subdivision loans. Commercial loans consist of the following classes: commercial and industrial, acquisition, construction and development, commercial real estate, and commercial construction. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

For all classes of loans receivable the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by chargeoffs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired or isolated. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Management has determined certain loans should be classified as isolated and evaluated as a separated component of the allowance. For loans that are classified as isolated, a thorough review of the portfolio has indicated underlying risk for a group of loans underwritten during a certain time period where previously weak practices existed by one particular lender (no longer employed by the Corporation). A large portion of the loans were either unsecured, asset based, or centered in the real estate development industry. These loans are considered isolated and are being specifically allocated based on the collectability of the loan based on information at a particular evaluation date. These loans make up one hundred percent of the acquisition, construction and development loans. The general component covers pools of loans by loan class including commercial loans not considered impaired or isolated, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Delinquency trends.
2. Nature and volume of the portfolio, terms, and risk ratings trends of loans.
3. Experience, ability, and depth of lending management and staff.
4. A satisfactory loan policy in place to provide appropriate underwriting guidance.
5. Existence and effect of any concentration of credit and changes in the level of such concentrations.
6. The impact of the economy on consumers and businesses.
7. Loan review system changes.
8. Changes in collateral values.
9. Changes in external factors such as regulatory issues, competition, and the impact on the current level of the Corporation's current loan losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The qualitative factors used in the general component calculations are designed to address credit risk characteristics associated with each segment. The Corporation's credit risk associated with all of the segments is significantly impacted by these factors, which include economic conditions within its market area; the Corporation's lending policies, changes or trends in the portfolio's volume, terms, concentrations, delinquencies, and risk profile; competition and regulatory requirements; management and loan review; collateral values, and other factors. Further, the consumer mortgage segment is significantly affected by the values of residential real estate that provide collateral for the loans. The majority of the Corporation's commercial segment loans (approximately 76% at December 31, 2022) are secured by real estate, and accordingly, the Corporation's risk for the commercial segment is significantly affected by commercial real estate values. The majority of the Corporation's agricultural segment loans (approximately 97% at December 31, 2022) are secured by farm real estate, and accordingly, the Corporation's risk for the agricultural segment is significantly affected by farm real estate values. The consumer segment includes a wide mix of loans for different purposes, primarily secured loans, including loans secured by motor vehicles, manufactured housing and other types of collateral.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's impaired 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 and industrial 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.

Acquisition, construction, and development loans are either unsecured, asset based, or centered in the real estate development industry. The estimated fair values are determined based on the borrower's financial statements, inventory reports, or accounts receivable agings. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify all individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for agricultural, state and political subdivision and consumer loans. Credit quality risk ratings include internal classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified or criticized are rated pass.

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

LOAN SERVICING RIGHTS ASSET

Loan servicing rights assets totaling $634,000 and $690,000 as of December 31, 2022 and 2021, respectively, are recognized as separate assets when servicing rights are acquired through purchase or through sale of financial assets. Total loans serviced for FHLB and Fannie Mae amounted to $114,200,000 and $115,772,000 at December 31, 2022 and 2021, respectively. Loan servicing rights assets are reported in Other Assets in the Consolidated Balance Sheets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Loan servicing rights assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

FORECLOSED ASSETS HELD FOR SALE

Foreclosed assets held for sale are carried at the lower of the fair value minus estimated costs to sell or cost. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the property to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in Other Operating Expenses in the Consolidated Statements of Income. The Corporation did not hold any foreclosed assets held for sale at December 31, 2022 or 2021.

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 the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

BANK PREMISES AND EQUIPMENT

Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation computed on the straight line method over the estimated useful lives of the assets. Repair and maintenance expenditures which extend the useful life of an asset are capitalized, and other repair and maintenance expenditures are expensed as incurred.

When premises or equipment are retired or sold, the remaining cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income.

The Corporation reviews long-lived assets, such as premises and equipment and intangibles, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. These changes in circumstances may include a significant decrease in the market value of an asset or the manner in which an asset is used. If there is an indication the carrying value of an asset may not be recoverable, future undiscounted cash flows expected to result from use of the asset are estimated. If the sum of the expected cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the carrying value and the fair market value of the asset.

ADVERTISING COSTS

Advertising costs are expensed as incurred and were approximately $190,000 and $192,000 in 2022 and 2021, respectively and are included in Other Operating Expenses in the Consolidated Statements of Income.

INCOME TAXES

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Corporation has evaluated its material tax positions as of December 31, 2022 and 2021 in accordance with GAAP. Under the "more-likely-than-not" threshold guidelines, the Corporation believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. In periods subsequent to December 31, 2022, determinations of potentially adverse material tax positions will be evaluated to determine whether an uncertain tax position may have previously existed or has been originated. In the event an adverse tax position is determined to exist, penalty and interest will be accrued, in accordance with the Internal Revenue Service guidelines, and recorded as a component of Other Operating Expenses in the consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

EARNINGS PER SHARE

Earnings per share ("EPS") is based on the weighted average number of shares of common stock outstanding. The number of shares used in the earnings per share computation for the years ended December 31, 2022 and 2021 was 2,841,314 and 2,872,111, respectively. The Corporation's basic and diluted EPS are the same since there are no potential dilutive shares of common stock outstanding.

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

COMPREHENSIVE INCOME

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

The only other comprehensive income item that the Corporation presently has is unrealized gains or losses on debt securities available-for-sale.

REVENUE RECOGNITION

The main types of revenue contracts included in other income within the Consolidated Statements of Income are as follows:

- *Service charges on deposit accounts* - Service charges and fees on deposits consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees which are recognized at the time transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

- *Bank card and credit card interchange fees* - The Corporation earns interchange fees from credit/debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

- *Gain/loss on sale of foreclosed assets held for sale* – The Corporation records a gain or loss from the sale of foreclosed assets held for sale when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of foreclosed assets held for sale to the buyer, the Corporation 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 foreclosed assets held for sale are 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, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

- *Brokerage fees and commissions* - The wealth management division provides wealth management services to individuals, corporations and retirement funds, as well as existing loan/deposit customers of the bank, located primarily within our geographic markets. The wealth management operations are conducted through Susquehanna Financial Solutions, a division of the bank, and provides a broad range of personal and corporate fiduciary services. Assets held in a fiduciary capacity are not assets of the Corporation and are therefore not included in the Corporation's Consolidated balance sheet. Wealth management fees earned are included within other income in the Consolidated Statements of Income.

  Wealth management fees are contractually agreed with each customer and earned over time as the Corporation provides the contracted monthly or quarterly services. Fees are generally based on a tiered scale based on the average market value of the assets under management at quarter-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date). Other related services provided include financial planning and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered. The costs of acquiring asset management customers are incremental and recognized within the other expense in the Consolidated Statements of Income.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded in the financial statements when, and if, the funds are disbursed.

INVESTMENTS IN LIMITED PARTNERSHIPS

The Corporation invested as a limited partner in a partnership in December 2005 that provides office space in an area in Warren, Pennsylvania designated as an enterprise zone by the Commonwealth of Pennsylvania. The Corporation has 99% ownership in this partnership. This partnership provided a $250,000 Pennsylvania Shares Tax credit to the Corporation's 2005 and 2006 Pennsylvania Shares Tax. The carrying value of the Corporation's investment in this partnership was $693,000 and $697,000 at December 31, 2022 and 2021, respectively, and is included in Other Assets in the Consolidated Balance Sheets. The Corporation accounts for this investment using the equity method, adjusting the Corporation's basis in the partnership by the Corporation's pro-rata portion of income or loss

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

each year. The Corporation recognized losses of approximately $4,000 for 2022 and $26,000 for 2021. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2022 and 2021, the partnership had total assets of approximately $931,000 and $922,000, respectively, and total liabilities of approximately $72,000 and $72,000, respectively.

The Corporation also invested as a limited partner in a partnership in December 2006 that provides office space in an area in Warren, Pennsylvania designated as an enterprise zone by the Commonwealth of Pennsylvania. The Corporation has 99% ownership in this partnership. This partnership provided a $250,000 Pennsylvania Shares Tax credit to the Corporation's 2006 and 2007 Pennsylvania Shares Tax. The carrying value of the Corporation's investment in this partnership was $1,025,000 and $1,074,000 at December 31, 2022 and 2021, respectively and is included in Other Assets in the Consolidated Balance Sheets. The Corporation accounts for this investment using the equity method, adjusting the Corporation's basis in the partnership by the Corporation's pro-rata portion of income or loss each year. The Corporation recognized losses from the partnership of approximately $49,000 and $79,000 for 2022 and 2021, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2022 and 2021, the partnership had total assets of approximately $1,419,000 and $1,425,000, respectively, and had total liabilities of approximately $250,000 and $226,000, respectively.

These investments in limited partnerships are not consolidated into the financial statements of the Corporation because the general partner has control.

STATEMENT OF CASH FLOWS

The Corporation utilizes the net reporting of cash receipts and cash payments for deposit and lending activities. The Corporation considers amounts due from banks and federal funds sold as cash equivalents.

RECLASSIFICATION

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

RECENT ACCOUNTING STANDARDS

RECENTLY ISSUED BUT NOT YET EFFECTIVE ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. ("ASU") 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 replaces the current loss impairment methodology under GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. Specifically, the amendments in this ASU will require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments in this update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income, including such financial assets as 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. In November 2019, the FASB approved a delay of the required implementation date of ASU 2016-13 resulting in a required implementation date for the Corporation of January 1, 2023. Effective January 1, 2023, the allowance for credit losses (ACL) will be based on our historical loss experience, borrower characteristics, reasonable and supportable forecasts of future economic conditions, and other relevant factors. We will also apply qualitative factors to account for information that may not be reflected in quantitatively derived results to ensure that the ACL reflects the best estimate of current expected credit losses. The allowance of credit losses under the CECL methodology is estimated to be $3 million. However, such estimates are subject to significant change as we continue to finalize the judgmental qualitative factors.

SUBSEQUENT EVENTS

The Corporation has evaluated and disclosed all material subsequent events that provide additional evidence about conditions that existed as of December 31, 2022. The Corporation evaluated these subsequent events through March 30, 2023, the date on which the financial statements contained herein were available to be issued.

2. RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

Deposits with one financial institution are insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the insured amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. SECURITIES

The amortized cost and fair value of available-for-sale debt securities at December 31, 2022 and 2021 are as follows (in thousands):

DECEMBER 31, 2022	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Obligations of U.S. Treasury	$ 2,188	$ -	$ (301)	$ 1,887
Obligations of U.S. Government agencies	40,725	2	(5,708)	35,019
Mortgage-backed securities	81,252	-	(12,153)	69,099
Obligations of state and political subdivisions	79,330	32	(7,808)	71,554
Corporate debt securities	9,789	-	(561)	9,228
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 213,284**	**$ 34**	**$(26,531)**	**$ 186,787**

DECEMBER 31, 2021	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Obligations of U.S. Treasury	$ 2,221	$ -	$ (35)	$ 2,186
Obligations of U.S. Government agencies	25,666	-	(591)	25,075
Mortgage-backed securities	70,830	976	(762)	71,044
Obligations of state and political subdivisions	93,901	5,557	(184)	99,274
Corporate debt securities	8,837	123	(56)	8,904
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 201,455**	**$ 6,656**	**$ (1,628)**	**$ 206,483**

At December 31, 2022 and 2021, investment securities with a carrying value of $112,504,000 and $125,193,000, respectively, were pledged to secure certain deposits and for other purposes as required by law.

The amortized cost and fair value of available-for-sale debt securities by contractual maturity are shown below (in thousands). 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. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

DECEMBER 31, 2022	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 1,000	$ 988
Due after one year through five years	9,447	8,884
Due after five years through ten years	36,677	31,410
Due after ten years	84,908	76,406
	132,032	117,688
Mortgage-backed securities	81,252	69,099
TOTAL	**$213,284**	**$186,787**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. SECURITIES (CONT'D)

There is no concentration of investments that exceed 10 percent of shareholders' equity of any individual issuer, excluding those guaranteed by the U.S. government or its agencies.

Gross realized gains and gross realized losses on sales of available-for-sale debt securities for the years ended December 31, 2022 and 2021, were as follows (in thousands):

	2022	2021
Gross realized gains	$ 456	$ 190
Gross realized losses	117	-

A summary of realized and unrealized gains and (losses) on equity securities for the years ended December 31, 2022 and 2021, were as follows (in thousands):

	2022	2021
Net unrealized (lossess) gains recognized during the reporting period on equity securities still held at the reporting date	$ (92)	$ 58
Net realized gains recognized during the period on equity securities sold during the period	55	33
(Losses) gains recognized during the reporting period on equity securities still held at the reporting date	$ (37)	$ 91

The following tables present gross unrealized losses and fair value of available-for-sale debt securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
DECEMBER 31, 2022	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Obligations of U.S. Treasury	$ -	$ -	$ 1,887	$ 301	$ 1,887	$ 301
Obligations of U.S. Government agencies	12,789	763	18,728	4,945	31,517	5,708
Mortgage-backed securities	31,310	4,156	37,789	7,997	69,099	12,153
Obligations of state and political subdivisions	61,978	5,561	6,502	2,247	68,480	7,808
Corporate debt securities	7,446	267	1,782	294	9,228	561
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$113,523**	**$10,747**	**$66,688**	**$15,784**	**$180,211**	**$26,531**

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
DECEMBER 31, 2021	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Obligations of U.S. Treasury	$ 2,186	$ 35	$ -	$ -	$ 2,186	$ 35
Obligations of U.S. Government agencies	15,617	298	8,457	293	24,074	591
Mortgage-backed securities	45,155	593	4,736	169	49,891	762
Obligations of state and political subdivisions	6,024	114	2,561	70	8,585	184
Corporate debt securities	1,558	31	475	25	2,033	56
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$70,540**	**$ 1,071**	**$16,229**	**$ 557**	**$ 86,769**	**$ 1,628**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. SECURITIES (CONT'D)

OBLIGATIONS OF U.S. TREASURY

Obligations of U.S. government consist of medium and long-term notes issued by the U.S. Treasury. These securities have interest rates that are largely fixed-rate, have varying mid- to long-term maturity dates and have contractual cash flows guaranteed by the U.S. Government.

At December 31, 2022, one U.S. Treasury security had an unrealized loss, and this security was in a continuous loss position for twelve months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of this specific security.

OBLIGATIONS OF U.S. GOVERNMENT AGENCIES

Obligations of U.S. government agencies consist of medium and long-term notes issued by Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and Federal Home Loan Bank (FHLB). These securities have interest rates that are largely fixed-rate, have varying mid- to long-term maturity dates and have contractual cash flows guaranteed by the U.S. Government or agencies of the U.S. Government.

At December 31, 2022, twenty-four U.S. government agency and sponsored agency securities had unrealized losses, and seventeen of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

MORTGAGE-BACKED SECURITIES

Mortgage-backed securities consist of medium and long-term pools of securitized residential mortgages issued by FHLMC, FNMA, and Government National Mortgage Association (GNMA). These securities have interest rates that are largely fixed-rate, have varying mid- to long-term maturity dates and have contractual cash flows guaranteed by the U.S. Government or agencies of the U.S. Government.

At December 31, 2022, fifty-seven mortgage-backed securities had unrealized losses, and twenty-seven of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

OBLIGATIONS OF STATE AND POLITICAL SUBDIVISIONS

The municipal securities are bank qualified general obligation or revenue-based bonds; rated as investment grade by various credit rating agencies and have fixed rates of interest with mid- to long-term maturities. Fair values of these securities are highly driven by interest rates. Management performs ongoing credit quality reviews on these issues.

At December 31, 2022, one hundred sixty-nine state and political subdivision securities had unrealized losses, and fourteen of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

CORPORATE DEBT SECURITIES

Corporate debt securities consist of debt securities issued by U.S. corporations. These securities have interest rates that are largely fixed-rate and have short- and medium-term maturity dates. The majority of the corporate issuers are rated investment grade by crediting rating agencies and those issuers that are rated below investment grade have received some type of government support to bolster their creditworthiness. Management performs ongoing credit quality reviews on these issues.

At December 31, 2022, twenty-two corporate debt securities had unrealized losses, and five of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

The Corporation recognized no other-than-temporary impairment losses during 2022 and 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Corporation's loan portfolio at December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Commercial real estate	$ 88,770	$ 83,421
Commercial real estate - construction	15,755	18,472
Commercial and industrial	32,059	33,510
Acquisition, construction & development	215	215
Agricultural	47,175	53,823
Residential mortgage	85,523	61,516
Home equity	40,241	40,925
Consumer - other	8,357	10,983
Obligation of state & political subdivisions	11,004	13,216
	329,099	316,081
Less: Allowance for loan losses	3,229	3,164
LOANS, NET	**$ 325,870**	**$ 312,917**

Transactions in the allowance for loan losses for the years ended December 31, 2022 and 2021 are summarized as follows (in thousands):

	2022	2021
Balance, beginning of year	$ 3,164	$ 2,899
Provision for loan losses	250	300
Loans charged-off	(199)	(57)
Recoveries	14	22
BALANCE, END OF YEAR	**$ 3,229**	**$ 3,164**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2022 and 2021 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2022 and 2021 (in thousands):

ALLOWANCE FOR LOAN LOSSES
DECEMBER 31, 2022

	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate & construction	$ 986	$ -	$ -	$ (44)	$ 942	$ -	$ 942
Commercial and industrial	451	(35)	-	12	428	114	314
Acquisition, construction & development	215	-	-	-	215	215	-
Agricultural	405	(35)	-	44	414	48	366
Residential mortgage	405	-	-	159	564	-	564
Home equity	347	(67)	-	51	331	11	320
Consumer - other	141	(62)	14	3	96	6	90
Obligations of state & political subdivisions	86	-	-	(14)	72	-	72
Unallocated	128	-	-	39	167	-	167
TOTALS	**$ 3,164**	**$ (199)**	**$ 14**	**$ 250**	**$ 3,229**	**$ 394**	**$ 2,835**

DECEMBER 31, 2022

	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 88,770	$ -	$ 88,770
Commercial real estate- construction	15,755	-	15,755
Commercial and industrial	32,059	163	31,896
Acquisition, construction & development	215	215	-
Agricultural	47,175	102	47,073
Residential mortgage	85,523	37	85,486
Home equity	40,241	269	39,972
Consumer - other	8,357	54	8,303
Obligations of state & political subdivisions	11,004	-	11,004
TOTALS	**$ 329,099**	**$ 840**	**$ 328,259**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

ALLOWANCE FOR LOAN LOSSES
DECEMBER 31, 2021

	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate & construction	$ 923	$ -	$ -	$ 63	$ 986	$ 66	$ 920
Commercial and industrial	337	-	-	114	451	57	394
Acquisition, construction & development	215	-	-	-	215	215	-
Agricultural	388	-	-	17	405	-	405
Residential mortgage	409	(15)	-	11	405	-	405
Home equity	364	-	-	(17)	347	43	304
Consumer - other	182	(42)	22	(21)	141	34	107
Obligations of state & political subdivisions	81	-	-	5	86	-	86
Unallocated	-	-	-	128	128	-	128
TOTALS	**$ 2,899**	**$ (57)**	**$ 22**	**$ 300**	**$ 3,164**	**$ 415**	**$ 2,749**

DECEMBER 31, 2021

	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 83,421	$ 573	$ 82,848
Commercial real estate- construction	18,472	-	18,472
Commercial and industrial	33,510	94	33,416
Acquisition, construction & development	215	215	-
Agricultural	53,823	32	53,791
Residential mortgage	61,516	43	61,473
Home equity	40,925	302	40,623
Consumer - other	10,983	211	10,772
Obligations of state & political subdivisions	13,216	-	13,216
TOTALS	**$ 316,081**	**$ 1,470**	**$ 314,611**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Corporation's internal risk rating system as of December 31, 2022 and 2021 (in thousands):

DECEMBER 31, 2022	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 86,196	$ 1,855	$ 719	$ 88,770
Commercial real estate - construction	15,755	-	-	15,755
Commercial and industrial	22,618	9,027	414	32,059
Acquisition, construction & development	-	-	215	215
Agricultural	46,200	-	975	47,175
Residential mortgage	85,486	-	37	85,523
Home equity	40,080	76	85	40,241
Consumer - other	8,097	-	260	8,357
Obligations of state & political subdivisions	11,004	-	-	11,004
TOTAL	**$ 315,436**	**$10,958**	**$ 2,705**	**$ 329,099**

DECEMBER 31, 2021	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 78,791	$ -	$ 4,630	$ 83,421
Commercial real estate - construction	18,472	-	-	18,472
Commercial and industrial	25,534	5,095	2,881	33,510
Acquisition, construction & development	-	-	215	215
Agricultural	52,779	125	919	53,823
Residential mortgage	61,472	-	44	61,516
Home equity	40,624	-	301	40,925
Consumer - other	10,766	-	217	10,983
Obligations of state & political subdivisions	13,216	-	-	13,216
TOTAL	**$ 301,654**	**$ 5,220**	**$ 9,207**	**$ 316,081**

No loans were classified as doubtful or loss as of December 31, 2022 and 2021.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

A loan is considered impaired when based on current information and events, it is probable that the Corporation will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2022 and 2021 (in thousands):

DECEMBER 31, 2022	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
WITH NO RELATED ALLOWANCE RECORDED:					
Commercial and Industrial	$ 3	$ 3	$ -	$ 6	$ -
Agricultural	23	23	-	27	-
Residential mortgage	37	37	-	40	-
Home equity	229	229	-	232	7
Consumer - other	19	19	-	39	1
WITH AN ALLOWANCE RECORDED:					
Commercial Real Estate	$ -	$ -	$ -	$ -	$ -
Commercial and Industrial	160	160	114	196	-
Acquisition, construction & development	215	215	215	215	13
Agricultural	79	79	48	124	-
Home equity	40	40	11	81	-
Consumer - other	35	35	6	35	-
TOTAL:					
Commercial Real Estate	$ -	$ -	$ -	$ -	$ -
Commercial and Industrial	163	163	114	202	-
Acquisition, construction & development	215	215	215	215	13
Agricultural	102	102	48	151	-
Residential mortgage	37	37	-	40	-
Home equity	269	269	11	313	7
Consumer - other	54	54	6	74	1

DECEMBER 31, 2021	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
WITH NO RELATED ALLOWANCE RECORDED:					
Commercial and Industrial	$ 35	$ 35	$ -	$ 43	$ 1
Agricultural	32	32	-	34	1
Residential mortgage	43	43	-	47	-
Home equity	195	195	-	198	-
Consumer - other	80	80	-	96	-
WITH AN ALLOWANCE RECORDED:					
Commercial Real Estate	$ 573	$ 573	$ 66	$ 578	$ 20
Commercial and Industrial	59	59	57	62	1
Acquisition, construction & development	215	215	215	215	12
Home equity	107	107	43	363	5
Consumer - other	131	131	34	138	4
TOTAL:					
Commercial Real Estate	$ 573	$ 573	$ 66	$ 578	$ 20
Commercial and Industrial	94	94	57	105	2
Acquisition, construction & development	215	215	215	215	12
Agricultural	32	32	-	34	1
Residential mortgage	43	43	-	47	-
Home equity	302	302	43	561	5
Consumer - other	211	211	34	234	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Commercial real estate	$ -	$ 573
Commercial and industrial	163	94
Agricultural	102	32
Residential mortgage	37	43
Home equity	269	301
Consumer - other	54	212
TOTAL	**$ 625**	**$ 1,255**

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 tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2022 and 2021 (in thousands):

DECEMBER 31, 2022	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	GREATER THAN 90 DAYS	TOTAL PAST DUE	CURRENT	TOTAL LOANS RECEIVABLES	LOANS RECEIVABLE >90 DAYS & ACCRUING
Commercial real estate	$ 58	$ -	$ -	$ 58	$ 88,712	$ 88,770	$ -
Commercial real estate - construction	-	-	-	-	15,755	15,755	-
Commercial and industrial	8	5	152	165	31,894	32,059	-
Acquisition, construction & development	215	-	-	215	-	215	-
Agricultural	758	-	98	856	46,319	47,175	-
Residential mortgage	423	-	-	423	85,100	85,523	-
Home equity	-	16	224	240	40,001	40,241	-
Consumer - other	8	61	41	110	8,247	8,357	-
Obligations of state & political subdivisions	-	-	-	-	11,004	11,004	-
TOTAL	**$ 1,470**	**$ 82**	**$ 515**	**$ 2,067**	**$ 327,032**	**$ 329,099**	**$ -**

DECEMBER 31, 2021	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	GREATER THAN 90 DAYS	TOTAL PAST DUE	CURRENT	TOTAL LOANS RECEIVABLES	LOANS RECEIVABLE >90 DAYS & ACCRUING
Commercial real estate	$ 51	$ -	$ 573	$ 624	$ 82,797	$ 83,421	$ -
Commercial real estate - construction	-	-	-	-	18,472	18,472	-
Commercial and industrial	116	5	72	193	33,317	33,510	-
Acquisition, construction & development	215	-	-	215	-	215	-
Agricultural	40	435	11	486	53,337	53,823	-
Residential mortgage	284	-	-	284	61,232	61,516	-
Home equity	-	-	252	252	40,673	40,925	-
Consumer - other	141	64	117	322	10,661	10,983	-
Obligations of state & political subdivisions	-	-	-	-	13,216	13,216	-
TOTAL	**$ 847**	**$ 504**	**$ 1,025**	**$ 2,376**	**$ 313,705**	**$ 316,081**	**$ -**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

TROUBLED DEBT RESTRUCTURINGS

Loans whose terms are modified are classified as Troubled Debt Restructurings (TDRs) if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Loans classified as TDRs are designated as impaired. As of December 31, 2022 and 2021, there were no modifications classified as troubled debt restructurings.

FORECLOSED ASSETS HELD FOR SALE

At December 31, 2022 and 2021, there were two consumer mortgage loans totaling $215,000 and $131,000, respectively in the process of foreclosure.

LOANS HELD FOR SALE

Included in residential loans are $178,000 and $726,000 of loans held for sale in 2022 and 2021, respectively.

In 2022 and 2021, the Company elected to participate in the Payroll Protection Program (PPP) administered by the Small Business Administration (SBA). This program was enacted as part of the Coronavirus, Relief and Economic Security Act (CARES Act) in March 2020 to provide emergency economic relief to businesses impacted by the COVID-19 pandemic. These loans are fully guaranteed by the SBA and are eligible for forgiveness up to 100 percent of the loan and accrued interest balance if the borrowers meet specified requirements. The Company originated $12,454,000 in 2021 of loans under the PPP. These loans have terms from 2-5 years depending on date of origination, with interest at 1 percent. No payments are generally required until the SBA remits the loan forgiveness amount to the Corporation. Outstanding PPP loans were $79,000 and $1,784,000 at December 31, 2022 and 2021, respectively, and are included in commercial loans. The SBA paid a fee to the Company to originate each PPP loan based on the amount of the loan. These fees, net of deferred loan origination costs, are recognized in interest income, as an adjustment of yield, over the life of the related loan. However, upon receipt of a loan's SBA forgiveness payment, any remaining fee for the loan is fully recognized into income. The Company recognized $116,000 in 2022 and $727,000 in 2021 of net PPP fee income. There were minimal unrecognized fees at December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2022 and 2021 are summarized as follows (in thousands):

	2022	2021
Land	$ 2,879	$ 2,879
Bank premises	9,824	9,561
Furniture and equipment	8,794	8,327
Projects in progress	39	26
TOTAL	**21,536**	**20,793**
Less accumulated depreciation	10,580	9,731
BANK PREMISES AND EQUIPMENT, NET	**$ 10,956**	**$ 11,062**

6. DEPOSITS

Major classifications of deposits at December 31, 2022 and 2021 consisted of (in thousands):

	2022	2021
Demand deposits	$ 32,664	$ 32,000
Interest-bearing demand deposits	190,235	212,034
Savings	230,081	172,991
Time deposits	58,291	72,293
TOTAL DEPOSITS	**$ 511,271**	**$489,318**

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2022 and 2021 were $11,373,000 and $17,460,000, respectively.

At December 31, 2022, the scheduled maturities of time deposits are as follows (in thousands):

2023	$ 26,535
2024	13,595
2025	5,092
2026	8,959
2027	4,005
2028	105
TOTAL	**$ 58,291**

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2022	2021
Federal Home Loan Bank of Pittsburgh ("FHLB"):		
Fixed-rate Advances (1)	$ -	$ 11,625
Line of Credit (2)	10,000	-
Atlantic Community Bankers Bank ("ACBB"):		
Line of Credit (3)	-	-
TOTAL	**$10,000**	**$11,625**

The borrowings with the FHLB are secured by the Corporation's FHLB stock, U.S. government agency and mortgage-backed securities, and first mortgage loans under a collateral pledge and security agreement. The borrowings with the ACBB are secured by Susquehanna Community Bank stock.

(1) FHLB fixed-rate advances with stated maturities at December 31, 2022 and 2021 are as follows(in thousands):

	2022	2021
Fixed-rate at 2.10%, maturing 2022	$ -	$ -
Fixed-rate at 1.72%, maturing 2023	-	625
Fixed-rate at 1.59%, maturing 2024	-	5,000
Fixed-rate at 1.60%, maturing 2025	-	2,000
Fixed-rate at 1.66%, maturing 2026	-	2,000
Fixed-rate at 1.66%, maturing 2027	-	2,000
TOTAL	**$ -**	**$11,625**

(2) The Corporation has an open-ended $78,691,425 line-of-credit at a variable interest rate. Related information for this short-term borrowing is summarized as follows (in thousands):

Average balance outstanding during the period	$ 2,436
Maximum amount outstanding at any month end	10,500
Weighted average interest rate at period end	2.03%
Average interest rate during the period	2.06%

(3) The Corporation has an open-ended $2,000,000 line-of-credit at a variable interest rate (4.00% at December 31, 2022).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

8. INCOME TAXES

The following temporary differences gave rise to the net deferred tax liability at December 31, 2022 and 2021 (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 620	$ 607
Supplemental employee retirement plan	244	211
Nonaccrual interest income	19	22
Unrealized holding losses on securities	5,564	-
Loan fees and costs	80	81
TOTAL	**$ 6,527**	**$ 921**
Deferred tax liabilities:		
Depreciation	484	525
Loan servicing rights	133	145
Bond accretion	11	3
Prepaid expenses	56	12
Low income housing investments	69	24
Unrealized holding gains on securities	-	1,065
TOTAL	**753**	**1,774**
DEFERRED TAX ASSET (LIABILITY), NET	**$ 5,774**	**$ (853)**

The deferred tax asset (liability), net, is included in Other Assets and and Other Liabilities in the accompanying consolidated balance sheets at December 31, 2022 and 2021.

The provision for income taxes consists as follows, for the years ended December 31, 2022 and 2021 (in thousands):

	2022	2021
Currently payable	$ 679	$ 834
Deferred	(72)	(133)
PROVISION FOR INCOME TAXES	**$ 607**	**$ 701**

A reconciliation of income tax at the federal statutory rate (21% for 2022 and 2021) to the Corporation's actual provision for income taxes is as follows, listed according to years ended December 31 (in thousands):

	2022	2021
Provision at the expected statutory rate	$ 1,243	$ 1,329
Effect of tax-exempt income	(556)	(608)
Nondeductible interest	50	16
Increase in cash value of life insurance	(139)	(42)
Other, net	9	6
PROVISION FOR INCOME TAXES	**$ 607**	**$ 701**

9. COMMON STOCK

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2022 and 2021, 19,048 and 20,686 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately $370,000 and $389,000 respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2022 and 2021, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2023 in an aggregate amount not to exceed $1,250,000.

10. RETIREMENT PLANS

The Corporation has a defined contribution profit-sharing plan covering substantially all of its employees. The Corporation's contributions to the plan include an annual contribution based on employees' salaries and a matching contribution based on employee salary deferrals. The cost of the defined contribution plan for 2022 and 2021 was approximately $311,000 and $251,000, respectively, and is included in salaries and employee benefits in the Consolidated Statements of Income.

The Corporation is the beneficiary of insurance policies on the lives of current and former directors and executive officers. The aggregate cash surrender values of these policies were approximately $8,168,000 and $9,639,000 at December 31, 2022 and 2021, respectively. These policies can be liquidated, if necessary, with tax costs associated. However, the Corporation intends to hold these policies and, accordingly, the Corporation has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

The Corporation has an unfunded, non-qualified supplemental executive retirement plan (SERP) for certain key executives. The SERP is designed to provide certain executives, upon attaining age 65, with projected annual distributions. The liability of the SERP at December 31, 2022 and 2021 was $1,161,000 and $1,006,000, respectively, and is included in Other Liabilities in the consolidated balance sheets. The related expense was $155,000 and $149,000 for 2022 and 2021, respectively, and is included in salaries and employee benefits in the Consolidated Statements of Income. The Corporation offsets the cost of this plan through the purchase of bank-owned life insurance as noted above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation, including their immediate families and companies in which they are principal owners (more than 10%), are indebted to the Corporation.

Total loans to these customers are summarized as follows (in thousands):

	2022	2021
Balance, beginning of year	$ 2,636	$ 4,588
New loans	259	222
Repayments	(138)	(84)
Effect of changes in composition of related parties	-	(2,090)
BALANCE, END OF YEAR	**$ 2,757**	**$ 2,636**

Deposits and other funds from related parties held by the Corporation at December 31, 2022 and 2021 were approximately $1,390,000 and $615,000, respectively.

12. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators. Failure to meet capital requirements can initiate regulatory action.

The net unrealized gain or loss on available for debt sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital cut rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than the required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022, the Bank did not qualify as a community banking organization but in 2021 the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

12. REGULATORY MATTERS (CONT'D)

The Bank's actual and required capital amounts and ratios are as follows at December 31, 2022 and 2021 (dollar amounts in thousands):

AS OF DECEMBER 31, 2022	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES WITH CONSERVATION
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO BUFFER	
Total Capital (to Risk-Weighted Assets)	$53,615	12%	≥$35,297	≥8%	≥$44,122	≥10%	10.5%
Tier I Capital (to Risk-Weighted Assets)	$50,386	11%	≥$26,473	≥6%	≥$35,297	≥8%	8.5%
Common equity Tier I Capital (to Risk-Weighted Assets)	$50,386	11%	≥$19,855	≥4.5%	≥$28,679	≥6.5%	7.0%
Tier I Capital (to Average Assets)	$50,386	9%	≥$22,764	≥4%	≥$28,455	≥5%	

AS OF DECEMBER 31, 2021:	ACTUAL		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS (CBLR FRAMEWORK)	
	AMOUNT	RATIO	AMOUNT	RATIO
Tier I Capital to Average Assets	$ 48,120	9%	≥$ 46,342	≥ 8.5%

13. OFF-BALANCE SHEET RISK

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit, financial standby letters of credit and performance standby letters of credit, which are not included in the accompanying consolidated financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, financial standby letters of credit and performance standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amounts represent credit risk at December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Commitments to extend credit	$ 85,493	$ 78,827
Financial standby letters of credit	1,018	1,432
Performance standby letter of credit	104	104

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation for extension of credit, is based on management's credit assessment of the customer.

Financial standby letters of credit irrevocably obligate the Corporation to pay a third-party when a customer fails to repay an outstanding loan or debt instrument. Performance standby letters of credit irrevocably obligates the Corporation to pay a third-party when a customer fails to perform some contractual non-financial obligation. Those guarantees are issued primarily to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The Corporation's performance under the guarantee is required upon presentation by the beneficiary of the financial and performance standby letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation does not have any recourse provisions or hold any assets that would enable it to recover from third parties any of the amounts paid under the guarantee. The Corporation was not required to recognize any liability in connection with the issuance of these standby letters of credit. The fair value of standby letters of credit was not material at December 31, 2022 or 2021.

Standby letters of credit as of December 31, 2022 expire as follows:

YEAR OF EXPIRATION	AMOUNT (IN THOUSANDS)
2023	$ 1,108
2025	14
TOTAL	**$ 1,122**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

14. PARENT COMPANY ONLY

The following is condensed financial information for Susquehanna Community Financial, Inc. on a parent company only basis listed accordingly to years ended December 31 (in thousands):

CONDENSED BALANCE SHEET	2022	2021
ASSETS		
Cash	$ 13	$ 3
Investment in subsidiaries	32,817	55,371
TOTAL ASSETS	**$ 32,830**	**$ 55,374**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 682	$ 909
Other Liabilities	7	-
Shareholders' equity	32,141	54,465
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 32,830**	**$ 55,374**

CONDENSED INCOME STATEMENT	2022	2021
INCOME		
Equity in undistributed earnings of subsidiaries	$ 2,351	$ 1,870
Dividends from subsidiaries	3,000	3,800
TOTAL INCOME	**$ 5,351**	**$ 5,670**
Operating expenses	41	41
NET INCOME	**$ 5,310**	**$ 5,629**

CONDENSED STATEMENT OF CASH FLOWS	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,310	$ 5,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,351)	(1,870)
Change in other liabilities	7	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,966	3,759
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of treasury stock	-	(820)
Dividends paid	(2,956)	(2,949)
NET CASH USED IN FINANCING ACTIVITIES	(2,956)	(3,769)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10**	**(10)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**3**	**13**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 13**	**$ 3**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation measures certain assets at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in level 3 classification included option pricing models, discounted cash flows and other similar techniques.

Assets measured at fair value on a recurring basis and the valuation methods used at December 31, 2022 and 2021 are as follows (in thousands):

DECEMBER 31, 2022	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
AVAILABLE-FOR-SALE DEBT SECURITIES:				
U.S. Treasury Securities	$ 1,887	$ -	$ -	$ 1,887
U.S. government agency and sponsored agency securities	-	35,019	-	35,019
Mortgage-backed securities	-	69,099	-	69,099
Obligations of state and political subdivisions	-	71,554	-	71,554
Corporate debt securities	-	9,228	-	9,228
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 1,887**	**$ 184,900**	**$ -**	**$ 186,787**
MARKETABLE EQUITY SECURITIES	**$ 1,324**	**$ -**	**$ -**	**$ 1,324**

DECEMBER 31, 2021	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
AVAILABLE-FOR-SALE DEBT SECURITIES:				
U.S. Treasury Securities	$ 2,186	$ -	$ -	$ 2,186
U.S. government agency and sponsored agency securities	-	25,075	-	25,075
Mortgage-backed securities	-	71,044	-	71,044
Obligations of state and political subdivisions	-	99,274	-	99,274
Corporate debt securities	-	8,904	-	8,904
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 2,186**	**$ 204,297**	**$ -**	**$ 206,483**
MARKETABLE EQUITY SECURITIES	**$ 1,001**	**$ -**	**$ -**	**$ 1,001**

The Corporation made no transfers between levels in 2022 or 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D)

Assets measured at fair value on a nonrecurring basis and the valuation methods used at December 31, 2022 and 2021 are as follows (in thousands):

DECEMBER 31, 2022	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 135	$ 135

DECEMBER 31, 2021	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 670	$ 670

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

DECEMBER 31, 2022	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE (WEIGHTED AVERAGE)
Impaired loans	$ 135	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 100%
			Liquidation Expenses (2)	0% - 35%

DECEMBER 31, 2021	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE (WEIGHTED AVERAGE)
Impaired loans	$ 670	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 100%
			Liquidation Expenses (2)	0% - 35%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not observable.

(2) Appraisals may be adjusted for qualitative factors such as economic conditions and estimated liquidations expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D)

GAAP requires disclosure of fair value information about financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to and do not represent the underlying value of the Corporation.

The estimated fair values of the Corporation's financial instruments are as follows at December 31, 2022 and 2021 (in thousands):

	VALUATION METHOD(S) USED	2022 CARRYING AMOUNT	2022 FAIR VALUE	2021 CARRYING AMOUNT	2021 FAIR VALUE
FINANCIAL ASSETS:					
Cash and due from banks	Level 1	$ 6,176	$ 6,176	$ 7,430	$ 7,430
Available-for-sale debt securities	Level 1 & 2	186,787	186,787	206,483	206,483
Marketable equity securities	Level 1	1,324	1,324	1,001	1,001
Restricted securities	Level 2	4,517	4,517	4,786	4,786
Loans, net	Level 3	325,870	303,219	312,917	306,642
Accrued interest receivable	Level 2	2,534	2,534	2,204	2,204
Mortgage servicing rights (included in Other Assets)	Level 3	634	971	690	845
FINANCIAL LIABILITIES:					
Deposits	Level 2	$ 511,271	$ 435,084	$ 489,318	$ 458,912
Other borrowings	Level 2	10,000	10,001	11,625	11,713
Accrued interest payable	Level 2	94	94	116	116

SUSQUEHANNA COMMUNITY BANK & THE COMMUNITY

WE ARE ALWAYS PROUD TO BE A PART OF AND TO SUPPORT OUR LOCAL COMMUNITIES!

FIRST PITCH AT THE WILLIAMSPORT CROSSCUTTERS

HUNTER'S MOTORCYCLE RIDE

NORTHUMBERLAND PINEKNOTTER DAYS

MILTON HARVEST FESTIVAL PARADE

WEST MILTON GRAND RE-OPENING GIVEAWAY WINNERS

WARRIOR RUN SD STOCK MARKET GAME

NEW BERLIN FIREMAN'S CARNIVAL

WATSONTOWN CARNIVAL

MCCLURE BEAN SOUP PARDE

MIFFLINBURG WEST END KIDS FAIR

SALVATION ARMY FESTIVAL OF TREES

DELIVERING A BETTER BANKING EXPERIENCE

Beaver Springs
19179 Rte. 522
(570) 658-7542

Lewisburg
2005 Market St.
(570) 524-7800

Mifflinburg
40 Hardees Dr.
(570) 966-2555

Northumberland
397 Point Township Dr.
(570) 473-3138

Watsontown
1025 Main St.
(570) 538-3698

West Milton
940 High St.
(570) 568-6851

Williamsport
2409 E. 3rd St.
(570) 505-5040