SUSQUEHANNA COMMUNITY FINANCIAL, INC.

STRONGER, BETTER THAN EVER

2021 ANNUAL REPORT

SUSQUEHANNA
COMMUNITY FINANCIAL, INC.

PRESIDENT'S MESSAGE

DEAR SHAREHOLDERS:

WE ARE STRONGER, BETTER THAN EVER!

The continuously evolving Covid-19 pandemic, staffing challenges, and the inflationary economic environment dominated news cycles over the last year. These issues challenged our organization as well, but we have emerged **STRONGER, BETTER THAN EVER**. The teamwork and collaborative efforts by all of the employees was very visible overcoming the many challenges they faced on a daily basis, not only professionally but personally. They truly care about the goals and aspirations of our customers, and they truly care about each other. This is the "Better Banking Experience"; the essence and brand of Susquehanna Community Bank.

Our overall performance record is **STRONGER, BETTER THAN EVER**. Excellent 12% loan growth in 2021, almost $1 million dollars in PPP loan interest and fees, diversified revenue from Mortgage Services and Investment Services, plus controlled overhead resulted in record earnings in 2021. This was our eighth out of the last eleven years of record earnings. Our Return on Equity was strong at 10.25% for 2021 and continues to rank us as one of the top 200 community banks in the nation <$2 billion dollars. Our capital remains strong as well as we paid our 13th consecutive increase in dividends. Our yield on our stock (SQCF) has consistently been in the 4-5% range.

As we completed our strategic planning in the fall of 2021, we documented our aspiration of becoming a $1 billion-dollar independent community bank in the Susquehanna Valley. We had a sense of adventure as we discussed this but realized that it was not going to be an easy journey. We understand that along the way there will be changes in the regulatory terrain and economic conditions, and we will need everyone rowing in the same direction focusing on the customer and employee experience. We look forward and know that our brand is **STRONGER, BETTER THAN EVER**. Our TEAM has capitalized on a strong sense of brand that is recognizable and consistent in our markets and along the Susquehanna Valley. Our brand is strong because our people are strong.

We made substantial strategic investments this year by investing in new people and in new markets for a stronger tomorrow. Coming out of the pandemic, we knew we needed to answer important questions about growth and scale. We will continue to invest in the best talent we can find and have committed in providing the best work experience we can by focusing on employee development and training. We also renovated our West Milton Office to the Better Banking Experience and now all branches have been renovated with new technology and a welcoming environment so our bankers can focus on interactions and not just transactions. We are a bank focused on long-term relationships and not products.

I want to personally thank you for your continued support and invite you to continue our journey with us as we pursue our aspirations of becoming your $1 billion-dollar independent community bank. **WE ARE STRONGER, BETTER THAN EVER!**

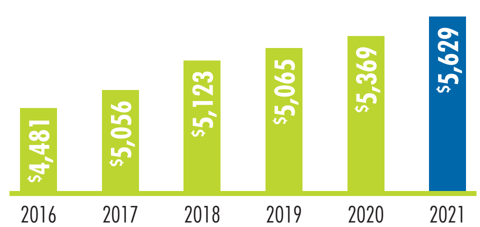
On behalf of the Team at Susquehanna,

DAVID S. RUNK
PRESIDENT & CEO

2021 FINANCIAL HIGHLIGHTS

5-YEAR OVERVIEW	2017	2018	2019	2020	2021
Earnings Per Share	$1.71	$1.74	$1.72	$1.85	$1.96
Return on Average Assets	1.25%	1.25%	1.08%	1.14%	1.06%
Return on Average Equity	12.23%	12.36%	10.73%	10.10%	10.25%
Dividends Paid Per Share	$0.71	$0.76	$0.80	$0.85	$0.90

NET INCOME
(in thousands)



BOARD OF DIRECTORS

FROM LEFT TO RIGHT:

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

MARKET MAKER

BOENNING & SCATTERGOOD
EUGENE B. BODO

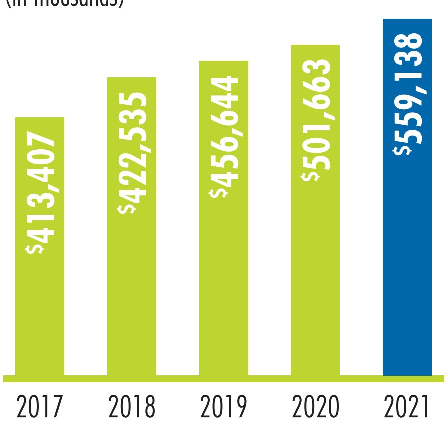
4 Tower Bridge
200 Barr Harbor Drive, Suite 300
West Conshohocken, PA 19428
610.862.5368

TRANSFER AGENT

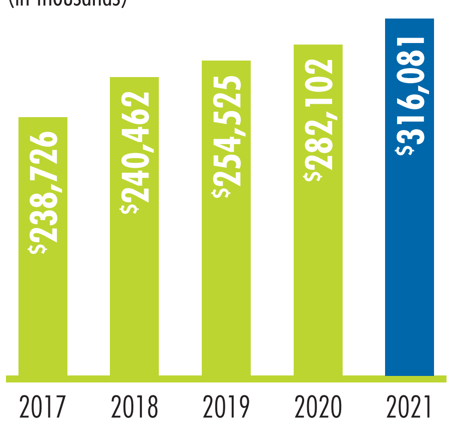
COMPUTERSHARE
TRUST CO., N.A.

PO Box 30170
College Station, TX 77842-3170
800.368.5948

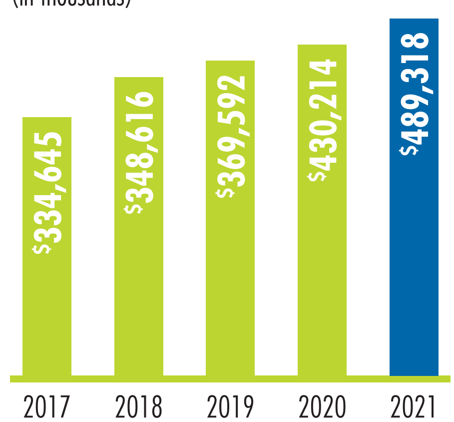
TOTAL ASSETS
(in thousands)



GROSS LOANS
(in thousands)



TOTAL DEPOSITS
(in thousands)



THE DRESSLERS

"Well, I needed help getting a mortgage and the team at Susquehanna Community Bank came highly recommended.

I COULDN'T BE HAPPIER WITH HOW EASY IT WAS AND HOW ACCOMMODATING THEY WERE.

My wife and I are both Veterans with decades of service in the US Navy. Chris and the team at Susquehanna did an amazing job getting us the best rates for our VA loan, guiding us the whole way through. We are proud of our service to our country and it was nice to have some help getting to the programs that are available to us. Thank you Susquehanna Community Bank!"

- JEREMY DRESSLER

TOM MARSHALL

At McNerney Page Vanderlin & Hall we have enjoyed a long and successful relationship with Susquehanna Community Bank. Our firm was founded in 1939 and we pride ourselves on delivering first rate personalized service to our clients.

WE KNOW THAT SUSQUEHANNA COMMUNITY BANK SHARES OUR VALUES AND COMMITMENT TO SERVICE TO CUSTOMERS.

We were fortunate that our business continued to thrive during the COVID-19 pandemic due to our diverse scope of practice and dedicated personnel. A critical component of that was being able to work with Mike Loeh and Rex Hilton in obtaining a PPP loan to keep our staffing levels where they needed to be. We recommend Susquehanna Community Bank to others because we KNOW Susquehanna Community Bank will take care of those that we refer there.

- TOM MARSHALL

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Susquehanna Community Financial, Inc.

OPINION

We have audited the consolidated financial statements of Susquehanna Community Financial, Inc. and its subsidiaries (Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation 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.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

(CONTINUED ON NEXT PAGE)

INDEPENDENT AUDITORS' REPORT (CONT'D)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Corporation'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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 THE 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 consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or 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.

Baker Tilly US, LLP

Williamsport, Pennsylvania
April 13, 2022

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020 (IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2021	2020
Cash and due from banks	$ 7,430	$ 7,774
Available-for-sale debt securities, at fair value	206,483	183,312
Marketable equity securities, at fair value	1,001	788
Restricted investment in bank stocks, at cost	4,786	4,319
Loans, net	312,917	279,203
Bank premises and equipment, net	11,062	10,520
Accrued interest receivable	2,204	2,409
Cash surrender value of life insurance	9,639	9,437
Other assets	3,616	3,901
TOTAL	**$ 559,138**	**$ 501,663**

LIABILITIES AND SHAREHOLDERS' EQUITY	2021	2020
Interest-bearing deposits	$ 457,318	$ 404,022
Noninterest-bearing deposits	32,000	26,192
TOTAL DEPOSITS	**489,318**	**430,214**
Other borrowings	11,625	12,250
Dividends payable	909	1,284
Accrued interest payable	116	233
Other liabilities	2,705	3,305
TOTAL LIABILITIES	**504,673**	**447,286**
Common stock, par value $1 per share, 5,000,000 shares authorized; 3,375,000 shares issued	3,375	3,375
Additional paid-in capital	455	455
Retained earnings	53,544	50,489
Accumulated other comprehensive income	3,972	6,119
Treasury stock at cost (533,686 and 489,686 shares at December 31, 2021 and 2020, respectively)	(6,881)	(6,061)
TOTAL SHAREHOLDERS' EQUITY	**54,465**	**54,377**
TOTAL	**$ 559,138**	**$ 501,663**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 12,952	$ 12,805
Interest on available-for-sale debt securities:		
Taxable interest	1,725	1,423
Tax-exempt interest	2,615	2,721
Dividends on marketable equity securities	48	21
Interest on deposits with other banks	8	17
TOTAL INTEREST INCOME	**17,348**	**16,987**
INTEREST EXPENSE		
Interest on deposits	1,800	2,463
Interest on other borrowings	208	309
TOTAL INTEREST EXPENSE	**2,008**	**2,772**
NET INTEREST INCOME	15,340	14,215
PROVISION FOR LOAN LOSSES	300	475
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,040	13,740
OTHER INCOME		
Service charges on deposit accounts	464	468
Realized gains on available-for-sale debt securities, net	190	366
Gains (losses) on marketable equity securities, net	91	(18)
Realized gains on loan sales, net	1,421	1,879
Bank card and credit card interchange fees	612	529
Brokerage fees and commissions	476	565
Increase in cash surrender value of life insurance	202	205
Other operating income	521	410
TOTAL OTHER INCOME	**3,977**	**4,404**
OTHER EXPENSES		
Salaries and employee benefits	7,361	7,172
Occupancy expense	642	556
Furniture and equipment expenses	1,625	1,489
Automated teller machine expense	253	306
Data processing expenses	427	367
Pennsylvania corporate and shares taxes	498	431
Other operating expenses	1,881	1,818
TOTAL OTHER EXPENSES	**12,687**	**12,139**
INCOME BEFORE PROVISION FOR INCOME TAXES	6,330	6,005
PROVISION FOR INCOME TAXES	701	636
NET INCOME	**$ 5,629**	**$ 5,369**
EARNINGS PER SHARE - BASIC AND DILUTED	**$ 1.96**	**$ 1.85**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (IN THOUSANDS)

	2021	2020
Net Income	$ 5,629	$ 5,369
Unrealized gains on available-for-sale securities:		
Unrealized holding (losses) gains on available-for-sale debt securities	(2,494)	3,593
Reclassification adjustment for gains realized in earnings (a) (b)	(223)	(366)
Other comprehensive (loss) gain on available-for-sale securities	(2,717)	3,227
Taxes	570	(678)
Net other comprehensive (loss) income	(2,147)	2,549
TOTAL COMPREHENSIVE INCOME	**$ 3,482**	**$ 7,918**

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

(b) The tax effect on gains on sales of available-for-sale debt securities of $47 in 2021 and $78 in 2020 are included in the Provision for Income Taxes in the Consolidated Statements of Income. This resulted in reclassifications net of tax of $176 in 2021 and $295 in 2020.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, DEC. 31, 2019	**$ 3,375**	**$ 455**	**$ 47,581**	**$ 3,570**	**$ (5,258)**	**$ 49,723**
Net income			5,369			5,369
Other comprehensive income				2,549		2,549
Treasury stock purchased, 45,800 shares					(803)	(803)
Dividends declared, $0.85 per share			(2,461)			(2,461)
BALANCE, DEC. 31, 2020	**3,375**	**455**	**50,489**	**6,119**	**(6,061)**	**54,377**
Net income			5,629			5,629
Other comprehensive loss				(2,147)		(2,147)
Treasury stock purchased, 44,000 shares					(820)	(820)
Dividends declared, $0.90 per share			(2,574)			(2,574)
BALANCE, DEC. 31, 2021	**$ 3,375**	**$ 455**	**$ 53,544**	**$ 3,972**	**$ (6,881)**	**$ 54,465**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES	2021	2020
Net income	$ 5,629	$ 5,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	773	830
Provision for loan losses	300	475
Increase in cash surrender value of life insurance	(202)	(205)
Amortization and accretion of available-for-sale debt securities, net	780	888
Realized gains on available-for-sale debt securities, net	(223)	(366)
(Gains) losses on marketable equity securities, net	(59)	18
Deferred income tax provision	(133)	(84)
Gains on sales of loans, net	(1,421)	(1,879)
Origination of loans for sale	(38,045)	(48,006)
Proceeds from sales of loans	39,333	50,958
Change in:		
Accrued interest receivable	205	(248)
Other assets	285	(536)
Accrued interest payable	(117)	(61)
Other liabilities	103	503
NET CASH PROVIDED BY OPERATING ACTIVITIES	**7,208**	**7,656**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale debt securities	(57,185)	(47,244)
Proceeds from maturities of available-for-sale debt securities	24,565	21,369
Proceeds from sale of available-for-sale debt securities	6,175	16,295
Purchase of equity securities	(254)	(553)
Proceeds from sale of equity securities	100	26
Purchase of Federal Home Loan Bank of Pittsburgh stock	(467)	(824)
Net increase in loans	(33,881)	(28,984)
Acquisition of bank premises and equipment	(1,315)	(689)
NET CASH USED IN INVESTING ACTIVITIES	**(62,262)**	**(40,604)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	59,104	60,622
Proceeds from Federal Home Loan Bank fixed-rate advances	-	11,000
Repayments Federal Home Loan Bank fixed-rate advances	(625)	(1,625)
Net decrease in Federal Home Loan Bank line-of-credit	-	(30,750)
Acquisition of treasury stock	(820)	(803)
Dividends paid	(2,949)	(2,379)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**54,710**	**36,065**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(344)**	**3,117**
CASH AND CASH EQUIVALENTS, BEGINNING	**7,774**	**4,657**
CASH AND CASH EQUIVALENTS, ENDING	**$ 7,430**	**$ 7,774**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
INTEREST PAID	**$ 2,125**	**$ 2,832**
INCOME TAXES PAID	**$ 625**	**$ 750**

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

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

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

NATURE OF OPERATIONS

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

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

USE OF ESTIMATES

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

SECURITIES

Trading Assets – Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest and dividends are included in net interest income. The Corporation did not hold any trading securities during 2021 or 2020.

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

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

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

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

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

Susquehanna Community Bank is a member of the FHLB-Pittsburgh, which is one of 12 regional Federal Home Loan Banks. As a member, Susquehanna Community Bank is required to purchase and maintain stock in FHLB-Pittsburgh. There is no active market for FHLB-Pittsburgh stock, and it must ordinarily be redeemed by FHLB-Pittsburgh in order to be liquidated. The Bank's investment in FHLB-Pittsburgh stock was $4,774,000 at December 31, 2021 and $4,307,000 at December

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31, 2020. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2021 and 2020. Both cash and stock dividends are reported as income.

LOANS

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

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

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

ALLOWANCE FOR LOAN LOSSES

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The qualitative factors used in the general component calculations are designed to address credit risk characteristics associated with each segment. The Corporation's credit risk associated with all of the segments is significantly impacted by these factors, which include economic conditions within its market area; the Corporation's lending policies, changes or trends in the portfolio's volume, terms, concentrations, delinquencies, and risk profile; competition and regulatory requirements; management and loan review; collateral values, and other factors. Further, the consumer mortgage segment is significantly affected by the values of residential real estate that provide collateral for the loans. The majority of the Corporation's commercial segment loans (approximately 75% at December 31, 2021) are secured by real estate, and accordingly, the Corporation's risk for the commercial segment is significantly affected by commercial real estate values. The majority of the Corporation's agricultural segment loans (approximately 97% at December 31, 2021) are secured by farm real estate, and accordingly, the Corporation's risk for the agricultural segment is significantly affected by farm real estate values. The consumer segment includes a wide mix of loans for different purposes, primarily secured loans, including loans secured by motor vehicles, manufactured housing and other types of collateral.

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

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

LOAN SERVICING RIGHTS ASSET

Loan servicing rights assets totaling $690,000 and $704,000 as of December 31, 2021 and 2020, 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 $115,772,000 and $94,391,000 at December 31, 2021 and 2020, 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, 2021 or 2020.

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 seemed 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 Corporation 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 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 $192,000 and $150,000 in 2021 and 2020, 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, 2021 and 2020 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, 2021, determinations of potentially adverse material tax positions will be evaluated to determine whether an uncertain tax position may have previously existed or has been originated. In the event an adverse tax position is determined to exist, penalty and interest will be accrued, in accordance with the Internal Revenue Service guidelines, and recorded as a component of Other Operating Expenses in the consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

EARNINGS PER SHARE

Earnings per share ("EPS") is based on the weighted average number of shares of common stock outstanding. The number of shares used in the earnings per share computation for the years ended December 31, 2021 and 2020 was 2,872,111 and 2,904,711, respectively. The Corporation's basic and diluted EPS are the same since there are no potential dilutive shares of common stock outstanding.

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

COMPREHENSIVE INCOME

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

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

REVENUE RECOGNITION

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

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

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

- *Gain/loss on sale of foreclosed assets held for sale* – The Corporation records a gain or loss from the sale of foreclosed assets held for sale when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of foreclosed assets held for sale to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets held for sale are derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

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

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

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

INVESTMENTS IN LIMITED PARTNERSHIPS

The Corporation invested as a limited partner in a partnership in December 2005 that provides office space in an area in Warren, Pennsylvania designated as an enterprise zone by the Commonwealth of Pennsylvania. The Corporation has 99% ownership in this partnership. This partnership provided a $250,000 Pennsylvania Shares Tax credit to the Corporation's 2005 and 2006 Pennsylvania Shares Tax. The carrying value of the Corporation's investment in this partnership was $697,000 and $724,000 at December 31, 2021 and 2020, 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 $26,000 for

2021 and $52,000 for 2020. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2021 and 2020, the partnership had total assets of approximately $922,000 and $932,000, respectively, and total liabilities of approximately $72,000 and $108,000, respectively.

The Corporation also invested as a limited partner in a partnership in December 2006 that provides office space in an area in Warren, Pennsylvania designated as an enterprise zone by the Commonwealth of Pennsylvania. The Corporation has 99% ownership in this partnership. This partnership provided a $250,000 Pennsylvania Shares Tax credit to the Corporation's 2006 and 2007 Pennsylvania Shares Tax. The carrying value of the Corporation's investment in this partnership was $1,074,000 and $1,153,000 at December 31, 2021 and 2020, 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 $79,000 and $75,000 for 2021 and 2020, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2021 and 2020, the partnership had total assets of approximately $1,425,000 and $1,429,000, respectively, and had total liabilities of approximately $226,000 and $216,000, 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 2020 financial statements to conform to the 2021 presentation.

RECENT ACCOUNTING STANDARDS

RECENTLY ISSUED BUT NOT YET EFFECTIVE ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. ("ASU") 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 replaces the current loss impairment methodology under GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. Specifically, the amendments in this ASU will require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments in this update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income, including such financial assets as loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. In November 2019, the FASB approved a delay of the required implementation date of ASU 2016-13 resulting in a required implementation date for the Corporation of January 1, 2023. The Corporation is currently assessing the effect that ASU 2016-13 will have on its consolidated results of operations, financial position, and cash flows.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform." ASU 2020-04 provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The guidance includes a general principle that permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. Some specific optional expedients are as follows:

- Simplifies accounting for contract modifications, including modifications to loans receivable and debt, by prospectively adjusting the effective interest rate.

- Simplifies the assessment of hedge effectiveness and allows hedging relationships affected by reference rate reform to continue.

The amendments in ASU 2020-04 are effective as of March 12, 2020 through December 31, 2022. The Corporation expects to apply the amendments prospectively for applicable loan and other contracts within the effective period of ASU 2020-04. Adoption of this ASU will not have a material impact on the Corporation's consolidated financial position or results of operations.

SUBSEQUENT EVENTS

The Corporation has evaluated and disclosed all material subsequent events that provide additional evidence about conditions that existed as of December 31, 2021. The Corporation evaluated these subsequent events through April 13, 2022, 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, 2021 and 2020 are as follows (in thousands):

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

DECEMBER 31, 2020	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Obligations of U.S. Government Agencies	$ 12,749	$ 7	$ (83)	$ 12,673
Mortgage-backed securities	54,945	1,680	(23)	56,602
Obligations of state and political subdivisions	98,146	6,049	(17)	104,178
Corporate debt securities	9,726	156	(23)	9,859
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ 175,566**	**$ 7,892**	**$ (146)**	**$ 183,312**

At December 31, 2021 and 2020, investment securities with a carrying value of $125,193,000 and $92,163,000, 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, 2021	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 499	$ 505
Due after one year through five years	4,449	4,478
Due after five years through ten years	28,899	28,663
Due after ten years	96,778	101,793
	130,625	135,439
Mortgage-backed securities	70,830	71,044
TOTAL	**$ 201,455**	**$ 206,483**

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, 2021 and 2020, were as follows (in thousands):

	2021	2020
Gross realized gains	$ 190	$ 366
Gross realized losses	-	-

A summary of realized and unrealized gains and (losses) on equity securities for the years ended December 31, 2021 and 2020, were as follows (in thousands):

	2021	2020
Net unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 58	$ (25)
Net realized gains recognized during the period on equity securities sold during the period	33	7
Gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 91	$ (18)

The following tables present gross unrealized losses and fair value of available-for-sale debt securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020 (in thousands):

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

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
DECEMBER 31, 2020	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Obligations of U.S. Government agencies	$ 8,666	$ 83	$ -	$ -	$ 8,666	$ 83
Mortgage-backed securities	5,596	23	-	-	5,596	23
Obligations of state and political subdivisions	2,619	17	-	-	2,619	17
Corporate debt securities	400	1	978	22	1,378	23
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$17,281**	**$ 124**	**$ 978**	**$ 22**	**$ 18,259**	**$ 146**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. SECURITIES (CONT'D)

OBLIGATIONS OF U.S. TREASURY

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

At December 31, 2021, one U.S. Treasury security had an unrealized loss, and this security was not 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, 2021, eighteen U.S. government agency and sponsored agency securities had unrealized losses, and five of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

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, 2021, twenty-seven mortgage-backed securities had unrealized losses, and 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.

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, 2021, fourteen state and political subdivision securities had unrealized losses, and five of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

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, 2021, five corporate debt securities had unrealized losses, and one of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

The Corporation recognized no other-than-temporary impairment losses during 2021 and 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Corporations' loan portfolio at December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
Commercial real estate	$ 83,421	$ 67,192
Commercial real estate - construction	18,472	19,901
Commercial and industrial	33,510	32,062
Acquisition, construction, & development	215	215
Agricultural	53,823	42,981
Residential mortgage	61,516	51,068
Home equity	40,925	40,752
Consumer - other	10,983	13,370
Obligation of state & political subdivisions	13,216	14,561
	316,081	282,102
Less: Allowance for loan losses	3,164	2,899
LOANS, NET	**$ 312,917**	**$ 279,203**

Transactions in the allowance for loan losses for the years ended December 31, 2021 and 2020 are summarized as follows (in thousands):

	2021	2020
Balance, beginning of year	$ 2,899	$ 2,758
Provision of loan losses	300	475
Loans charged-off	(57)	(347)
Recoveries	22	13
BALANCE, END OF YEAR	**$ 3,164**	**$ 2,899**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2021 and 2020 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2021 and 2020 (in thousands):

ALLOWANCE FOR LOAN LOSSES DECEMBER 31, 2021

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

DECEMBER 31, 2021

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

ALLOWANCE FOR LOAN LOSSES
DECEMBER 31, 2020

	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 798	$ -	$ -	$ 125	$ 923	$ -	$ 923
Commercial and industrial	280	(266)	-	323	337	45	292
Acquisition, construction & development	464	-	-	(249)	215	215	-
Agricultural	249	-	-	139	388	-	388
Residential mortgage	314	-	-	95	409	-	409
Home equity	432	-	-	(68)	364	-	364
Consumer - other	160	(81)	13	90	182	24	158
Obligations of state & political subdivisions	61	-	-	20	81	-	81
Unallocated	-	-	-	-	-	-	-
TOTALS	**$ 2,758**	**$ (347)**	**$ 13**	**$ 475**	**$ 2,899**	**$ 284**	**$ 2,615**

DECEMBER 31, 2021

	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 67,192	$ -	$ 67,192
Commercial real estate - construction	19,901	-	19,901
Commercial and industrial	32,062	71	31,991
Acquisition, construction & development	215	215	-
Agricultural	42,981	22	42,959
Residential mortgage	51,068	74	50,994
Home equity	40,752	153	40,599
Consumer - other	13,370	120	13,250
Obligations of state & political subdivisions	14,561	-	14,561
TOTALS	**$ 282,102**	**$ 655**	**$ 281,447**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Corporation's internal risk rating system as of December 31, 2021 and 2020 (in thousands):

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

DECEMBER 31, 2020	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 62,905	$ -	$ 4,287	$ 67,192
Commercial real estate - construction	19,901	-	-	19,901
Commercial and industrial	27,295	1,745	3,022	32,062
Acquisition, construction & development	-	-	215	215
Agricultural	42,062	-	919	42,981
Residential mortgage	50,991	-	77	51,068
Home equity	40,603	-	149	40,752
Consumer - other	13,023	-	347	13,370
Obligations of state & political subdivisions	14,561	-	-	14,561
TOTAL	**$ 271,341**	**$ 1,745**	**$ 9,016**	**$ 282,102**

No loans were classified as doubtful or loss as of December 31, 2021 and 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2021 and 2020 (in thousands):

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

DECEMBER 31, 2020	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
WITH NO RELATED ALLOWANCE RECORDED:					
Agricultural	$ 22	$ 22	$ -	$ 23	$ -
Residential mortgage	74	74	-	85	-
Home equity	153	153	-	155	-
Consumer - other	75	75	-	88	1
WITH AN ALLOWANCE RECORDED:					
Commercial and Industrial	$ 71	$ 71	$ 45	$ 82	$ 1
Acquisition, construction & development	215	215	215	215	9
Consumer - other	45	45	24	46	2
TOTAL:					
Commercial and Industrial	$ 71	$ 71	$ 45	$ 82	$ 1
Acquisition, construction & development	215	215	215	215	9
Agricultural	22	22	-	23	-
Residential mortgage	74	74	-	85	-
Home equity	153	153	-	155	-
Consumer - other	120	120	24	134	3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Commercial real estate	$ 573	$ -
Commercial and Industrial	94	72
Agricultural	32	22
Residential mortgage	43	74
Home equity	301	152
Consumer - other	212	119
TOTAL	**$ 1,255**	**$ 439**

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, 2021 and 2020 (in thousands):

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

DECEMBER 31, 2020	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	$ 340	$ 928	$ -	$ 1,268	$ 65,924	$ 67,192	$ -
Commercial real estate - construction	210	-	-	210	19,691	19,901	-
Commercial and Industrial	81	2	32	115	31,947	32,062	-
Acquisition, construction & development	215	-	-	215	-	215	-
Agricultural	24	-	-	24	42,957	42,981	-
Residential mortgage	116	-	23	139	50,929	51,068	-
Home equity	101	127	109	337	40,415	40,752	-
Consumer - other	157	81	49	287	13,083	13,370	-
Obligations of state & political subdivisions	-	-	-	-	14,561	14,561	-
TOTAL	**$ 1,244**	**$ 1,138**	**$ 213**	**$ 2,595**	**$ 279,507**	**$ 282,102**	**$ -**

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

TROUBLED DEBT RESTRUCTURINGS

Loans whose terms are modified are classified as Troubled Debt Restructurings (TDRs) if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Loans classified as TDRs are designated as impaired. As of December 31, 2021 and 2020, there were no modifications classified as troubled debt restructurings.

FORECLOSED ASSETS HELD FOR SALE

At December 31, 2021, there were two consumer mortgage loans totaling $131,000 that were in the process of foreclosure. There were no such items as of 12/31/2020.

LOANS HELD FOR SALE

Included in residential loans are $726,000 and $0 of loans held for sale in 2021 and 2020, respectively.

In 2021 and 2020, the Company elected to participate in the Payroll Protection Program (PPP) administered by the Small Business Administration (SBA). This program was enacted as part of the Coronavirus, Relief and Economic Security Act (CARES Act) in March 2020 to provide emergency economic relief to businesses impacted by the COVID-19 pandemic. These loans are fully guaranteed by the SBA and are eligible for forgiveness up to 100 percent of the loan and accrued interest balance if the borrowers meet specified requirements. The Company originated $12,454,000 in 2021 and $22,860,000 in 2020 of loans under the PPP. These loans have terms from 2-5 years depending on date of origination, with interest at 1 percent. No payments are generally required until the SBA remits the loan forgiveness amount to the Corporation. Outstanding PPP loans were $1,784,000 and $11,214,000 at December 31, 2021 and 2020, respectively, and are included in commercial loans.
The SBA paid a fee to the Company to originate each PPP loan based on the amount of the loan. These fees, net of deferred loan origination costs, are recognized in interest income, as an adjustment of yield, over the life of the related loan. However, upon receipt of a loan's SBA forgiveness payment, any remaining fee for the loan is fully recognized into income. The Company recognized $727,000 in 2021 and $611,000 in 2020 of net PPP fee income. The remaining balance of $116,000 is expected to be recognized in 2022.

On April 7, 2020, the federal banking supervisory agencies issued a Revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"). The Interagency Statement offers some practical expedients for evaluating whether loan modifications that occur in response to the COVID-19 pandemic are troubled debt restructures (TDRs). A lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term (i.e. six months) modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government (e.g., a state program that requires all institutions within that state to suspend mortgage payments for a specified period). Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty.

The CARES Act permits financial institutions to exclude loan modifications to borrowers affected by the COVID-19 pandemic from TDR treatment if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration. A loan modification accounted for in accordance with the CARES Act is not treated as a TDR for accounting or disclosure purposes.

During the twelve-month period ending on December 31, 2020, the Bank approved interest and/or principal payment deferrals on 118 loans totaling $43,954,000 for individuals and businesses affected by the economic impacts of COVID-19. As of December 31, 2020, 114 of these loans on payment deferral totaling $41,650,000 returned to normal debt service. The remaining 4 payment deferral loans, totaling $2,304,000, consisted primarily of one commercial loan and three residential real estate loans within their second or third deferral period as of December 31, 2020. None of the borrowers approved for these designated deferrals were delinquent as of March 1, 2020, the date on which the Corporation's COVID-19 Modification Program went into effect, and the loan modifications are not considered to be troubled-debt restructures under Section 4013. As of December 31, 2021, there were no remaining payment deferral loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2021 and 2020 are summarized as follows (in thousands):

	2021	2020
Land	$ 2,879	$ 2,879
Bank premises	9,561	8,769
Furniture and equipment	8,327	7,839
Projects in progress	26	-
TOTAL	**20,793**	**19,487**
Less accumulated depreciation	9,731	8,967
BANK PREMISES AND EQUIPMENT, NET	**$ 11,062**	**$ 10,520**

6. DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2021 and 2020 were $17,460,000 and $13,208,000, respectively.

At December 31, 2021, the scheduled maturities of time deposits are as follows (in thousands):

2022	$ 35,544
2023	8,669
2024	10,902
2025	5,746
2026	11,432
TOTAL	**$ 72,293**

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2021	2020
Federal Home Loan Bank of Pittsburgh ("FHLB"):		
Fixed-rate Advances (1)	$ 11,625	$ 12,250
Line of Credit (2)	-	-
Atlantic Community Bankers Bank ("ACBB"):		
Line of Credit (3)	-	-
TOTAL	**$11,625**	**$12,250**

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

(1) FHLB fixed-rate advances with stated maturities at December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Fixed-rate at 1.90%, maturing 2021	$ -	$ 625
Fixed-rate at 2.10%, maturing 2022	625	625
Fixed-rate at 1.72%, maturing 2023	5,000	5,000
Fixed-rate at 1.59%, maturing 2023	2,000	2,000
Fixed-rate at 1.60%, maturing 2025	2,000	2,000
Fixed-rate at 1.66%, maturing 2027	2,000	2,000
TOTAL	**$11,625**	**$12,250**

(2) The Corporation has an open-ended $61,691,700 line-of-credit at a variable interest rate (0.28% at December 31, 2021).

(3) The Corporation has an open-ended $2,000,000 line-of-credit at a variable interest rate (3.75% at December 31, 2021).

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, 2021 and 2020 (in thousands)

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 607	$ 551
Supplemental employee retirement plan	211	180
Nonaccrual interest income	22	13
Loan fees and costs	81	72
TOTAL	**921**	**816**
Deferred tax Liabilities:		
Depreciation	525	554
Loan servicing rights	145	148
Bond accretion	3	1
Prepaid expenses	12	20
Low income housing investments	24	27
Unrealized holding gains on securities	1,065	1,625
TOTAL	**1,774**	**2,373**
DEFERRED TAX LIABILITY, NET	**$ (853)**	**$ (1,557)**

The deferred tax (liability), net, is included in Other Liabilities in the accompanying consolidated balance sheets at December 31, 2021 and 2020.

The provision for income taxes consists as follows, for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Currently payable	$ 834	$ 720
Deferred	(133)	(84)
PROVISION FOR INCOME TAXES	**$ 701**	**$ 636**

A reconciliation of income tax at the federal statutory rate (21% for 2021 and 2020) to the Corporation's actual provision for income taxes is as follows, listed according to years ended December 31 (in thousands):

	2021	2020
Provision at the expected statutory rate	$ 1,329	$ 1,261
Effect of tax-exempt income	(608)	(613)
Nondeductible interest	16	23
Increase in cash value of life insurance	(42)	(43)
Other, net	6	8
PROVISION FOR INCOME TAXES	**$ 701**	**$ 636**

9. COMMON STOCK

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2021 and 2020, 20,686 and 16,152 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately $389,000 and $302,000 respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2021 and 2020, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2022 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 2021 and 2020 was approximately $251,000 and $226,000, 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 $9,639,000 and $9,437,000 at December 31, 2021 and 2020, 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, 2021 and 2020 was $1,006,000 and $857,000, respectively, and is included in Other Liabilities in the consolidated balance sheets. The related expense was $149,000 and $142,000 for 2021 and 2020, 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):

	2021	2020
Balance, beginning of year	$ 4,588	$ 5,083
New loans	94	13
Repayments	(84)	(508)
Effect of changes in composition of related parties	(2,090)	-
BALANCE, END OF YEAR	**$ 2,508**	**$ 4,588**

Deposits and other funds from related parties held by the Corporation at December 31, 2021 and 2020 were approximately $615,000 and $1,200,000, 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, 2021, 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 2021 and 2020, 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% as of December 31, 2020, 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% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021 and 2020, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

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, 2021 and 2020 (dollar amount in thousands):

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

AS OF DECEMBER 31, 2020:	ACTUAL		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS (CBLR FRAMEWORK)	
	AMOUNT	RATIO	AMOUNT	RATIO
Tier I Capital to Average Assets	$ 46,431	10%	≥$ 38,468	≥ 8%

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, 2021 and 2020 are as follows (in thousands):

	2021	2020
Commitments to extend credit	$ 78,827	$ 77,970
Financial standby letters of credit	1,432	3,457
Performance standby letter of credit	104	170

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, 2021 or 2020.

Standby letters of credit as of December 31, 2021 expire as follows:

YEAR OF EXPIRATION	AMOUNT (IN THOUSANDS)
2022	$ 1,525
2023	10
TOTAL	**$ 1,535**

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	2021	2020
ASSETS		
Cash	$ 3	$ 13
Investment in subsidiaries	55,371	55,648
TOTAL ASSETS	**$ 55,374**	**$ 55,661**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 909	$ 1,284
Shareholders' equity	54,465	54,377
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 55,374**	**$ 55,661**

CONDENSED INCOME STATEMENT	2021	2020
INCOME		
Equity in undistributed earnings of subsidiaries	$ 1,870	$ 1,809
Dividends from subsidiaries	3,800	3,600
TOTAL INCOME	**5,670**	**5,409**
Operating expenses	41	40
NET INCOME	**$ 5,629**	**$ 5,369**

CONDENSED STATEMENT OF CASH FLOWS	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,629	$ 5,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(1,870)	(1,809)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,759	3,560
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury stock	(820)	(803)
Additional paid in capital to subsidiaries	-	(375)
Dividends paid	(2,949)	(2,379)
NET CASH USED IN FINANCING ACTIVITIES	(3,769)	(3,557)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(10)**	**3**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**13**	**10**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 3**	**$ 13**

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, 2021 and 2020 are as follows (in thousands):

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

DECEMBER 31, 2020	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. government agency and sponsored agency securities	$ -	$ 12,673	$ -	$ 12,673
Mortgage-backed securities	-	56,602	-	56,602
Obligations of state and political subdivisions	-	104,178	-	104,178
Corporate debt securities	-	9,859	-	9,859
TOTAL AVAILABLE-FOR-SALE DEBT SECURITIES	**$ -**	**$ 183,312**	**$ -**	**$ 183,312**
MARKETABLE EQUITY SECURITIES	**$ 788**	**$ -**	**$ -**	**$ 788**

The Corporation made no transfers between levels in 2021 or 2020.

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, 2021 and 2020 are as follows (in thousands):

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

DECEMBER 31, 2020	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 40	$ 40

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

DECEMBER 31, 2020	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE (WEIGHTED AVERAGE)
Impaired loans	$ 40	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, 2021 and 2020 (in thousands):

		2021		2020	
	VALUATION METHOD(S) USED	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:					
Cash and due from banks	Level 1	$ 7,430	$ 7,430	$ 7,774	$ 7,774
Available-for-sale debt securities	Level 1 & 2	206,483	206,483	183,312	183,312
Marketable equity securities	Level 1	1,001	1,001	788	788
Restricted securities (included in Other Assets)	Level 2	4,786	4,786	4,319	4,319
Loans, net	Level 3	312,917	306,642	279,203	283,089
Accrued interest receivable	Level 2	2,204	2,204	2,409	2,409
Mortgage servicing rights (included in Other Assets)	Level 3	690	845	703	574
FINANCIAL LIABILITIES:					
Deposits	Level 2	$ 489,318	$ 458,912	$ 430,214	$ 417,709
Other borrowings	Level 2	11,625	11,713	12,250	12,593
Accrued interest payable	Level 2	116	116	233	233

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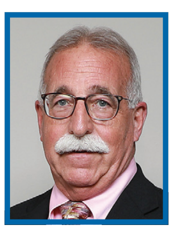

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Vice President
Chief Information Security
Officer & Director of Operations,
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