INVESTED IN **YOU.**

SUSQUEHANNA COMMUNITY FINANCIAL, INC.

2023 ANNUAL REPORT

PRESIDENT'S MESSAGE

DEAR SHAREHOLDERS:

2023 was a **PERFECT STORM.** Based on a true story, the narrative tells of the courageous men and women who showed up every day at the bank pitting their customer service and management skills against the capricious forces of a lingering pandemic, low staffing, high inflation, high interest rates, bank failures, and ultimately the **PERFECT STORM** of 2023.

Since 1920, Susquehanna Community Bank has endured and thrived as a community bank. Our ancestry has included wars, pandemics, economic depressions, floods, and some **PERFECT STORMS.** As the twelfth CEO in our 103-year history, I am very cognizant of the impact our financial institution has on the communities that we serve. I also understand the responsibility to the shareholders that have entrusted their capital to our institution and the return on investment they expect. Paramount, I know the employees are our most valuable assets and this year, more than any year, will be remembered for their dedication, commitment, and contribution to the organization and to the communities we serve. 2023 will be remembered as another **PERFECT STORM** in the history of this organization.

Through careful planning and collaboration, we were able to achieve our two primary objectives of protecting our deposits and paying a consistent dividend to our shareholders. As the storms of higher interest rates continued to batter our journey down the Susquehanna, our teammates rowed faster and responded with double digit loan growth, excellent asset quality, and a focus on safety and soundness. No sooner did we right the ship that we realized the navigational system maybe lost due to a confidence crisis from the largest bank failures in history. Calm heads prevailed as our employees enhanced their communication with each other and took the opportunity to educate our customers on FDIC insurance while maximizing their coverage. I know I personally spoke to many customers and shareholders during this time.

The unique and untimely combination of events elevated each individual event beyond what it would have been had it occurred and ultimately led to the **PERFECT STORM** of 2023. Even though the storm caused an earnings recession, we still achieved record assets, record loans, and remained safe and sound. Our deposits were down less than 3%. Our book value per share increased from the prior year while our stock price remains at the low end as the banking system continues to remain out of favor with investors. As we entered 2024, everyone got back in the boat, agreed to continue together, ready to face new challenges, ready to invest and enrich our communities but hoping for calmer waters and not another **PERFECT STORM.**

I personally want to thank you for having and maintaining the confidence in us. Many of you have held our stock for a long time and that means the world to us. We will continue to work hard every day to earn your support and preserve our independence.

On behalf of the Team at Susquehanna

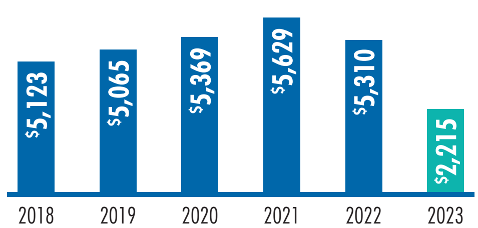
DAVID S. RUNK
PRESIDENT & CEO

2023 FINANCIAL HIGHLIGHTS

5-YEAR OVERVIEW	2019	2020	2021	2022	2023
Earnings Per Share	$1.72	$1.85	$1.96	$1.87	$0.78
Return on Average Assets	1.08%	1.14%	1.06%	0.96%	0.39%
%Return on Average Equity	10.73%	10.10%	10.25%	13.30%	7.07%
Dividends Paid Per Share	$0.80	$0.85	$0.90	$0.96	$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
Tanner J. Feaster
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

MARKET MAKER

MONROE FINANCIAL PARTNERS
FORD DICKINSON

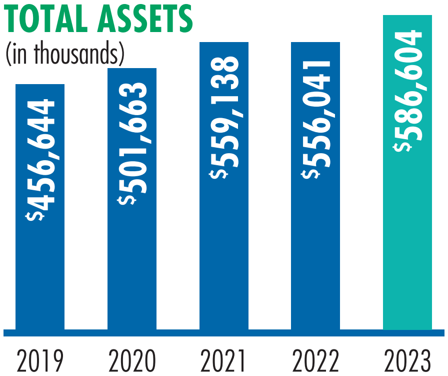
500 W. Madison St., Suite 450
Chicago, IL 60661
800.766.5560

TRANSFER AGENT

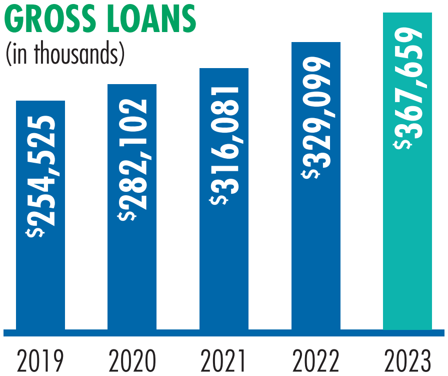
COMPUTERSHARE
TRUST CO., N.A.

PO Box 30170
College Station, TX 77842-3170
800.368.5948

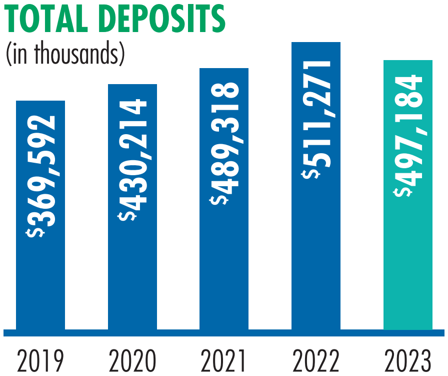
TOTAL ASSETS
(in thousands)



GROSS LOANS
(in thousands)



TOTAL DEPOSITS
(in thousands)



INDEPENDENT AUDITORS' REPORT

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

OPINION

We have audited the accompanying consolidated financial statements of Susquehanna Community Financial, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted 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.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, Financial Instruments – Credit Losses. Our opinion is not modified with respect to this matter.

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 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, 2024

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,2023 AND 2022 (IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2023	2022
Cash and due from banks	$ 6,058	$ 6,176
Available-for-sale debt securities, at fair value	176,827	186,787
Marketable equity securities, at fair value	1,020	1,324
Restricted investment in bank stocks, at cost	5,962	4,517
Loans, net of allowance for credit losses of $3,268 and $3,229	364,391	325,870
Bank premises and equipment, net	10,890	10,956
Accrued interest receivable	2,989	2,534
Cash surrender value of life insurance	9,150	8,168
Other assets	9,317	9,709
TOTAL	**$ 586,604**	**$ 556,041**

LIABILITIES AND SHAREHOLDERS' EQUITY	2023	2022
Interest-bearing deposits	$ 470,353	$ 478,607
Noninterest-bearing deposits	26,831	32,664
TOTAL DEPOSITS	**497,184**	**511,271**
Other borrowings	50,700	10,000
Dividends payable	682	682
Accrued interest payable	671	94
Other liabilities	1,925	1,853
TOTAL LIABILITIES	**551,162**	**523,900**
Common stock, par value $1 per share, 5,000,000 shares authorized; 3,375,000 shares issued	3,375	3,375
Additional paid-in capital	455	455
Retained earnings	55,612	56,125
Accumulated other comprehensive loss	(17,119)	(20,933)
Treasury stock at cost (533,686 shares at December 31, 2023 and 2022)	(6,881)	(6,881)
TOTAL SHAREHOLDERS' EQUITY	**35,442**	**32,141**
TOTAL	**$ 586,604**	**$ 556,041**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (IN THOUSANDS, EXCEPT PER SHARE DATA)

INTEREST INCOME	**2023**	**2022**
Interest and fees on loans	$ 19,483	$ 14,254
Interest on available-for-sale debt securities:		
Taxable interest	3,393	2,852
Tax-exempt interest	1,879	2,269
Dividends on marketable equity securities	70	61
Interest on deposits with other banks	66	58
TOTAL INTEREST INCOME	**24,891**	**19,494**
INTEREST EXPENSE		
Interest on deposits	9,721	3,509
Interest on other borrowings	1,367	110
TOTAL INTEREST EXPENSE	**11,088**	**3,619**
NET INTEREST INCOME	13,803	15,875
PROVISION FOR CREDIT LOSS EXPENSE - LOANS	250	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,553	15,625
OTHER INCOME		
Service charges on deposit accounts	492	519
Realized (losses) gains on available-for-sale debt securities, net	(13)	339
Losses on marketable equity securities, net	(114)	(37)
Realized gains on loan sales, net	330	635
Bank card and credit card interchange fees	602	600
Brokerage fees and commissions	446	412
Increase in cash surrender value of life insurance	182	187
Gain on bank-owed life insurance debts	-	473
Other operating income	821	677
TOTAL OTHER INCOME	**2,746**	**3,805**
OTHER EXPENSES		
Salaries and employee benefits	7,941	8,043
Occupancy expense	735	753
Furniture and equipment expenses	1,164	1,130
Automated teller machine expense	333	308
Data processing expenses	1,264	738
Pennsylvania corporate and shares taxes	211	461
Other operating expenses	2,372	2,080
TOTAL OTHER EXPENSES	**14,020**	**13,513**
INCOME BEFORE PROVISION FOR INCOME TAXES	2,279	5,917
PROVISION FOR INCOME TAXES	64	607
NET INCOME	**$ 2,215**	**$ 5,310**
EARNINGS PER SHARE - BASIC AND DILUTED	**$ 0.78**	**$ 1.87**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (IN THOUSANDS)

	2023	2022
Net Income	$ 2,215	$ 5,310
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) on available-for-sale debt securities	4,815	(31,187)
Reclassification adjustment for (losses) gains realized in earnings (a) (b)	13	(339)
Other comprehensive gain (loss) on available-for-sale securities	4,828	(31,526)
Taxes	(1,014)	6,621
Net other comprehensive loss income (loss)	3,814	(24,905)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ 6,029**	**$(19,595)**

(a) Realized losses (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 losses (gains) on sales of available-for-sale debt securities of $3 in 2023 and $71 in 2022 are included in the Provision for Income Taxes in the Consolidated Statements of Income. This resulted in reclassifications net of tax of ($10) in 2023 and $268 in 2022.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
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**	**(20,993)**	**(6,881)**	**32,141**
Net income			2,215			2,215
Other comprehensive income				3,814		3,814
Dividends declared, $0.96 per share			(2,728)			(2,728)
BALANCE, DEC. 31, 2023	**$ 3,375**	**$ 455**	**$ 55,612**	**$(17,119)**	**$ (6,881)**	**$ 35,442**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES	2023	2022
Net income	$ 2,215	$ 5,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	819	849
Provision for credit losses	250	250
Increase in cash surrender value of life insurance	(182)	(187)
Gain on bank-owed life insurance benefits	-	(473)
Amortization and accretion of available-for-sale debt securities, net	314	470
Realized losses (gains) on available-for-sale debt securities, net	13	(339)
Losses (gains) on marketable equity securities, net	114	37
Deferred income tax provision	(140)	(72)
Gains on sales of loans, net	(330)	(635)
Origination of loans for sale	(10,414)	(15,043)
Proceeds from sales of loans	10,692	15,404
Change in:		
Accrued interest receivable	(455)	(330)
Other assets	(482)	(457)
Accrued interest payable	577	(22)
Other liabilities	72	206
NET CASH PROVIDED BY OPERATING ACTIVITIES	**3,063**	**4,968**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale debt securities	-	(53,448)
Proceeds from maturities of available-for-sale debt securities	9,025	12,528
Proceeds from sale of available-for-sale debt securities	5,436	29,013
Purchase of equity securities	(210)	(790)
Proceeds from sale of equity securities	400	375
Purchases of bank-owned life insurance	(800)	-
Proceeds from bank-owned life insurance	-	2,131
Purchases of restricted investment in bank stocks	(3,994)	(1,938)
Redemption of restricted investment in bank stocks	2,549	2,207
Net increase in loans	(38,719)	(12,929)
Acquisition of bank premises and equipment	(753)	(743)
NET CASH USED IN INVESTING ACTIVITIES	**(27,066)**	**(23,594)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(14,087)	21,953
Repayments Federal Home Loan Bank fixed-rate advances	-	(11,625)
Net increase in Federal Home Loan Bank line-of-credit	40,000	10,000
Net increase in Atlantic Community Bankers Bank line-of-credit	700	-
Dividends paid	(2,728)	(2,956)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**23,885**	**17,372**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(118)**	**(1,254)**
CASH AND CASH EQUIVALENTS, BEGINNING	**6,176**	**7,430**
CASH AND CASH EQUIVALENTS, ENDING	**6,058**	**$ 6,176**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
INTEREST PAID	**$ 10,563**	**$ 3,642**
INCOME TAXES PAID	**$ -**	**$ 575**

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 credit losses for loans and investment securities, and the fair value of financial instruments.

SECURITIES

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 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. The Corporation did not hold any securities classified as held-to-maturity during 2023 or 2022.

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 trade date and are determined using the specific identification method.

ALLOWANCE FOR CREDIT LOSSES – AVAILABLE FOR SALE SECURITIES

The Corporation measures expected credit losses on available-for-sale debt securities when the Corporation intends to sell, or when it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Corporation considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. The Corporation obtains its forecast data through a subscription to a widely recognized and relied upon company. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

The allowance for credit losses on available-for-sale debt securities is included within Investment securities available-for-sale on the consolidated balance sheet. Changes in the allowance for credit losses are recorded within the provision for credit losses on the consolidated statement of income. Losses are charged against the allowance when the Corporation believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $1,090,000 at December 31, 2023 and is included within Accrued Interest Receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

OTHER THAN TEMPORARY IMPAIRMENT – PRIOR TO ADOPTING ASU 2016-13

The Corporation adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to Investment Securities recorded as of December 31, 2022 and for the period ending December 31, 2022 are presented in accordance with the accounting policies described in the following sections.

Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term "other than temporary" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value are not necessarily favorable or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss), and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive (loss) income.

MARKETABLE EQUITY SECURITIES

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 $5,950,000 at December 31, 2023 and $4,505,000 at December 31, 2022. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2023 and 2022. 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. Accrued interest receivable totaled $1,880,000 at December 31,2023 and was reported in Accrued Interest Receivable on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. 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. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

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, consumer loans, and obligations of state and political subdivisions.

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 CREDIT LOSSES (ACL) - LOANS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the allowance for credit losses using the remaining life methodology:

- Commercial real estate and construction
- Commercial and Industrial
- Agricultural
- Residential mortgage
- Home equity
- Consumer
- Obligations of state and political subdivisions

Historical credit loss experience is the basis for the estimation of expected credit losses. Management applies historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on current economic conditions, the unemployment forecast and management judgment. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates utilizing peer data to calculate the overall loss rate over a fifteen-year reversion period. The Corporation believes that in order to provide a reasonable and supportable loss rate, data representative of losses during a financial downturn will provide a better representation of the perceived risk in the portfolio. The peer data calculation will compute the quarterly loss rate for each institution, utilizing Call Report data pulled from the FFIEC, and then take a straight average of those results for included institutions. The qualitative adjustments for current conditions are based upon changes in lending policies and procedures, experience and ability of lending staff, quality of the bank's loan review system, value of underlying collateral, the existence of and changes in concentrations, changes in nature and volume of portfolio, changes in volume and trends in classified and nonaccrual loans, economic conditions, and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

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

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

COLLATERAL-DEPENDENT LOANS

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans and leases deemed collateral-dependent, the Corporation elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. Substantially all of the collateral consists of various types of business assets or real estate.

ALLOWANCE FOR LOAN LOSSES (ALL) – PRIOR TO ADOPTING ASU 2016-13

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Corporation calculated the ALL using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

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. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

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 83% at December 31, 2023) 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 98% at December 31, 2023) 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 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 $581,000 and $634,000 as of December 31, 2023 and 2022, 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 $112,800,000 and $114,200,000 at December 31, 2023 and 2022, 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, 2023 or 2022.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 $209,000 and $190,000 in 2023 and 2022, 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, 2023 and 2022 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, 2023, 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.

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, 2023 and 2022 was 2,841,314. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

ALLOWANCE FOR CREDIT LOSSES - OFF-BALANCE SHEET CREDIT EXPOSURES

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

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 $672,000 and $693,000 at December 31, 2023 and 2022, 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 of approximately $21,000 and $4,000 for 2023 and 2022, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2023 and 2022, the partnership had total assets of approximately $736,000 and $931,000, respectively, and total liabilities of approximately $39,000 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 $963,000 and $1,025,000 at December 31, 2023 and 2022, 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 $62,000 and $49,000 for 2023 and 2022, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2023 and 2022, the partnership had total assets of approximately $1,433,000 and $1,419,000, respectively, and had total liabilities of approximately $301,000 and $250,000, 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 2022 financial statements to conform to the 2023 presentation.

ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2023

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. ("ASU") 2016-13, "Measurement of Credit Losses on Financial Instruments" and subsequent related updates. 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. The results reported for periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Corporation adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Corporation recorded no cumulative effect decrease to retained earnings.

The Corporation adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023 using the prospective transition approach, though no such charges had been recorded on the securities held by the Corporation as of the date of adoption.

The Bank expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below (in thousands).

JANUARY 1, 2023	PRE-ADOPTION	ADOPTION IMPACT	AS REPORTED
ASSETS			
ACL on loans			
Commercial real estate	$ 942	$ 1,271	$ 2,213
Commercial and industrial	428	(166)	262
Acquisition, construction, & development	215	-	215
Agricultural	414	(151)	263
Residential mortgage	564	(506)	58
Home equity	331	(305)	26
Consumer - other	96	33	129
Obligations of state & political subdivisions	72	(72)	-
Unallocated	167	(104)	63
	$ 3,229	**$ -**	**$ 3,229**

SUBSEQUENT EVENTS

The Corporation has evaluated and disclosed all material subsequent events that provide additional evidence about conditions that existed as of December 31, 2023. The Corporation evaluated these subsequent events through March 30, 2024, 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, 2023 and 2022 are as follows (in thousands):

DECEMBER 31, 2023	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ALLOWANCE FOR CREDIT LOSSES	FAIR VALUE
Obligations of U.S. Treasury	$ 2,156	$ -	$ (240)	$ -	$ 1,916
Obligations of U.S. Government agencies	39,897	-	(4,917)	-	34,980
Mortgage-backed securities	74,212	-	(10,278)	-	63,934
Obligations of state and political subdivisions	73,982	9	(5,749)	-	68,242
Corporate debt securities	8,250	-	(495)	-	7,755
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 198,497**	**$ 9**	**$(21,679)**	**$ -**	**$176,827**

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**

At December 31, 2023 and 2022, investment securities with a carrying value of $108,944,000 and $112,504,000, 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, 2023	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 1,745	$ 1,733
Due after one year through five years	13,287	12,416
Due after five years through ten years	36,037	30,864
Due after ten years	73,216	67,880
	124,285	112,893
Mortgage-backed securities	74,212	63,934
TOTAL	**$ 198,497**	**$ 176,827**

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, 2023 and 2022, were as follows (in thousands):

	2023	2022
Gross realized gains	$ 25	$ 456
Gross realized losses	38	117

A summary of realized and unrealized gains and (losses) on equity securities for the years ended December 31, 2023 and 2022, were as follows (in thousands):

	2023	2022
Net unrealized (lossess) gains recognized during the reporting period on equity securities still held at the reporting date	$ (190)	$ (92)
Net realized gains recognized during the period on equity securities sold during the period	76	55
(Losses) gains recognized during the reporting period on equity securities still held at the reporting date	$ (114)	$ (37)

The following tables present gross unrealized losses and fair value of available-for-sale debt securities with unrealized losses, for which no allowance for credit losses has been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022 (in thousands):

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
DECEMBER 31, 2023	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Obligations of U.S. Treasury	$ -	$ -	$ 1,916	$ 240	$ 1,916	$ 240
Obligations of U.S. Government agencies	-	-	34,980	4,917	34,980	4,917
Mortgage-backed securities	-	-	63,934	10,278	63,934	10,278
Obligations of state and political subdivisions	3,265	61	60,336	5,688	63,601	5,749
Corporate debt securities	995	1	6,760	494	7,755	495
TOTAL UNREALIZED LOSSES ON SECURITIES	**$ 4,260**	**$ 62**	**$167,926**	**$ 21,617**	**$ 172,186**	**$ 21,679**

	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 UNREALIZED LOSSES ON SECURITIES	**$113,523**	**$10,747**	**$66,688**	**$15,784**	**$180,211**	**$26,531**

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 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, 2023, 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, 2023, twenty-six U.S. government agency and sponsored agency securities had unrealized losses, and these 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, 2023, fifty-four mortgage-backed securities had unrealized losses, and these 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, 2023, one hundred fifty-two state and political subdivision securities had unrealized losses, and one hundred forty-four 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, 2023, nineteen corporate debt 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.

The Corporation recognized no credit losses during 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The composition of the Corporation's loan portfolio at December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Commercial real estate	$ 116,067	$ 88,770
Commercial real estate - construction	14,946	15,755
Commercial and industrial	25,899	32,059
Acquisition, construction & development	215	215
Agricultural	48,086	47,175
Residential mortgage	110,626	85,523
Home equity	35,517	40,241
Consumer - other	7,001	8,357
Obligation of state & political subdivisions	9,302	11,004
	367,659	329,099
Less: Allowance for credit losses	3,268	3,229
LOANS, NET	**$ 364,391**	**$ 325,870**

Transactions in the allowance for credit losses for the years ended December 31, 2023 and 2022 are summarized as follows (in thousands):

	2023	2022
Balance, beginning of year	$ 3,229	$ 3,164
Provision for credit losses	250	250
Loans charged-off	(219)	(199)
Recoveries	8	14
BALANCE, END OF YEAR	**$ 3,268**	**$ 3,229**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The following tables summarize the activity in the allowance for credit losses by loan class for the years ended December 31, 2023 and 2022 and information in regards to the allowance for credit losses and the recorded investment in loans receivable by loan class as of December 31, 2023 and 2022 (in thousands):

ALLOWANCE FOR CREDIT LOSSES DECEMBER 31, 2023	BEGINNING BALANCE	IMPACT OF ADOPTING ASC 326	CHARGE-OFFS	RECOVERIES	PROVISION (REDUCTION)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 942	$ 1,271	$ -	$ -	$ 305	$ 2,518	$ -	$ 2,518
Commercial & industrial	428	(166)	(124)	-	(49)	89	11	78
Acquisition, construction & development	215	-	-	-	-	215	215	-
Agricultural	414	(151)	(64)	-	(48)	151	-	151
Residential mortgage	564	(506)	-	-	12	70	-	70
Home equity	331	(305)	(5)	-	73	94	81	13
Consumer - other	96	33	(26)	8	20	131	70	61
Obligations of state & political subdivisions	72	(72)	-	-	-	-	-	-
Unallocated	167	(104)	-	-	(63)	-	-	-
TOTALS	**$ 3,229**	**$ -**	**$ (219)**	**$ 8**	**$ 250**	**$ 3,268**	**$ 377**	**$ 2,891**

DECEMBER 31, 2023	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 116,067	$ -	$ 116,067
Commercial real estate - construction	14,946	-	14,946
Commercial and industrial	25,899	17	25,882
Acquisition, construction & development	215	215	-
Agricultural	48,086	90	47,996
Residential mortgage	110,626	105	110,521
Home equity	35,517	386	35,131
Consumer - other	7,001	167	6,834
Obligations of state & political subdivisions	9,302	-	9,302
TOTALS	**$ 367,659**	**$ 980**	**$ 366,679**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

COLLATERAL-DEPENDENT LOANS

The following table presents the amortized cost basis of collateral-dependent loans (in thousands) as of December 31, 2023. Changes in the fair value of the collateral for individually evaluated loans are reported as a provision for credit losses or a reversal of provsion for credit losses in the period of change.

	TYPE OF COLLATERAL	
	BUSINESS ASSETS	REAL ESTATE
Commercial real estate	$ -	$ -
Commercial real estate - construction	-	-
Commercial and industrial	17	-
Acquisition, construction & development	-	-
Agricultural	1	89
Residential mortgage	-	105
Home equity	-	386
Consumer - other	-	-
Obligations of state & political subdivisions	-	-
TOTALS	**$ 18**	**$ 580**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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 CREDIT LOSSES (CONT'D)

CREDIT QUALITY INDICATORS

Based on the most recent analysis performed, the following table presents the recorded investment in homogeneous loans by internal risk rating system in accordance with ASC 326 as of December 31, 2023 (in thousands):

	2023	2022	2021	PRIOR	REVOLVING LOANS AMORTIZED COST BASIS	TOTAL
Commercial Real Estate						
Risk Rating						
Pass	$ 33,966	$ 17,880	$ 17,313	$ 40,643	$ 2,000	$ 111,802
Special Mention	83	414	591	668	1,891	3,647
Substandard	-	-	-	618	-	618
TOTAL	**$ 34,049**	**$18,294**	**$17,904**	**$ 41,929**	**$ 3,891**	**$116,067**
Commercial Real Estate						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate - Construction						
Risk Rating						
Pass	$ 1,766	$ 2,683	$ 294	$ 1,287	$ 7,469	$ 13,499
Special Mention	-	1,447	-	-	-	1,447
Substandard	-	-	-	-	-	-
TOTAL	**$ 1,766**	**$ 4,130**	**$ 294**	**$ 1,287**	**$ 7,469**	**$ 14,946**
Commercial Real Estate - Construction						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and Industrial						
Risk Rating						
Pass	$ 4,748	$ 3,771	$ 9,617	$ 3,661	$ 1,467	$ 23,264
Special Mention	-	-	70	-	2,326	2,396
Substandard	-	-	-	6	233	239
TOTAL	**$ 4,748**	**$ 3,771**	**$ 9,687**	**$ 3,667**	**$ 4,026**	**$ 25,899**
Commercial and Industrial						
Current period gross charge-offs	$ -	$ -	$ 20	$ 74	$ 30	$ 124

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

CREDIT QUALITY INDICATORS (CONT'D)

	2023	2022	2021	PRIOR	REVOLVING LOANS AMORTIZED COST BASIS	TOTAL
Acquisition, Construction, & Development						
Risk Rating						
Pass	$ -	$ -	$ -	$ -	$ -	$ -
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	215	-	215
TOTAL	**$ -**	**$ -**	**$ -**	**$ 215**	**$ -**	**$ 215**
Acquisition, Construction, & Development						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural						
Risk Rating						
Pass	$ 3,405	$ 3,761	$ 14,446	$ 23,379	$ 1,604	$ 46,595
Special Mention	-	-	-	534	-	534
Substandard	-	-	-	957	-	957
TOTAL	**$ 3,405**	**$ 3,761**	**$14,446**	**$ 24,870**	**$ 1,604**	**$ 48,086**
Agricultural						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ 64	$ 64
Residential Mortgage						
Risk Rating						
Pass	$ 27,574	$ 28,593	$ 13,838	$ 38,268	$ -	$ 108,273
Special Mention	-	-	2,028	221	-	2,249
Substandard	-	-	-	104	-	104
TOTAL	**$ 27,574**	**$28,593**	**$15,866**	**$ 38,593**	**$ -**	**$110,626**
Residential Mortgage						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

CREDIT QUALITY INDICATORS (CONT'D)

	2023	2022	2021	PRIOR	REVOLVING LOANS AMORTIZED COST BASIS	TOTAL
Home Equity						
Risk Rating						
Pass	$ 1,255	$ 87	$ -	$ 93	$ 33,711	$ 35,146
Special Mention	-	-	-	-	158	158
Substandard	-	-	-	-	213	213
TOTAL	**$ 1,255**	**$ 87**	**$ -**	**$ 93**	**$ 34,082**	**$ 35,517**
Home Equity						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ 5	$ 5
Consumer - Other						
Risk Rating						
Pass	$ 315	$ 269	$ 206	$ 3,622	$ 2,365	$ 6,777
Special Mention	-	-	-	-	50	50
Substandard	-	-	-	174	-	174
TOTAL	**$ 315**	**$ 269**	**$ 206**	**$ 3,796**	**$ 2,415**	**$ 7,001**
Consumer - Other						
Current period gross charge-offs	$ -	$ -	$ 4	$ 9	$ 13	$ 26
Obligations of State & Political Subdivisions						
Risk Rating						
Pass	$ -	$ -	$ 1,203	$ 8,099	$ -	$ 9,302
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
TOTAL	**$ -**	**$ -**	**$ 1,203**	**$ 8,099**	**$ -**	**$ 9,302**
Obligations of State & Political Subdivisions						
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -
TOTALS	**$ 73,112**	**$58,905**	**$59,606**	**$122,549**	**$ 53,487**	**$ 367,659**
CURRENT PERIOD GROSS CHARGE-OFF TOTALS	**$ -**	**$ -**	**$ 24**	**$ 83**	**$ 112**	**$ 219**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

CREDIT QUALITY INDICATORS - PRIOR TO ADOPTING ASU 2016-13

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 (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**

No loans were classified as doubtful or loss as of December 31, 2023 and 2022.

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)

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

NONPERFORMING LOANS

The following table present the amortized cost basis of loans by loan portfolio class on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2023 (in thousands):

	NONACCRUAL WITH NO ACL	NONACCRUAL WITH ACL	TOTAL NONACCRUAL	LOANS PAST DUE OVER 90 DAYS STILL ACCRUING	TOTAL NONPERFORMING
Commercial and Industrial	$ 6	$ 11	$ 17	$ -	$ 17
Agricultural	90	-	90	-	90
Residential mortgage	105	-	105	-	105
Home equity	123	263	386	-	386
Consumer - other	11	156	167	-	167
TOTAL	**$ 335**	**$ 430**	**$ 765**	**$ -**	**$ 765**

NONPERFORMING LOANS - PRIOR TO ADOPTING ASU 2016-13

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

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Commercial real estate	$ -	$ -
Commercial and industrial	17	163
Agricultural	90	102
Residential mortgage	105	37
Home equity	386	269
Consumer - other	167	54
TOTAL	**$ 765**	**$ 625**

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, 2023 and 2022 (in thousands):

DECEMBER 31, 2023	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	$ 826	$ -	$ -	$ 826	$ 115,241	$ 116,067	$ -
Commercial real estate - construction	-	-	-	-	14,946	14,946	-
Commercial and industrial	80	55	-	135	25,764	25,899	-
Acquisition, construction & development	-	-	-	-	215	215	-
Agricultural	261	89	-	350	47,736	48,086	-
Residential mortgage	493	-	-	493	110,133	110,626	-
Home equity	8	10	296	314	35,203	35,517	-
Consumer - other	166	16	110	292	6,709	7,001	-
Obligations of state & political subdivisions	-	-	-	-	9,302	9,302	-
TOTAL	**$ 1,834**	**$ 170**	**$ 406**	**$ 2,410**	**$ 365,249**	**$ 367,659**	**$ -**

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**	**$ -**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

BORROWERS HAVING FINANCIAL DIFFICULTY

Consistent with accounting and regulatory guidance, the Corporation recognizes when a borrower is having financial difficulty and determines if certain modifications are necessary. The Corporation may, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Corporation's objective in offering a modification is to increase the probability of repayment of the borrower's loan. There were no modifications to borrower's experiencing financial difficulties during the year ended December 31, 2023.

FORECLOSED ASSETS HELD FOR SALE

At December 31, 2023, there was one consumer mortgage totaling $50,000 and at December 31,2022, there were two consumer mortgage loans totaling $215,000, respectively in the process of foreclosure.

LOANS HELD FOR SALE

Included in residential loans are $325,000 and $178,000 of loans held for sale in 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2023 and 2022 are summarized as follows (in thousands):

	2023	2022
Land	$ 2,879	$ 2,879
Bank premises	10,184	9,824
Furniture and equipment	9,187	8,794
Projects in progress	39	39
TOTAL	**22,289**	**21,536**
Less accumulated depreciation	11,399	10,580
BANK PREMISES AND EQUIPMENT, NET	**$ 10,890**	**$ 10,956**

Depreciation charged to operations were $819,000 and $849,000 in 2023 and 2022, respectively.

6. DEPOSITS

Major classifications of deposits at December 31, 2023 and 2022 consisted of (in thousands):

	2023	2022
Demand deposits	$ 26,831	$ 32,664
Interest-bearing demand deposits	160,925	190,235
Savings & Money Market	226,642	230,081
Time deposits	82,786	58,291
TOTAL DEPOSITS	**$ 497,184**	**$ 511,271**

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2023 and 2022 were $16,893,000 and $11,373,000, respectively.

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

2024	$ 62,044
2025	8,140
2026	7,091
2027	3,308
2028	2,203
TOTAL	**$ 82,786**

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2023	2022
Federal Home Loan Bank of Pittsburgh ("FHLB"): Line of Credit (2)	$ 50,000	$ 10,000
Atlantic Community Bankers Bank ("ACBB"): Line of Credit (3)	700	-
TOTAL	**$50,700**	**$10,000**

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) 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	$ 24,190
Maximum amount outstanding at any month end	51,300
Weighted average interest rate at period end	5.51%
Average interest rate during the period	5.59%

(2) The Corporation has an open-ended $2,000,000 line-of-credit at a variable interest rate (9.00% at December 31, 2023).

Average balance outstanding during the period	$ 148
Maximum amount outstanding at any month end	700
Weighted average interest rate at period end	9.00%
Average interest rate during the period	9.00%

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, 2023 and 2022 (in thousands):

	2023	2022
Deferred tax assets:		
Allowance for loan losses	$ 686	$ 620
Supplemental employee retirement plan	282	244
Nonaccrual interest income	17	19
Unrealized holding losses on securities	4,601	5,564
Loan fees and costs	112	80
TOTAL	**$ 5,698**	**$ 6,527**
Deferred tax liabilities:		
Depreciation	$ 451	$ 484
Loan servicing rights	122	133
Bond accretion	23	11
Prepaid expenses	114	56
Low income housing investments	29	69
TOTAL	**739**	**753**
DEFERRED TAX ASSET (LIABILITY), NET	**$ 4,959**	**$ 5,774**

The deferred tax asset (liability), net, is included in Other Assets and Other Liabilities in the accompanying consolidated balance sheets at December 31, 2023 and 2022.

The provision for income taxes consists as follows, for the years ended December 31, 2023 and 2022 (in thousands):

	2023	2022
Currently payable	$ 204	$ 679
Deferred	(140)	(72)
PROVISION FOR INCOME TAXES	**$ 64**	**$ 607**

A reconciliation of income tax at the federal statutory rate (21% for 2023 and 2022) to the Corporation's actual provision for income taxes is as follows, listed according to years ended December 31 (in thousands):

	2023	2022
Provision at the expected statutory rate	$ 479	$ 1,243
Effect of tax-exempt income	(462)	(556)
Nondeductible interest	75	50
Increase in cash value of life insurance	(38)	(139)
Other, net	10	9
PROVISION FOR INCOME TAXES	**$ 64**	**$ 607**

9. COMMON STOCK

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2023 and 2022, 19,511 and 19,048 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately $309,000 and $370,000 respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2023 and 2022, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2024 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 2023 and 2022 was approximately $309,000 and $311,000, 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 $9,150,000 and $8,168,000 at December 31, 2023 and 2022, 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, 2023 and 2022 was $1,342,000 and $1,161,000, respectively, and is included in Other Liabilities in the consolidated balance sheets. The related expense was $181,000 and $155,000 for 2023 and 2022, 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):

	2023	2022
Balance, beginning of year	$ 2,757	$ 2,636
New loans	118	259
Repayments	(242)	(138)
BALANCE, END OF YEAR	**$ 2,633**	**$ 2,757**

Deposits and other funds from related parties held by the Corporation at December 31, 2023 and 2022 were approximately $1,369,000 and $1,390,000, 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, 2023, 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 2023 and 2022, 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 to the riskweighting framework without restriction. As of December 31, 2023 and 2022, the Bank did not qualify as a community banking organization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

12. REGULATORY MATTERS (CONT'D)

The Bank's actual and required capital amounts and ratios are as follows at December 31, 2023 and 2022 (dollar amounts in thousands):

AS OF DECEMBER 31, 2023	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)	$53,978	11%	≥$38,463	≥8%	≥$48,079	≥10%	10.5%
Tier I Capital (to Risk-Weighted Assets)	$50,710	11%	≥$28,847	≥6%	≥$38,463	≥8%	8.5%
Common equity Tier I Capital (to Risk-Weighted Assets)	$50,710	11%	≥$21,635	≥4.5%	≥$31,251	≥6.5%	7.0%
Tier I Capital (to Average Assets)	$50,710	8%	≥$24,035	≥4%	≥$30,044	≥5%	

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%	

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, 2023 and 2022 are as follows (in thousands):

	2023	2022
Commitments to extend credit	$ 85,766	$ 85,493
Financial standby letters of credit	2,056	1,018
Performance standby letter of credit	953	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, 2023 or 2022.

Standby letters of credit as of December 31, 2023 expire as follows:

YEAR OF EXPIRATION	AMOUNT (IN THOUSANDS)
2024	$ 2,856
2025	110
2028	43
TOTAL	**$ 3,009**

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	2023	2022
ASSETS		
Cash	$ 5	$ 13
Investment in subsidiaries	36,836	32,817
TOTAL ASSETS	**$ 36,841**	**$ 32,830**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 682	$ 682
Note Payable	$ 700	$ -
Other Liabilities	$ 17	$ 7
Shareholders' equity	35,442	32,141
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 36,841**	**$ 32,830**

CONDENSED INCOME STATEMENT	2023	2022
INCOME		
Equity in undistributed earnings of subsidiaries	$ 205	$ 2,351
Dividends from subsidiaries	2,065	3,000
TOTAL INCOME	**2,270**	**5,351**
Operating expenses	55	41
NET INCOME	**$ 2,215**	**$ 5,310**

CONDENSED STATEMENT OF CASH FLOWS	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,215	$ 5,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(205)	(2,351)
Change in other liabilities	710	7
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,720	2,966
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(2,728)	(2,956)
NET CASH USED IN FINANCING ACTIVITIES	(2,728)	(2,956)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(8)**	**10**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**13**	**3**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 5**	**$ 13**

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, 2023 and 2022 are as follows (in thousands):

DECEMBER 31, 2023	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	$ 1,916	$ -	$ -	$ 1,916
U.S. government agency and sponsored agency securities	-	34,980	-	34,980
Mortgage-backed securities	-	63,934	-	63,934
Obligations of state and political subdivisions	-	68,242	-	68,242
Corporate debt securities	-	7,755	-	7,755
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 1,916**	**$ 174,911**	**$ -**	**$ 176,827**
MARKETABLE EQUITY SECURITIES	**$ 1,020**	**$ -**	**$ -**	**$ 1,020**

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**

The Corporation made no transfers between levels in 2023 or 2022.

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, 2023 and 2022 are as follows (in thousands):

DECEMBER 31, 2023	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Collateral-dependent loans	$ -	$ -	$ 268	$ 268

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

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, 2023	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE (WEIGHTED AVERAGE)
Collateral-dependent loans	$ 268	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 100%
			Liquidation Expenses (2)	0% - 35%

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%

(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, 2023 and 2022 (in thousands):

	VALUATION METHOD(S) USED	2023		2022	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:					
Cash and due from banks	Level 1	$ 6,058	$ 6,058	$ 6,176	$ 6,176
Available-for-sale debt securities	Level 1 & 2	176,827	176,827	186,787	186,787
Marketable equity securities	Level 1	1,020	1,020	1,324	1,324
Restricted securities	Level 2	5,962	5,962	4,517	4,517
Loans, net	Level 3	364,391	343,098	325,870	303,219
Accrued interest receivable	Level 2	2,989	2,989	2,534	2,534
Mortgage servicing rights (included in Other Assets)	Level 3	581	972	634	971
FINANCIAL LIABILITIES:					
Deposits	Level 2	$ 497,184	$ 440,453	$ 511,271	$ 435,084
Other borrowings	Level 2	50,700	50,705	10,000	10,001
Accrued interest payable	Level 2	671	671	94	94

16. DERIVATIVE FINANCIAL INSTRUMENT

The Corporation is a party to a derivative financial instrument. This financial instrument consists of an interest rate swap agreement.

The interest rate swap agreement with a third party is part of a fair value hedge of a closed pool of the Corporation's fixed-rate securities. It was executed to protect the pool of securities against changes in fair value due to changes in the benchmark interest rate. Changes in the fair value of the interest rate swap are expected to be highly effective in offsetting changes in the fair value of the pool of securities attributable to changes in the SOFR swap rate, the designated benchmark interest rate. This derivative is designated as a fair value hedge and is not speculative. The interest rate swap meets the hedge accounting requirements.

The notional amount of the interest rate swap is $50,000,000 at December 31, 2023 and there were no interest rate swaps originated in 2022. The Corporation pays interest at a fixed rate of 3.827% to the third party and receives interest from the third party at the SOFR floating rate. The net impact of the interest rate swap on net interest income was an increase of $21,000 in 2023 reported in taxable interest income on the Consolidated Statements of Income. The net change in the fair value of both cash flow streams is recognized directly in earnings.

There were no gross amounts of interest rate swap-related assets and liabilities not offset in the Consolidated Balance Sheets at December 31, 2023.

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