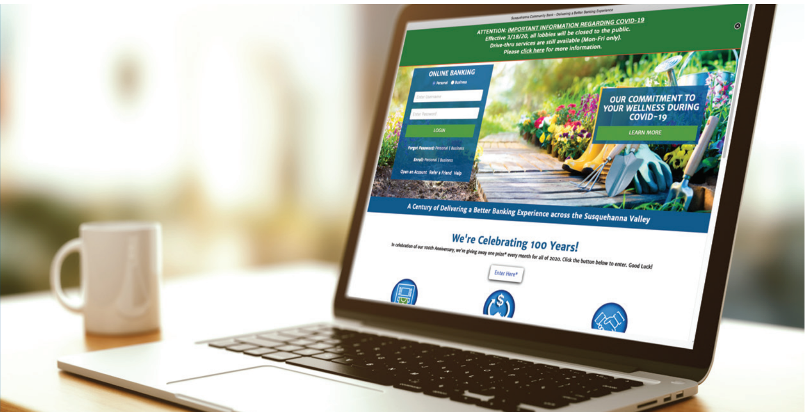
Susquehanna Community Financial, Inc.

2019 ANNUAL REPORT

Delivering a ***Better Banking Experience***
Across the Susquehanna Valley.



PRESIDENT'S MESSAGE

Dear Shareholders,

If I were to sum up 2019 in a single word, it would be **Identity**.

We began the year from a position of strength with the excitement of planning our seventh branch along the Susquehanna River and continuing our growth and peer leading performance. As we began public relations and hiring staff in the new market, we received some feedback that we may be confused with an old bank with a similar name.

In short, what is our **Identity**? The answer emphatically came back from our teammates, customers, and shareholders that it was **Community**. That is why we put it into our name, Susquehanna **Community** Bank. Not coincidentally, we are also preparing to celebrate our 100-year anniversary in 2020. As we revisited our past roaring 20's heritage, we realized how little our mission and **Identity** had changed. Here are a few past quotes from our Board members in 2000:

*"Educationally and business-wise the bank is committed to enhancing the way of life for our **Community** as we remain a strong, independent bank."*
Donald A. Byerly

*"The interaction between the bank and the **Community** it serves is extremely positive, and we try to work with every one of our customers to maintain a thriving local economy."*
Max W. DeHart

Our employees truly care about the aspirations of our customers, as their success is our success. We see our customers in the grocery store, at the gym, on the family farm, in a church. We see them in the community, because our **Identity** will always be **Community**. As you read through the annual report, you will see that our newest branch in Williamsport is all about **Community**.

We finished 2019 with record assets of $457 million, an 8% increase over $423 million in 2018. Net income declined by 1.1% to $5,065 million vs $5,123 million in 2018 due to investments in the Williamsport branch and higher cost of funds from our Susquehanna Online Initiative. We achieved record loans, record capital, and paid our 10th year of increased dividends. Our ROA and ROE were down, but we continued to perform in the top tier of the state regardless of asset size. We finished #54 in the nation for three-year average ROE for banks under $2 billion.

As we embark on a new decade, we will begin to celebrate our 100th anniversary in 2020. We have an outstanding family of bank employees and a culture that has positioned us as a top performing **Community** bank. We look forward to the next 100 years with optimism, because we all know our true **Identity** is **Community**!

On Behalf of the
Team at Susquehanna,

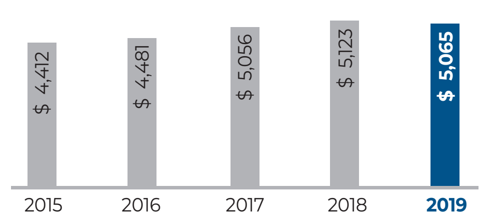
DAVID S. RUNK
PRESIDENT & CEO

2019 FINANCIAL HIGHLIGHTS

5-YEAR OVERVIEW

	2015	2016	2017	2018	**2019**
Earnings Per Share	$ 1.47	$ 1.51	$ 1.71	$ 1.74	**$ 1.72**
Return on Average Assets	1.21%	1.16%	1.25%	1.25%	**1.08%**
Return on Average Equity	10.99%	10.66%	12.23%	12.36%	**10.73%**
Dividends Paid Per Share	$ .65	$ .67	$ .71	$ .76	**$ .80**

NET INCOME
(in thousands)



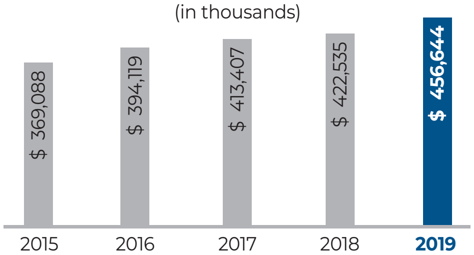
SENIOR MANAGEMENT

FROM LEFT-TO-RIGHT:
STEPHEN T. YOUNG
JILL D. SHAMBACH
RODNEY H. SMITH
WILLIAM H. WEBER II
DAVID S. RUNK (PRESIDENT)
STEPHEN P. STANKO
BELINDA M. DIEFENBACH
JEFFREY G. HOLLENBACH

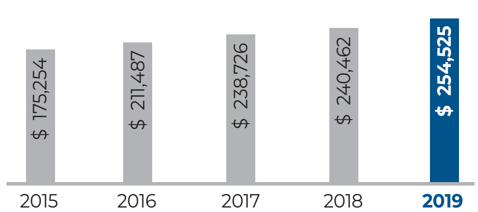
BOARD OF DIRECTORS

FROM LEFT-TO-RIGHT:
PETER L. MATSON
WILLIAM F. KEAR
DAVID S. RUNK (PRESIDENT)
CHRISTIAN C. TRATE (CHAIRMAN)
RICHARD M. BOWERSOX
ROBERT M. BRUBAKER
SUZANNE T. STOPPER
CARL L. PARDOE

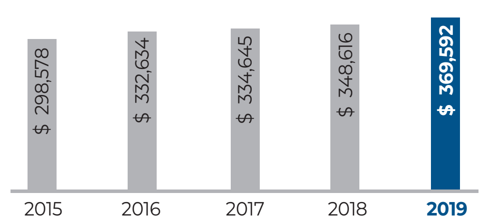
TOTAL ASSETS
(in thousands)



GROSS LOANS
(in thousands)



TOTAL DEPOSITS
(in thousands)



KEEPING IT LOCAL
THE KEY TO A BETTER BANKING EXPERIENCE

At Susquehanna Community Bank, we understand the importance of building genuine relationships with each of our customers. We believe in truly getting to know you, learning about your individual wants and needs, and responding with focused solutions that help you achieve your financial goals. We provide you with an advantage that only the best in local banking can offer.

Whether you enjoy the convenience of online and mobile banking, a quick stop at our drive-through, or prefer to visit us at one of our seven branch locations, Susquehanna Community Bank strives to offer the highest level of personal service. Our customers know the meaning of a better banking experience, and we pride ourselves on providing just that.

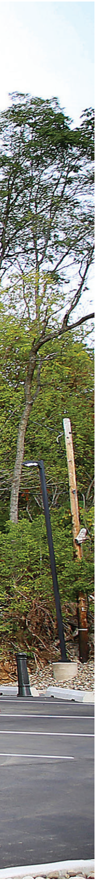
Our success is the product of each community that helped build us into what we are today. We believe in the unique value of the areas we serve, and giving back to them is how we show our appreciation. Our team members volunteer their time outside the office to local non-profits and community events. Your home is our home, after all.

DAN KLINGERMAN, THE LIBERTY GROUP
1500 SYCAMORE ROAD • MONTOURSVILLE, PA 17754

"Susquehanna Community Bank always responds with zero deviation from what was promised. Their team is made up of hard-working, credible individuals that understand credit in order to streamline questions and help expedite the process."

MIKE PHILBIN, KEYSTONE ADVERTISING SPECIALTIES
1625 JOHN BRADY DRIVE #8128 • MUNCY, PA 17756

"I like the fact that all banking decisions are made locally. I tell other banks that visit my office that my banking is done because of my relationship with Susquehanna Community Bank. Very few banks can beat the service."



STARTING A NEW CHAPTER

In the Fall of 2019, we opened the doors to our seventh branch location. The warm and welcoming branch, located in the heart of Williamsport, was designed with customer experience in mind. The financial well-being of our customers is our main priority, and our Williamsport team is committed to delivering a personalized banking experience. Susquehanna Community Bank has been helping customers in the Williamsport and surrounding communities for many years, so our expansion into the Williamsport area was a natural progression for us.

The 3,600-square-foot full-service branch design mixes a contemporary appearance with functionality and convenience. The collaboration of expertise between Hutchinson Companies, LLC's design and construction and DxDempsey's customer experience brought the building's vision to reality.

The inviting atmosphere pays homage to Williamsport through art. Eight vibrant murals showcase some of the area's most popular destinations and attractions including the Hiawatha, the Community Arts Center, the Anne Weightman Trolley, Park Place, City Hall Grand Hotel, Williamsport/Lycoming Chamber of Commerce building, the Bullfrog Brewery, and Crosscutter's Bowman Field.

PROUDLY SERVING
EACH CUSTOMER, BUSINESS, AND COMMUNITY

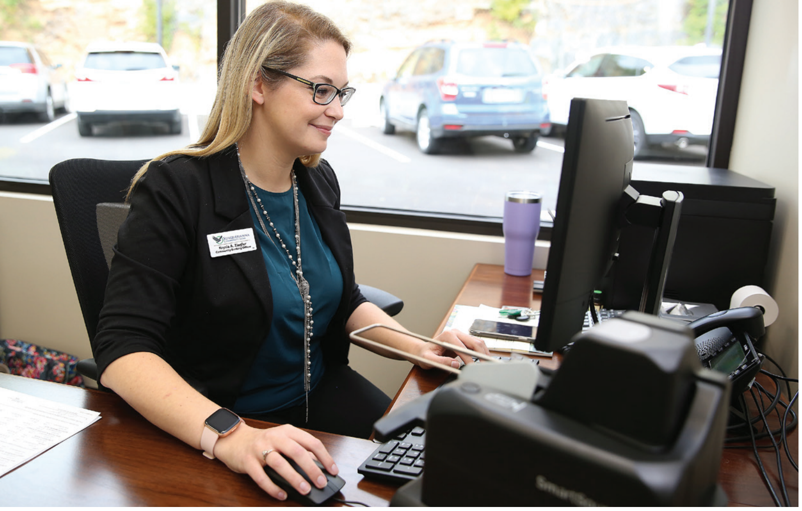
Susquehanna Community Bank is committed to providing each customer and their business with unbeatable service and a personable banking experience. Many banks see their customers as just another number, but at Susquehanna Community Bank, our customers are much more than that. They're our neighbors, families, and friends. That's why we ensure the utmost satisfaction of each customer, business, and community we serve.

MATTHEW SCHAUER, REAL ESTATE REDEVELOPMENT

"My relationship with Susquehanna Community Bank has helped build a solid foundation for my company and will without a doubt be the perfect partner for my years of growth ahead."

MARY SCHEMERY AND MIKE ZICOLELLO, SCHEMERY, PC & SZ REALTY
333 MARKET STREET • WILLIAMSPORT, PA 17701

"Susquehanna Community Bank provides the services of a large bank but maintains the accessibility and convenience of a small bank. It is just the right size to fulfill all of our needs and still make us feel like a very important customer."



WALT STRAITON, WALT STRAITON PRODUCTIONS

"Caring, attentive staff offers the highest level of personalized service. The heart of this bank resides in serving the needs and interests of the greater community at large."

CONSOLIDATED BALANCE SHEET

December 31, 2019 and 2018 (In thousands, except share data)

ASSETS	2019	2018
Cash and due from banks	$ 4,356	$ 7,561
Interest-bearing deposits with banks	301	1,106
Available-for-sale debt securities, at fair value	171,027	151,579
Marketable equity securities, at fair value	279	67
Restricted investment in bank stocks, at cost	3,495	2,931
Loans, net	251,767	237,543
Bank premises and equipment, net	10,661	7,034
Accrued interest receivable	2,161	2,051
Cash surrender value of life insurance	9,232	8,678
Other assets	3,365	3,985
TOTAL	**$ 456,644**	**$ 422,535**

LIABILITIES AND SHAREHOLDERS' EQUITY	2019	2018
Interest-bearing deposits	$ 349,939	$ 337,065
Noninterest-bearing deposits	19,653	11,551
Total Deposits	**369,592**	**348,616**
Other borrowings	33,625	29,005
Dividends payable	1,202	1,137
Accrued interest payable	294	289
Other liabilities	2,208	1,126
Total Liabilities	**406,921**	**380,173**
Common stock, par value $1 per share, 5,000,000 shares authorized; 3,375,000 shares issued	3,375	3,375
Additional paid-in capital	455	455
Retained earnings	47,581	44,866
Accumulated other comprehensive income (loss)	3,570	(1,467)
Treasury stock at cost (443,886 and 422,869 shares at December 31, 2019 and 2018, respectively)	(5,258)	(4,867)
Total Shareholders' Equity	**49,723**	**42,362**
TOTAL	**$ 456,644**	**$ 422,535**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2019 and 2018 (In thousands, except share data)

INTEREST INCOME	2019	2018
Interest and fees on loans	$ 12,792	$ 11,776
Interest on available-for-sale debt securities:		
Taxable interest	2,166	2,501
Tax-exempt interest	2,764	2,147
Dividends on marketable equity securities	5	62
Interest on deposits with other banks	617	46
Total interest income	**18,344**	**16,532**
INTEREST EXPENSE		
Interest on deposits	4,963	2,783
Interest on other borrowings	281	518
Total interest expense	**5,244**	**3,301**
NET INTEREST INCOME	13,100	13,231
(CREDIT) PROVISION FOR LOAN LOSSES	(130)	465
NET INTEREST INCOME AFTER (CREDIT) PROVISION FOR LOAN LOSSES	13,230	12,766
OTHER INCOME		
Service charges on deposit accounts	561	587
Realized gains on available-for-sale debt securities, net	288	483
Gains (losses) on marketable equity securities, net	12	(146)
Realized gains on loan sales, net	521	570
Bank card and credit card interchange fees	516	501
Brokerage fees and commissions	505	512
Increase in cash surrender value of life insurance	203	209
Other operating income	537	370
Total other income	**3,143**	**3,086**
OTHER EXPENSES		
Salaries and employee benefits	6,305	5,914
Occupancy expense	501	465
Furniture and equipment expenses	1,375	1,188
Automated teller machine expense	290	287
Data processing expenses	327	325
Pennsylvania corporate and shares taxes	367	366
Other operating expenses	1,732	1,676
Total other expenses	**10,897**	**10,221**
INCOME BEFORE PROVISION FOR INCOME TAXES	5,476	5,631
PROVISION FOR INCOME TAXES	411	508
NET INCOME	**$ 5,065**	**$ 5,123**
EARNINGS PER SHARE - BASIC AND DILUTED	**$ 1.72**	**$ 1.74**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2019 and 2018 (In thousands)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2019 and 2018 (In thousands)

	2019	2018
Net income	$ 5,065	$ 5,123
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) on available-for-sale debt securities	6,664	(3,561)
Reclassification adjustment for gains realized in earnings (a) (b)	(288)	(483)
Other comprehensive gain (loss) on available-for-sale securities	6,376	(4,044)
Taxes	(1,339)	849
Net other comprehensive income (loss)	5,037	(3,195)
Total Comprehensive Income	**$ 10,102**	**$ 1,928**

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

(b) The tax effect on gains on sales of available-for-sale debt securities of $60 in 2019 and $101 in 2018 are included in the Provision for Income Taxes in the Consolidated Statement of Income. This resulted in reclassifications net of tax, of $228 in 2019, and $382 in 2018.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2019 and 2018 (In thousands, except share data)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2019 and 2018 (In thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, DECEMBER 31, 2017	**$ 3,375**	**$ 455**	**$ 41,751**	**$ 1,964**	**$ (4,867)**	**$ 42,678**
Net income			5,123			5,123
Other comprehensive loss				(3,195)		(3,195)
Reclassification of impact of ASU 2016-01 on unrealized gains on marketable equity securities			236	(236)		
Dividends declared, $0.76 per share			(2,244)			(2,244)
BALANCE, DECEMBER 31, 2018	**3,375**	**455**	**44,866**	**(1,467)**	**(4,867)**	**42,362**
Net income			5,065			5,065
Other comprehensive income				5,037		5,037
Treasury stock purchased, 21,017 shares					(391)	(391)
Dividends declared, $0.80 per share			(2,350)			(2,350)
BALANCE, DECEMBER 31, 2019	**$ 3,375**	**$ 455**	**$ 47,581**	**$ 3,570**	**$ (5,258)**	**$ 49,723**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018 (In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
Net income	$ 5,065	$ 5,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	717	626
(Credit) Provision for loan losses	(130)	465
Increase in cash surrender value of life insurance	(203)	(209)
Amortization and accretion of available-for-sale debt securities, net	793	575
Realized gains on available-for-sale debt securities, net	(288)	(483)
(Gains) losses on marketable equity securities, net	(12)	146
Deferred income tax provision	84	166
Gains on sales of loans, net	(521)	(570)
Origination of loans for sale	(13,082)	(14,478)
Proceeds from sales of loans	13,898	14,807
Change in:		
Accrued interest receivable	(110)	(69)
Other assets	166	(387)
Accrued interest payable	5	5
Other liabilities	115	40
NET CASH PROVIDED BY OPERATING ACTIVITIES	**6,497**	**5,757**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale debt securities	(62,239)	(38,744)
Proceeds from maturities of available-for-sale debt securities	17,740	9,740
Proceeds from sale of available-for-sale debt securities	30,921	23,261
Purchase of equity securities	(200)	-
Purchase of Federal Home Loan Bank of Pittsburgh stock	(565)	(347)
Net decrease (increase) in interest-bearing deposits with banks	805	(963)
Net increase in loans	(14,389)	(1,559)
Acquisition of bank premises and equipment	(4,345)	(1,338)
Purchase of life insurance	(350)	-
NET CASH USED IN INVESTING ACTIVITIES	**(32,622)**	**(9,950)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	20,976	13,971
Repayments of Federal Home Loan Bank fixed-rate advances	(6,130)	(8,636)
Net increase in Federal Home Loan Bank line-of-credit	10,750	4,250
Acquisition of treasury stock	(391)	-
Dividends paid	(2,285)	(2,140)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**22,920**	**7,445**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,205)**	**3,252**
CASH AND CASH EQUIVALENTS, Beginning	**7,561**	**4,309**
CASH AND CASH EQUIVALENTS, Ending	**$ 4,356**	**$ 7,561**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**$ 5,239**	**$ 3,296**
Income taxes paid	**$ 581**	**$ 822**

See 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 of securities, and the fair value of financial instruments.

Securities

Held-to-maturity securities - includes debt securities that the Corporation has the positive intent and ability to hold to maturity. These securities are reported at amortized cost. The Corporation did not hold any held-to-maturity securities during 2019 or 2018.

Trading securities - includes debt securities bought and held principally for the purpose of selling them in the near term. These securities are reported at fair value with changes in fair value recorded in earnings. The Corporation did not hold any trading securities during 2019 or 2018.

Available-for-sale securities - includes debt securities not classified as either held-to-maturity securities or trading securities. Such securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported separately through accumulated other comprehensive income (loss), net of deferred income taxes. These unrealized holding gains and losses are the sole component of the Corporation's accumulated other comprehensive income (loss).

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

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.

Other-than-temporary impairment ("OTTI") – credit-related declines in the fair value of available-for-sale and held-to-maturity securities that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, and (4) whether the Corporation intends to sell the security or if it is more likely than not that the Corporation will be required to sell the security before the recovery of its amortized cost basis. The credit-related impairment is recognized in earnings, and is the difference between a security's amortized cost basis and the present value of expected future cash flows discounted at the security's effective yield prior to recognition of OTTI at year end. The portion of the other-than-temporary impairment that is due to factors other than credit is included in other comprehensive income (loss). In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes to real estate values, interest deferrals and whether the federal government provides assistance to financial institutions.

Restricted investment in bank stocks – Restricted investment in bank stocks consists of Federal Home Loan Bank of 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 Statement of Income.

Susquehanna Community Bank is a member of the Federal Home Loan Bank of Pittsburgh (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 $3,483,200 at December 31, 2019 and $2,918,600 at December 31, 2018. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2019 and 2018. In making this determination, management concluded that recovery of total outstanding par value, which equals the carrying value, is expected. The decision was based on review of financial information that FHLB-Pittsburgh has made publicly available.

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.

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 79% at December 31, 2019) 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 93% at December 31, 2019) 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 criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified or criticized are rated pass.

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

Loan Servicing Rights Asset

Loan servicing rights assets are recognized as separate assets when servicing rights are acquired through purchase or through sale of financial assets. Loan servicing rights assets are reported in Other Assets in the consolidated balance sheet 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 statement of income. The Corporation did not hold any foreclosed assets held for sale at December 31, 2019 or 2018.

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 $82,000 and $57,000 in 2019 and 2018, respectively and are included in Other Operating Expenses in the consolidated statement 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 (credit) provision for income taxes.

The Corporation has evaluated its material tax positions as of December 31, 2019 and 2018 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, 2019, determinations of potentially adverse material tax positions will be evaluated to determine whether an uncertain tax position may have previously existed or has been originated. In the event an adverse tax position is determined to exist, penalty and interest will be accrued, in accordance with the Internal Revenue Service guidelines, and recorded as a component of Other Operating Expenses in the consolidated statement of income.

Earnings Per Share

Earnings per share ("EPS") is based on the weighted average number of shares of common stock outstanding. The number of shares used in the earnings per share computation for the years ended December 31, 2019 and 2018 was 2,942,013 and 2,952,131, 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.

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 $776,000 and $777,000 at December 31, 2019 and 2018, respectively, and is included in Other Assets in the consolidated balance sheet. 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 a loss of approximately $1,000 for 2019 and income of $6,000 for 2018. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2019 and 2018 the partnership had total assets of approximately $935,000 and $938,000, respectively, and total liabilities of approximately $117,000 and $100,000, 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 $1,228,000 and $1,290,000 at December 31, 2019 and 2018, respectively, and is included in Other Assets in the consolidated balance sheet. The Corporation accounts for this investment using the equity method, adjusting the Corporation's basis in the partnership by the Corporation's pro-rata portion of income or loss each year. The Corporation recognized losses from the partnership of approximately $62,000 and $89,000 for 2019 and 2018, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2019, and 2018 the partnership had total assets of approximately $1,429,000 and $1,428,000, respectively, and had total liabilities of approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

$170,000 and $129,000, 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 2018 financial statements to conform to the 2019 presentation.

Recent Accounting Standards

Recent Accounting Pronouncements - Adopted

On January 1, 2019, the Corporation adopted Accounting Standards Update (ASU) 2016-02, *"Leases."* This required organizations that lease assets to recognize in the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. Consistent with prior GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by the lessee primarily depends on its classification as a finance or operating lease. However, unlike prior GAAP, which required only capital leases to be recognized in the balance sheet, the new ASU requires both types of leases to be recognized in the balance sheet. ASU 2016-02 will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new disclosures include both qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Adoption of this ASU had no impact on the Corporation's consolidated financial position or results of operations as the Corporation has entered into no finance or operating leases.

On January 1, 2018, the Corporation adopted Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers.*" Under the ASU, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration the entity expects to receive in exchange for those services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Corporation applied the five-step method outlined in the ASU to all revenue streams scoped-in by the ASU and elected the modified retrospective implementation method. Substantially all of the Corporation's interest income and certain non-interest income were not impacted by the adoption of this ASU because either

the revenue from those contracts with customers is covered by other guidance in GAAP or the revenue recognition outcomes were similar to our current revenue recognition practices. We reviewed non-interest sources of income and related contracts to document the impact of the new standard on our service offerings that are in the scope of the ASU including service charges on deposit accounts, bank card and credit card interchange fees, brokerage fees and commissions, and gains (losses) on sale of foreclosed assets held for sale. Upon our analysis we concluded that the adoption of the ASC 606 did not change the timing and pattern of revenue recognition related to scoped in non-interest income sources and only required additional disclosures. In addition, we reviewed, and where necessary, enhanced our business processes, systems and controls to support recognition and disclosures under the new standard. The additional disclosures required by the ASU have been included in Note 16.

On January 1, 2018, the Corporation adopted ASU 2016-01, "*Recognition and Measurement of Financial Assets and Liabilities.*" The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The adoption of ASU 2016-01 resulted in the following changes:

- Marketable equity securities previously included in available-for-sale securities on the consolidated balance sheet are presented on a separate line.

- Changes in the fair value of marketable equity securities are captured in the consolidated statement of income.

- Retained earnings was increased and a corresponding decrease in accumulated other comprehensive income (loss) was recognized (no net change in stockholders' equity) of $236,000 at January 1, 2018, for the after-tax impact of the change in accounting for the unrealized gain on the marketable equity securities.

- Use of an exit price to determine the fair value of financial instruments not measured at fair value in the consolidated balance sheet. Further information regarding valuation of financial instruments is provided in Note 15.

Effective January 1, 2018, the Corporation early adopted ASU 2017-08, *"Receivables – Nonrefundable Fees and Other Costs."* This Update shortens the amortization period for certain callable debt securities held at a premium. Discounts will continue to be amortized to maturity. Adoption of this ASU had no material impact on the Corporation's operating results.

Recently Issued But Not Yet Effective Accounting Pronouncements

In June 2016, the FASB issued 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 results of operations, financial position, and cash flows.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement." ASU 2018-13 modifies disclosure requirements on fair value measurements. This ASU removes requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. ASU 2018-13 clarifies that disclosure regarding measurement uncertainty is intended to communicate information about the uncertainty in measurement as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this ASU are effective for the Corporation beginning January 1, 2020. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively, while all other amendments should be applied retrospectively for all periods presented. The Corporation does not expect adoption of this ASU to have a material impact on its 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, 2019. The Corporation evaluated these subsequent events through April 23, 2020, the date on which the financial statements contained herein were available to be issued.

In response to the COVID-19 pandemic, on March 18, 2020, the Pennsylvania governor ordered non-essential businesses to close for at least two weeks in an effort to contain the spread of the virus. While banks are considered essential businesses, certain of the Corporation's customers have been negatively affected and have begun to request relief on loan payments. Recent regulatory agency guidance has stressed the need for banks to work with customers. Management is reviewing all options available to assist customers through this crisis

The extent of the impact of COVID-19 on the Corporation's financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

2. RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

Banks are required to maintain reserves, in the form of cash and balances with the Federal Reserve Bank, against their deposit liabilities. The average amount of such reserves during 2019 and 2018 was approximately $173,000 and $145,000, respectively. Deposits with one financial institution are insured up to $250,000. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the insured amount.

3. SECURITIES

The amortized cost and fair value of available-for-sale debt securities at December 31, 2019 and 2018 are as follows (in thousands):

DECEMBER 31, 2019		AMORTIZED COST		GROSS UNREALIZED GAINS		GROSS UNREALIZED LOSSES		FAIR VALUE
Mortgage-backed securities	$	56,531	$	726	$	(87)	$	57,170
Obligations of state and political subdivisions		100,867		3,854		(7)		104,714
Corporate debt securities		9,110		108		(75)		9,143
Total Available-For-Sale Debt Securities	**$**	**166,508**	**$**	**4,688**	**$**	**(169)**	**$**	**171,027**
DECEMBER 31, 2018								
Mortgage-backed securities	$	56,248	$	137	$	(1,214)	$	55,171
Obligations of state and political subdivisions		88,500		747		(1,319)		87,928
Corporate debt securities		8,687		3		(210)		8,480
Total Available-For-Sale Debt Securities	**$**	**153,435**	**$**	**887**	**$**	**(2,743)**	**$**	**151,579**

At December 31, 2019 and 2018, investment securities with a carrying value of $67,568,000 and $72,047,000, 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 due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

December 31, 2019		AMORTIZED COST		FAIR VALUE
Due in one year or less	$	516	$	516
Due after one year through five years		6,828		6,911
Due after five years through ten years		6,676		6,730
Due after ten years		95,957		99,700
		109,977		113,857
Mortgage-backed securities		56,531		57,170
TOTAL	**$**	**166,508**	**$**	**171,027**

3. SECURITIES (Continued)

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, 2019 and 2018, were as follows (in thousands):

	2019	2018
Gross realized gains	$ 308	$ 593
Gross realized losses	20	110

A summary of realized and unrealized gains and (losses) on equity securities for the years ended December 31, 2019 and 2018, were as follows (in thousands):

	2019	2018
Net gains and (losses) recognized during the period on equity securities	$ 12	$ (146)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	-	(143)
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 12	$ (3)

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, 2019 and 2018 (in thousands):

	Less than 12 months		12 months or more		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 6,508	$ 12	$ 7,978	$ 75	$ 14,486	$ 87
Obligations of state and political subdivisions	739	1	1,245	6	1,984	7
Corporate debt securities	977	35	2,477	40	3,454	75
Total Temporarily Impaired Securities	**$ 8,224**	**$ 48**	**$ 11,700**	**$ 121**	**$ 19,924**	**$ 169**

	Less than 12 months		12 months or more		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 11,766	$ 219	$ 28,090	$ 995	$ 39,856	$ 1,214
Obligations of state and political subdivisions	35,034	616	9,843	703	44,877	1,319
Corporate debt securities	2,837	34	4,140	176	6,977	210
Total Temporarily Impaired Securities	**$ 49,637**	**$ 869**	**$ 42,073**	**$ 1,874**	**$ 91,710**	**$ 2,743**

3. SECURITIES (Continued)

Mortgage-Backed Securities

Mortgage-backed securities consist of medium- and long-term pools of securitized residential mortgages issued by Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (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, 2019, eleven mortgage-backed securities had unrealized losses, and eight 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, 2019, five state and political subdivision securities had unrealized losses, and three 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, 2019, eight corporate debt securities had unrealized losses, and six 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 2019 and 2018.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Corporation's loan portfolio at December 31, 2019 and 2018 is as follows (in thousands):

	2019	2018
Commercial real estate	$ 66,225	$ 61,783
Commercial real estate - construction	15,075	8,084
Commercial and industrial	21,582	21,420
Acquisition, construction & development	464	464
Agricultural	32,956	28,595
Residential mortgage	50,004	50,357
Home equity	42,358	40,991
Consumer - other	16,525	16,913
Obligation of state & political subdivisions	9,336	11,865
	254,525	240,472
Less: Allowance for loan losses	2,758	2,929
Loans, Net	**$ 251,767**	**$ 237,543**

Transactions in the allowance for loan losses for the years ended December 31, 2019 and 2018 are summarized as follows (in thousands):

	2019	2018
Balance, beginning of year	$ 2,929	$ 2,518
(Credit) Provision for loan losses	(130)	465
Loans charged-off	(48)	(61)
Recoveries	7	7
Balance, end of year	**$ 2,758**	**$ 2,929**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2019 and 2018 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2019 and 2018 (in thousands):

DECEMBER 31, 2019 Allowance for Loan Losses	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (Credit)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED for IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED for IMPAIRMENT
Commercial real estate	$ 913	$ -	$ -	$ (115)	$ 798	$ -	$ 798
Commercial real estate - construction	62	-	-	(62)	-	-	-
Commercial and industrial	213	-	-	67	280	51	229
Acquisition, construction & development	464	-	-	-	464	464	-
Agricultural	214	-	-	35	249	-	249
Residential mortgage	333	-	-	(19)	314	3	311
Home equity	305	-	1	126	432	114	318
Consumer - other	173	(48)	6	29	160	2	158
Obligations of state & political subdivisions	77	-	-	(16)	61	-	61
Unallocated	175	-	-	(175)	-	-	-
Totals	**$ 2,929**	**$ (48)**	**$ 7**	**$ (130)**	**$ 2,758**	**$ 634**	**$ 2,124**

DECEMBER 31, 2019	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED for IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED for IMPAIRMENT
Commercial real estate	$ 66,225	$ 48	$ 66,177
Commercial real estate - construction	15,075	-	15,075
Commercial and industrial	21,582	218	21,364
Acquisition, construction & development	464	464	-
Agricultural	32,956	39	32,917
Residential mortgage	50,004	116	49,888
Home equity	42,358	119	42,239
Consumer - other	16,525	142	16,383
Obligations of state & political subdivisions	9,336	-	9,336
Totals	**$ 254,525**	**$ 1,146**	**$ 253,379**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

DECEMBER 31, 2018 Allowance for Loan Losses	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (Credit)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED for IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED for IMPAIRMENT
Commercial real estate	$ 792	$ -	$ -	$ 121	$ 913	$ -	$ 913
Commercial real estate - construction	62	-	-	-	62	-	62
Commercial and industrial	176	(1)	-	38	213	-	213
Acquisition, construction & development	464	-	-	-	464	464	-
Agricultural	157	-	-	57	214	-	214
Residential mortgage	282	-	-	51	333	3	330
Home equity	310	-	-	(5)	305	-	305
Consumer - other	176	(60)	7	50	173	8	165
Obligations of state & political subdivisions	99	-	-	(22)	77	-	77
Unallocated	-	-	-	175	175	-	175
Totals	**$ 2,518**	**$ (61)**	**$ 7**	**$ 465**	**$ 2,929**	**$ 475**	**$ 2,454**

DECEMBER 31, 2018	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED for IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED for IMPAIRMENT
Commercial real estate	$ 61,783	$ 650	$ 61,133
Commercial real estate - construction	8.084	-	8,084
Commercial and industrial	21,420	-	21,420
Acquisition, construction & development	464	464	-
Agricultural	28,595	-	28,595
Residential mortgage	50,357	132	50,225
Home equity	40,991	6	40,985
Consumer - other	16,913	63	16,850
Obligations of state & political subdivisions	11,865	-	11,865
Totals	**$ 240,472**	**$ 1,315**	**$ 239,157**

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 of December 31, 2019 and 2018 (in thousands):

DECEMBER 31, 2019	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 60,455	$ 1,213	$ 4,557	$ 66,225
Commercial real estate - construction	15,075	-	-	15,075
Commercial and industrial	18,124	-	3,458	21,582
Acquisition, construction & development	-	-	464	464
Agricultural	32,017	900	39	32,956
Residential mortgage	49,888	21	95	50,004
Home equity	42,124	-	234	42,358
Consumer - other	16,318	-	207	16,525
Obligations of state & political subdivisions	9,336	-	-	9,336
Total	**$ 243,337**	**$ 2,134**	**$ 9,054**	**$ 254,525**

DECEMBER 31, 2018	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 54,626	$ 1,501	$ 5,656	$ 61,783
Commercial real estate - construction	7,576	508	-	8,084
Commercial and industrial	17,838	374	3,208	21,420
Acquisition, construction & development	-	-	464	464
Agricultural	27,665	930	-	28,595
Residential mortgage	50,219	-	138	50,357
Home equity	40,605	188	198	40,991
Consumer - other	16,788	1	124	16,913
Obligations of state & political subdivisions	11,865	-	-	11,865
Total	**$ 227,182**	**$ 3,502**	**$ 9,788**	**$ 240,472**

No loans were classified as doubtful or loss as of December 31, 2019 and 2018.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2019 and 2018 (in thousands):

DECEMBER 31, 2019	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Commercial real estate	$ 48	$ 48	$ -	$ 50	2
Commercial and industrial	27	27	-	35	-
Agricultural	39	39	-	45	2
Residential mortgage	57	57	-	61	-
Home equity	22	22	-	25	-
Consumer - other	132	132	-	141	3
With An Allowance Recorded:					
Commercial and industrial	$ 191	$ 191	$ 51	$ 198	3
Acquisition, construction & development	464	464	464	464	27
Residential mortgage	59	59	3	63	-
Home equity	97	97	114	98	1
Consumer - other	10	10	2	12	-
Total:					
Commercial real estate	$ 48	$ 48	$ -	$ 50	2
Commercial and industrial	218	218	51	233	3
Acquisition, construction & development	464	464	464	464	27
Agricultural	39	39	-	45	2
Residential mortgage	116	116	3	124	-
Home equity	119	119	114	123	1
Consumer - other	142	142	2	153	3

DECEMBER 31, 2018	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Commercial real estate	$ 650	$ 650	$ -	$ 650	-
Residential mortgage	64	64	-	66	-
Home equity	6	6	-	7	-
Consumer - other	22	22	-	25	1
With An Allowance Recorded:					
Acquisition, construction & development	464	464	464	464	26
Residential mortgage	68	68	3	70	2
Consumer - other	41	41	8	43	2
Total:					
Commercial real estate	$ 650	$ 650	$ -	$ 650	-
Acquisition, construction & development	464	464	464	464	26
Residential mortgage	132	132	3	136	2
Home equity	6	6	-	7	-
Consumer - other	63	63	8	68	3

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Commercial real estate	$ 48	$ 650
Commercial and industrial	218	-
Agricultural	39	-
Residential mortgage	116	132
Home equity	119	6
Consumer - other	142	63
Total	**$ 682**	**$ 851**

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, 2019 and 2018 (in thousands):

DECEMBER 31, 2019	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	$ -	$ 48	$ 1,022	$ 1,070	$ 65,155	$ 66,225	$ 1,022
Commercial real estate - construction	-	-	-	-	15,075	15,075	-
Commercial and industrial	86	19	646	751	20,831	21,582	488
Acquisition, construction & development	464	-	-	464	-	464	-
Agricultural	375	-	-	375	32,581	32,956	-
Residential mortgage	252	59	36	347	49,657	50,004	-
Home equity	509	43	97	649	41,709	42,358	-
Consumer - other	318	108	47	473	16,052	16,525	-
Obligations of state & political subdivisions	-	-	-	-	9,336	9,336	-
Totals	**$ 2,004**	**$ 277**	**$ 1,848**	**$ 4,129**	**$ 250,396**	**$ 254,525**	**$ 1,510**

DECEMBER 31, 2018	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	$ -	$ 1,096	$ 650	$ 1,746	$ 60,037	$ 61,783	$ -
Commercial real estate - construction	-	-	-	-	8,084	8,084	-
Commercial and industrial	500	405	-	905	20,515	21,420	-
Acquisition, construction & development	-	-	-	-	464	464	-
Agricultural	808	-	-	808	27,787	28,595	-
Residential mortgage	234	-	107	341	50,016	50,357	-
Home equity	356	106	-	462	40,529	40,991	-
Consumer - other	303	39	40	382	16,531	16,913	-
Obligations of state & political subdivisions	-	-	-	-	11,865	11,865	-
Totals	**$ 2,201**	**$ 1,646**	**$ 797**	**$ 4,644**	**$ 235,828**	**$ 240,472**	**$ -**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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, 2019 and 2018, there were no modifications classified as troubled debt restructurings.

Foreclosed Assets Held For Sale

At December 31, 2019 there were no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure. At December 31, 2018 there was one consumer mortgage loan collateralized by residential real estate property with a balance of $142,000 that was in the process of foreclosure.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2019 and 2018 are summarized as follows (in thousands):

	2019	2018
Land	$ 2,879	$ 1,451
Bank premises	8,473	6,223
Furniture and equipment	7,446	6,416
Construction in progress	-	364
Total	**$ 18,798**	**$ 14,454**
Less accumulated depreciation	8,137	7,420
Bank Premises and Equipment, Net	$ 10,661	$ 7,034

6. DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2019 and 2018 were $10,702,000 and $15,670,000, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

2020	$ 46,951
2021	17,681
2022	6,101
2023	3,246
2024	5,103
Total	**$ 79,082**

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2019	2018
Federal Home Loan Bank of Pittsburgh ("FHLB"):		
Fixed-rate advances (1)	$ 2,875	$ 9,005
Line-of-credit (2)	30,750	20,000
Atlantic Community Bankers Bank ("ACBB"):		
Line-of-credit (3)	-	-
Total	**$ 33,625**	**$ 29,005**

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, 2019 and 2018 are as follows (in thousands):

	2019	2018
Fixed-rate at 5.50%, maturing 2019	$ -	$ 5
Fixed-rate at 1.84%, maturing 2019	-	3,000
Fixed-rate at 1.22%, maturing 2019	-	1,000
Fixed-rate at 1.46%, maturing 2019	-	625
Fixed-rate at 1.64%, maturing 2019	-	1,500
Fixed-rate at 1.30%, maturing 2020	1,000	1,000
Fixed-rate at 1.64%, maturing 2020	625	625
Fixed-rate at 1.90%, maturing 2021	625	625
Fixed-rate at 2.10%, maturing 2022	625	625
Total	**$ 2,875**	**$ 9,005**

(2) The Corporation has an open-ended $55,590,850 line-of-credit at a variable interest rate (1.81% at December 31, 2019).

(3) The Corporation has an open-ended $2,000,000 line-of-credit at a variable interest rate (4.75% at December 31, 2019).

8. INCOME TAXES

The following temporary differences gave rise to the net deferred tax (liability) asset at December 31, 2019 and 2018 (in thousands):

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 521	$ 557
Supplemental employee retirement plan	150	123
Low income housing investments	11	21
Nonaccrual interest income	12	21
Loan fees and costs	1	-
Unrealized holding losses on securities	-	391
Total	**$ 695**	**$ 1,113**
Deferred Tax liabilities:		
Depreciation	$ 593	$ 497
Loan fees and costs	-	13
Loan servicing rights	94	89
Bond accretion	1	7
Prepaid expenses	25	50
Unrealized holding gains on securities	951	-
Total	$ 1,664	$ 656
Deferred Tax (liability) Asset, Net	**$ (969)**	**$ 457**

The deferred tax (liability) asset, net, is included in Other Liabilities in the accompanying consolidated balance sheet at December 31, 2019 and Other Assets at December 31, 2018.

The provision for income taxes consists as follows, for the years ended December 31, 2019 and 2018 (in thousands):

	2019	2018
Currently payable	$ 327	$ 342
Deferred income tax provision	84	166
Provision for Income Taxes	**$ 411**	**$ 508**

A reconciliation of income tax at the federal statutory rate (21% for 2019 and 2018) to the Corporation's actual provision for income taxes is as follows, listed according to years ended December 31 (in thousands):

	2019	2018
Provision at the expected statutory rate	$ 1,150	$ 1,183
Effect of tax-exempt income	(640)	(535)
Nondeductible interest	46	27
Increase in cash value of life insurance	(43)	(44)
Other, net	(102)	(123)
Provision for Income Taxes	**$ 411**	**$ 508**

9. COMMON STOCK

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2019 and 2018, 14,032 and 11,829 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately $272,000 and $254,000, respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2019 and 2018, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2020 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 2019 and 2018 was approximately $213,000 and $199,000, respectively, and is included in salaries and employee benefits in the consolidated statement 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 $9,232,000 and $8,678,000 at December 31, 2019 and 2018, 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, 2019 and 2018 was $715,000 and $585,000, respectively, and is included in Other Liabilities in the consolidated balance sheet. The related expense was $130,000 and $131,000 for 2019 and 2018, respectively, and is included in salaries and employee benefits in the consolidated statement of income. The Corporation offsets the cost of this plan through the purchase of bank-owned life insurance as noted above.

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):

	2019	2018
Balance, beginning of year	$ 5,089	$ 4,828
New loans	234	940
Repayments	(240)	(679)
Balance, End of Year	**$ 5,083**	**$ 5,089**

Deposits and other funds from related parties held by the Corporation at December 31, 2019 and 2018 were approximately $2,284,000 and $1,642,000, respectively.

12. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. banks (BASEL III rules) became effective for the Corporation on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under 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. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth on the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets, Tier I capital to average assets, and common equity Tier 1 capital to risk-weighted assets. Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject. The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow small bank holding companies, as defined, an exemption from regulatory capital requirements. Susquehanna Community Financial, Inc. meets the eligibility criteria and is exempt from all regulatory capital requirements.

The Bank's actual capital amounts and ratios are as follows at December 31, 2019 and 2018 (dollar amounts in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES WITH CONSERVATION BUFFER
As of December 31, 2019	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**	
Total Capital (to Risk-Weighted Assets)	$47,450	13%	≥$28,766	≥8%	≥$35,958	≥10%	10.5%
Tier I Capital (to Risk-Weighted Assets)	$44,692	12%	≥$21,575	≥6%	≥$28,766	≥8%	8.5%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$44,692	12%	≥$16,181	≥4.5%	≥$23,373	≥6.5%	7.0%
Tier I Capital (to Average Assets)	$44,692	10%	≥$18,015	≥4%	≥$22,518	≥5%	

As of December 31, 2018	ACTUAL AMOUNT	ACTUAL RATIO	FOR CAPITAL ADEQUACY PURPOSES AMOUNT	FOR CAPITAL ADEQUACY PURPOSES RATIO	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS AMOUNT	TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS RATIO	MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES WITH CONSERVATION BUFFER
Total Capital (to Risk-Weighted Assets)	$45,348	14%	≥$25,376	≥8%	≥$31,720	≥10%	9.875%
Tier I Capital (to Risk-Weighted Assets)	$42,419	13%	≥$19,032	≥6%	≥$25,376	≥8%	7.875%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$42,419	13%	≥$14,274	≥4.5%	≥$20,618	≥6.5%	6.375%
Tier I Capital (to Average Assets)	$42,419	10%	≥$16,674	≥4%	≥$20,843	≥5%	

13. OFF-BALANCE SHEET RISK

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

Financial instruments whose contract amounts represent credit risk at December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Commitments to extend credit	$ 63,898	$ 58,500
Financial standby letters of credit	3,183	354
Performance standby letter of credit	1,460	2,483

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, 2019 or 2018.

Standby letters of credit as of December 31, 2019 expire as follows:

Year of Expiration	Amount (in thousands)
2020	$ 4,623
2023	20
Total	**$ 4,643**

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

	2019	2018
ASSETS		
Cash	$ 10	$ 3
Investment in subsidiaries	50,915	43,843
Total Assets	**$ 50,925**	**$ 43,846**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 1,202	$ 1,137
Note payable	-	348
Shareholders' equity	49,723	42,361
Total Liabilities and Shareholders' Equity	**$ 50,925**	**$ 43,846**

CONDENSED INCOME STATEMENT

	2019	2018
INCOME		
Equity in undistributed earnings of subsidiaries	$ 2,035	$ 2,932
Dividends from subsidiaries	3,070	2,240
Total Income	**$ 5,105**	**$ 5,172**
Operating expenses	(40)	(49)
Net Income	**$ 5,065**	**$ 5,123**

CONDENSED STATEMENT OF CASH FLOW

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,065	$ 5,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,035)	(2,932)
Decrease in other liabilities	-	(1)
Net Cash Provided by Operating Activities	3,030	2,190
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury stock	(390)	-
Repayment of notes payable	(348)	(50)
Dividends paid	(2,285)	(2,140)
NET CASH USED IN FINANCING ACTIVITIES	(3,023)	(2,190)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**3**	**3**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 10**	**$ 3**

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, 2019 and 2018 are as follows (in thousands):

DECEMBER 31, 2019	QUOTED PRICES IN ACTIVE MARKETS (Level 1)	OTHER OBSERVABLE INPUTS (Level 2)	UNOBSERVABLE INPUTS (Level 3)	TOTAL FAIR VALUE
AVAILABLE-FOR-SALE DEBT SECURITIES:				
Mortgage-backed securities	$ -	$ 57,170	$ -	$ 57,170
Obligations of state and political subdivisions	-	104,714	-	104,714
Corporate debt securities	-	9,143	-	9,143
Total Available-For-Sale Debt Securities	**$ -**	**$ 171,027**	**$ -**	**$ 171,027**
Marketable Equity Securities	$ 279	$ -	$ -	279

DECEMBER 31, 2018	QUOTED PRICES IN ACTIVE MARKETS (Level 1)	OTHER OBSERVABLE INPUTS (Level 2)	UNOBSERVABLE INPUTS (Level 3)	TOTAL FAIR VALUE
AVAILABLE-FOR-SALE DEBT SECURITIES:				
Mortgage-backed securities	$ -	$ 55,171	$ -	$ 55,171
Obligations of state and political subdivisions	-	87,928	-	87,928
Corporate debt securities	-	8,480	-	8,480
Total Available-For-Sale Debt Securities	**$ -**	**$ 151,579**	**$ -**	**$ 151,579**
Marketable Equity Securities	$ 67	$ -	$ -	-

The Corporation made no transfers between levels in 2019 or 2018.

15. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a non-recurring basis and the valuation methods used at December 31, 2019 and 2018 are as follows (in thousands):

DECEMBER 31, 2019	QUOTED PRICES IN ACTIVE MARKETS (Level 1)	OTHER OBSERVABLE INPUTS (Level 2)	UNOBSERVABLE INPUTS (Level 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 187	$ 187

DECEMBER 31, 2018	QUOTED PRICES IN ACTIVE MARKETS (Level 1)	OTHER OBSERVABLE INPUTS (Level 2)	UNOBSERVABLE INPUTS (Level 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 98	$ 98

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, 2019	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE
Impaired loans	$ 187	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 100%
			Liquidation Expenses (2)	0% - 35%

DECEMBER 31, 2018	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE
Impaired loans	$ 98	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.

15. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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, 2019 and 2018 (in thousands):

	VALUATION METHOD USED	2019 CARRYING AMOUNT	2019 FAIR VALUE	2018 CARRYING AMOUNT	2018 FAIR VALUE
Financial Assets:					
Cash and due from banks	Level 1	$ 4,356	$ 4,356	$ 7,561	$ 7,561
Interest-bearing deposits with banks	Level 1	301	301	1,106	1,106
Available-for-sale debt securities	Level 2	171,027	171,027	151,579	151,579
Marketable equity securities	Level 1	279	279	67	67
Restricted securities (included in other assets)	Level 2	3,495	3,495	2,931	2,931
Loans, net	Level 3	251,767	254,545	237,543	234,366
Accured interest receivable	Level 2	2,161	2,161	2,051	2,051
Mortgage servicing rights (included in other assets)	Level 3	449	436	424	421
Financial Liabilites:					
Deposits	Level 2	$ 369,592	$ 364,283	$ 348,616	$ 347,291
Other borrowings	Level 2	33,625	33,623	29,005	28,881
Accured interest payable	Level 2	294	294	289	289

16. REVENUE RECOGNITION

As disclosed in Note 1, as of January 1, 2018, the Corporation adopted ASU 2014-09 *"Revenue from Contracts with Customers"* and all subsequent ASUs that modified Topic 606. The Corporation elected to apply the ASU (Topic 606) and all related ASUs using the modified retrospective implementation method. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods, however, additional disclosures have been added in accordance with the ASU. The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in other income within the Consolidated Statement of Income are as follows:

- ***Service charges on deposit accounts :*** Service charges and fees on deposits which are included as liabilities in the consolidated balance sheet consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which include 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. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as non-interest income at the time when the services are provided to the customer. 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 and provide 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 Statement 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. The services provided under such a contract are considered a single performance obligation under the ASU because it embodies series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date). Other related services provided include financial planning and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered. The costs of acquiring asset management customers are incremental and recognized within the other expense in the Consolidated Statement of Income.

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
of Susquehanna Community Financial, Inc.

We have audited the accompanying consolidated financial statements of Susquehanna Community Financial, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Susquehanna Community Financial, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
April 23, 2020

MARKET MAKERS

Boenning & Scattergood
Eugene B. Bado
4 Tower Bridge
200 Barr Harbor Drive, Suite 300
West Conshohocken, PA 19428
610.862.5368

Merrill Lynch
One West Third Street
Williamsport, PA 17701
877.321.6611

TRANSFER AGENT

Computershare Trust Co., N.A
PO Box 30170
College Station, TX 77842-3170
800.368.5948

SENIOR MANAGEMENT

DAVID S. RUNK
President
Chief Executive Officer

BELINDA M. DIEFENBACH
Senior Vice President
Corporate Secretary and
Administrative Associate

JEFFREY G. HOLLENBACH
Executive Vice President
Senior Relationship Manager
and Senior Loan Officer

JILL D. SHAMBACH
Vice President
Investment Executive and
Wealth Management Director

RODNEY H. SMITH
Executive Vice President
Chief Financial Officer
and Treasurer

STEPHEN P. STANKO
Vice President
Commercial Relationship
Manager

WILLIAM H. WEBER II
Vice President
Operations and Technology
Division Manager and
Chief Information Officer

STEPHEN T. YOUNG
Vice President
Branch Operations, Security
and Facilities Director

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DONNA K. BENNETT
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TYLER A. MATTERN
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SCOTT B. RYDER
PHYLLIS E. SALCEDO
CRISTERLAND K. SCHREFFLER
KALA J. SEIBERT
JAMES A. SHAFFER
DEBORAH A. SHIEF
LUANN K. SHUCK
NICOLE R. SOVIC
TRENTAN M. STAMM
MELISSA V. STARKEY
TERRI S. STRUBLE
CHRISTOPHER J. SULLIVAN
KATHRINE J. TROXELL
JULIE G. WATTS
ABRA L. WELLS
BRENDA L. WESNER
REBECCA N. YEAGER
STEPHANIE L. YOUNG
KRYSIA A. ZIEGLER

EQUAL OPPORTUNITY AND AFFIRMATIVE ACTION EMPLOYER

WILLIAMSPORT LOCATION
GRAND OPENING

Susquehanna Community Financial, Inc.

MAIN OFFICE

WEST MILTON
940 High Street · West Milton, PA 17886
570.568.6851

ADDITIONAL LOCATIONS

BEAVER SPRINGS
19179 Route 522 · Beaver Springs, PA 17812
570.658.7542

LEWISBURG
2005 Market Street · Lewisburg, PA 17837
570.524.7800

MIFFLINBURG
40 Hardees Drive · Mifflinburg, PA 17844
570.966.2555

NORTHUMBERLAND
397 Point Township Drive · Northumberland, PA 17857
570.473.3138

WATSONTOWN
1025 Main Street · Watsontown, PA 17777
570.538.3698

WILLIAMSPORT
2409 East Third Street · Williamsport, PA 17701
570.505.5040

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