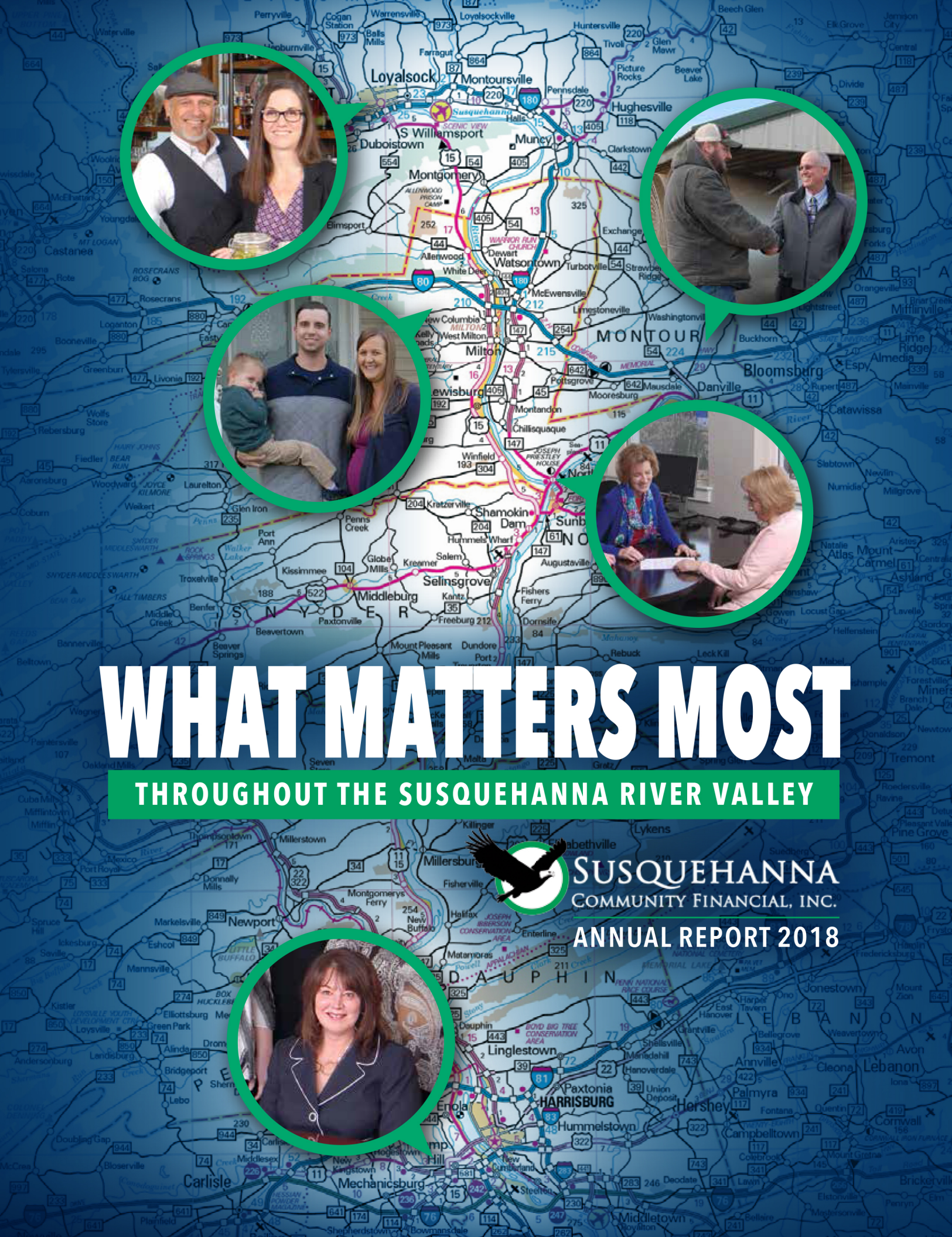


WHAT MATTERS MOST

THROUGHOUT THE SUSQUEHANNA RIVER VALLEY

SUSQUEHANNA COMMUNITY FINANCIAL, INC.

ANNUAL REPORT 2018

PRESIDENT'S MESSAGE

DEAR SHAREHOLDERS,

Thanks to a committed group of employees, our vision for the future escalated into an inspiring transformation with the Susquehanna brand. Our brand is strong because our people are strong. We are different because our employees make the difference. They do **What Matters Most.**

What Matters Most to our customers may be finding a new home, starting a business, growing the family farm, or discussing their financial future with someone they trust. Our story is about how passionate our team is in providing solutions and creating opportunities for our customers that help build long-term relationships. Delivering the Better Banking Experience means that all employees are aligned with the understanding that our customers' success is our success. It is tied to all aspects of our business, and we support each other to achieve that mission. No matter what the financial goal is, helping our customers succeed is **What Matters Most** to us.

Thanks to a committed group of employees, our vision for the future escalated into an inspiring transformation with the Susquehanna brand. Our brand is strong because our people are strong. We are different because our employees make the difference. They do **What Matters Most.** Please take a moment to review the Susquehanna brand story over the next few pages. You will quickly notice the level of engagement we have with our customers up and down the Susquehanna River. We believe that the Better Banking Experience should be meaningful in the lives of our customers, so they always choose Susquehanna for their financial needs.

Achieving **What Matters Most** is also very important for our shareholders. If sustained excellent financial performance is not achieved, the above brand expression would merely be words on paper. They are not. In 2018, Susquehanna continued its consistent and industry leading results with record earnings for the sixth year out of the last eight years. The strategic decision to diversify our revenue stream a few years ago really paid off in 2018 as non-interest income to average assets was .65% in 2018 compared to .43% in 2015. We also had record loans and assets, additionally, we increased the dividend for the ninth consecutive year. Our financial ratios of 1.25% Return on Assets (ROA) and 12.36% Return on Equity (ROE) placed us in the top ten banks in Pennsylvania for the seventh consecutive year, and we finished as the 34th most profitable bank in the U.S. for 3-year average Return on Equity.

Our mission of helping our family, friends, and neighbors succeed will be a century old next year. As an independent community bank, we stay connected to our communities along the Susquehanna River Valley. We are looking forward to bringing the Better Banking Experience to Williamsport with the opening of our seventh location. Our team has been helping customers in the Williamsport and surrounding areas for years, so expanding into Williamsport is a natural progression for us. Construction of the new branch is well underway, and we have already hired a known market leader. Together with the existing team members, we are confident that they will grow new relationships and increase shareholder value over time.

We will continue to work hard every day to earn your support and preserve our independence. **That is What Matters Most!**

On behalf of the Team at Susquehanna,

David S. Runk
President and CEO

2018 **FINANCIAL** HIGHLIGHTS

5 YEAR OVERVIEW

	2014	2015	2016	2017	**2018**
Earnings Per Share	$ 1.60	$ 1.47	$ 1.51	$ 1.71	$ 1.74
Return on Average Assets	1.37%	1.21%	1.16%	1.25%	1.25%
Return on Average Equity	12.90%	10.99%	10.66%	12.23%	12.36%
Dividends Paid Per Share	$ 0.61	$ 0.65	$ 0.67	$ 0.71	$ 0.76

NET INCOME
(in thousands)

SENIOR MANAGEMENT

Seated (left to right):
Stephen T. Young
David S. Runk *(President)*
Trisha K. Shearer

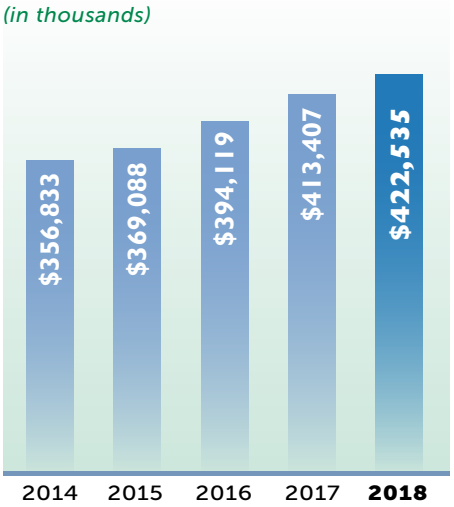
Standing (left to right):
Jill D. Shambach
Rodney H. Smith
Belinda M. Diefenbach
Stephen P. Stanko
Rebecca A. Bingaman
Jeffrey G. Hollenbach
Dennis E. Keefer
William H. Weber II

BOARD OF DIRECTORS

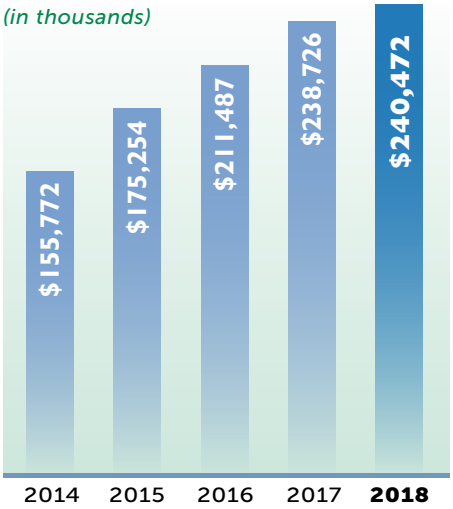
Seated (left to right):
Peter L. Matson
David S. Runk *(President)*

Standing (left to right):
Robert M. Brubaker
Carl L. Pardoe
Christian C. Trate *(Chairman)*
William F. Kear
Richard M. Bowersox

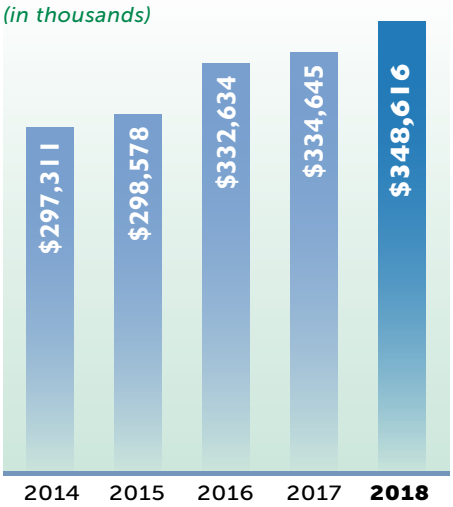
TOTAL ASSETS
(in thousands)



GROSS LOANS
(in thousands)



TOTAL DEPOSITS
(in thousands)



WHAT MATTERS MOST

HELPING OUR FAMILY, FRIENDS, AND NEIGHBORS SUCCEED

Helping Our Heroes

What mattered most to Joshua and Vanessa Beck was the dream of home ownership. They met with Chris Romig, Vice President/Mortgage Originator, who took the time to understand their individual situation and match them with a program that was tailored to meet their needs. Since Joshua is a military veteran, Chris knew that he could help them not only through the Veterans Affair Loan program, but he could also save them money at closing through the Bank's partnership with Heroes Home Advantage™, a real estate rebate program offering home buying assistance for those that protect, serve and care for our country and community: military, law enforcement, firefighters, health care, emergency personnel and teachers.

Joshua and Vanessa not only realized their dream of homeownership, but they enjoyed the better banking experience. They found Chris and his team to be "friendly and helpful." For Chris Romig, what matters most is helping his customers. "The best part of my job is seeing people realize their dreams of home ownership. I like being able to work for a smaller community bank, yet still be able to offer all of the programs you would find at a 'big' bank," says Chris.

Growing the Family Farm

Knowing your customers and what matters most to them is an integral step in helping them grow. No one understands that better than Dennis Keefer, Vice President/Agricultural and Commercial Relationship Manager. With over 40 years of experience working with farmers, and as a farmer himself, Dennis has an intimate knowledge of the challenges and financial obstacles farmers face today.

When Brian Hummer of Six Springs Farm in Danville was looking to expand, he was looking for someone that understood his business. He followed up on a recommendation from a trusted colleague to contact Susquehanna Community Bank. Dennis Keefer and Sarah Maneval, Assistant Vice President/ Relationship Manager, "were easy to deal with, made the process simple and allowed me to focus on my farm," said Brian.

Throughout the Susquehanna River Valley, individuals and families are pursuing what matters most to them. Purchasing a home, saving for the future and growing a business top the list. At Susquehanna Community Bank, our dedicated team is committed to helping you make your dream a reality. No matter your financial goal, helping you succeed is what matters most to us.

Delivering Trust

When it was time for Pat Radel to discuss her financial future, what mattered most was partnering with someone she trusted. That's when she sat down with Jill Shambach, Vice President/Investment Executive, to discuss her goals. Jill worked closely with Pat to diversify her portfolio and increase her future earning potential.

"Meeting people and helping them achieve their financial goals is the best part of my job", says Jill. Pat greatly appreciates having a trusted partner in Susquehanna Community Bank, and enjoys the "friendly, kind and knowledgeable service they have given me."

NO MATTER YOUR FINANCIAL GOAL... HELPING YOU SUCCEED IS ***WHAT MATTERS MOST*** *TO US.*

DELIVERING A BETTER BANKING EXPERIENCE

Pulling in the same direction allows our customers to thrive

When our customers trust their business with us, they immediately find out that Susquehanna Community Bank is unlike any other. We have a team of experts ready to advise on how to better financially position their business. "A team of co-workers, all pulling in the same direction, allows us to successfully deliver financial services that enable our customers to thrive. If our customers thrive, so do we", says Steve Stanko, Vice President/Commercial Relationship Manager.

Providing Solutions

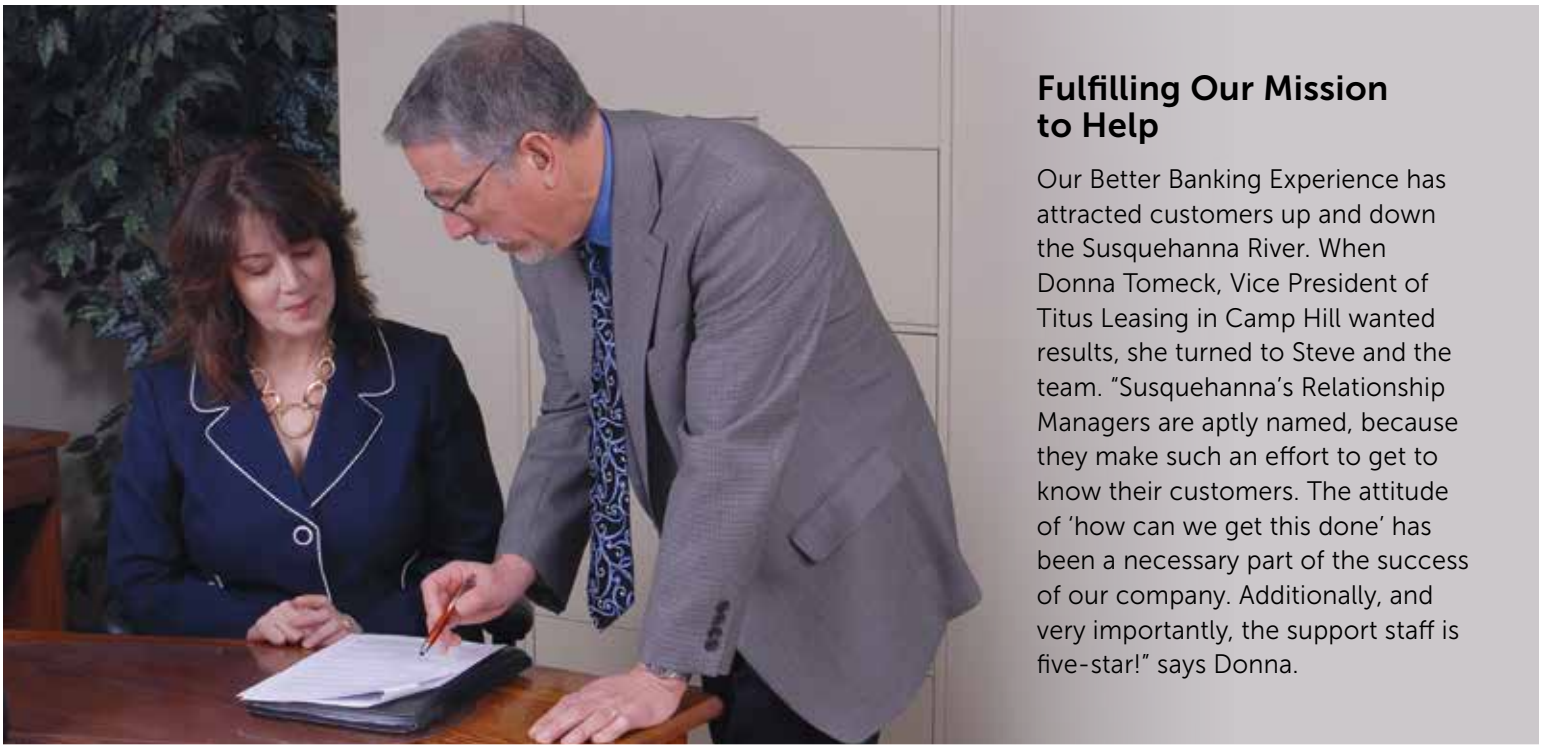
Whether our customers are established or startups, Susquehanna Community Bank is committed to helping our family, friends, and neighbors succeed.

When Moon & Raven Public House in Williamsport was looking to grow, what mattered most to Chip Roush, owner, and Erin Roush, CEO, was to partner with a trusted financial institution that would listen to their goals. "While many larger banks would not typically lend to restaurants and startups, as a community bank we look for solutions to assist these types of businesses that are integral to healthy downtown communities," explains Michael Loeh, Assistant Vice President/ Relationship Manager. He and Rexford Hilton, Commercial Relationship Manager, were dedicated to helping Chip and Erin achieve their goals. "Susquehanna Community Bank is a local bank dedicated to helping small, local businesses. Their team was committed to finding resolutions to very challenging situations, every step of the way," said Chip and Erin.

ACHIEVING WHAT MATTERS MOST

Helping our family, friends, and neighbors succeed

At Susquehanna Community Bank, we are trusted financial advisers that are committed to helping our family, friends, and neighbors succeed. Whether you live next door or are one of our customers in 37 other states, we have the solutions designed to help you achieve what matters most.



Fulfilling Our Mission to Help

Our Better Banking Experience has attracted customers up and down the Susquehanna River. When Donna Tomeck, Vice President of Titus Leasing in Camp Hill wanted results, she turned to Steve and the team. "Susquehanna's Relationship Managers are aptly named, because they make such an effort to get to know their customers. The attitude of 'how can we get this done' has been a necessary part of the success of our company. Additionally, and very importantly, the support staff is five-star!" says Donna.

Consolidated Balance Sheet

December 31, 2018 and 2017 (In thousands, except share data)

ASSETS	2018	2017
Cash and due from banks	$ 7,561	$ 4,309
Interest-bearing deposits with banks	1,106	143
Available-for-sale debt securities, at fair value	151,579	147,387
Marketable equity securities, at fair value	67	2,798
Loans, net	237,543	236,208
Bank premises and equipment, net	7,034	6,322
Accrued interest receivable	2,051	1,982
Cash surrender value of life insurance	8,678	8,470
Other assets	6,916	5,788
TOTAL	**$ 422,535**	**$ 413,407**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest-bearing deposits	$ 337,065	$ 324,688
Noninterest-bearing deposits	11,551	9,957
Total Deposits	**348,616**	**334,645**
Other borrowings	29,005	33,391
Dividends payable	1,137	1,033
Accrued interest payable	289	284
Other liabilities	1,126	1,376
Total Liabilities	**380,173**	**370,729**
Common stock, par value $1 per share, 5,000,000 shares authorized; 3,375,000 shares issued	3,375	3,375
Additional paid-in capital	455	455
Retained earnings	44,866	41,751
Accumulated other comprehensive (loss) income	(1,467)	1,964
Treasury stock at cost (422,869 shares in 2018 and 2017)	(4,867)	(4,867)
Total Shareholders' Equity	**42,362**	**42,678**
TOTAL	**$ 422,535**	**$ 413,407**

See Notes to Consolidated Financial Statements

Consolidated Statement of Income

For the Years Ended December 31, 2018 and 2017 (In thousands, except share data)

INTEREST INCOME	2018	2017
Interest and fees on loans	$ 11,776	$ 10,211
Interest on available-for-sale debt securities:		
Taxable interest	2,501	2,986
Tax-exempt interest	2,147	1,996
Dividends on marketable equity securities	62	66
Interest on deposits with other banks	46	21
Total Interest Income	**16,532**	**15,280**
INTEREST EXPENSE		
Interest on deposits	2,783	2,261
Interest on other borrowings	518	362
Total Interest Expense	**3,301**	**2,623**
NET INTEREST INCOME	13,231	12,657
PROVISION FOR LOAN LOSSES	465	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**12,766**	**12,157**
OTHER INCOME		
Service charges on deposit accounts	587	584
Realized gains on available-for-sale debt securities, net	483	682
(Losses) gains on marketable equity securities, net	(146)	139
Realized gains on loan sales, net	570	567
Bank card and credit card interchange fees	501	471
Brokerage fees and commissions	512	442
Increase in cash surrender value of life insurance	209	218
Other operating income	370	350
Total Other Income	**3,086**	**3,453**
OTHER EXPENSES		
Salaries and employee benefits	5,914	5,534
Occupancy expense	465	419
Furniture and equipment expenses	1,188	1,033
Automated teller machine expense	287	261
Data processing expenses	325	266
Pennsylvania corporate and shares taxes	366	334
Other operating expenses	1,676	1,692
Total Other Expenses	**10,221**	**9,539**
INCOME BEFORE PROVISION FOR INCOME TAXES	5,631	6,071
PROVISION FOR INCOME TAXES	508	1,015
NET INCOME	**$ 5,123**	**$ 5,056**
EARNINGS PER SHARE - BASIC AND DILUTED	**$ 1.74**	**$ 1.71**

See Notes to Consolidated Financial Statements

Consolidated Statement of Comprehensive Income
Consolidated Statement of Changes in Shareholders' Equity

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018 and 2017 (In thousands)

	2018	2017
Net income	$ 5,123	$ 5,056
Unrealized (losses) gains on available-for-sale securities:		
Unrealized holding (losses) gains on available-for-sale debt securities	(3,561)	1,238
Reclassification adjustment for (gains) realized in earnings (a) (b)	(483)	(821)
Other comprehensive (loss) gain on available-for-sale securities	(4,044)	417
Taxes	849	(143)
Net other comprehensive (loss) income	(3,195)	274
Total comprehensive income	**$ 1,928**	**$ 5,330**

(a) Realized gains on available-for-sale 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 securities of $101 in 2018 and $279 in 2017 are included in the Provision for Income Taxes in the Consolidated Statement of Income. This resulted in reclassifications net of tax, of $382 in 2018 and $542 in 2017.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2018 and 2017 (In thousands, except share data)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, DECEMBER 31, 2016	$ 3,375	$ 455	$ 39,116	$ 1,365	$ (4,735)	$ 39,576
Net income	-	-	5,056	-	-	5,056
Other comprehensive income	-	-	-	274	-	274
Treasury stock purchased, 7,500 shares	-	-	-	-	(132)	(132)
Reclassification of impact of income tax rate change on unrealized gains on available-for-sale securities	-	-	(325)	325	-	-
Dividends declared, $0.71 per share	-	-	(2,096)	-	-	(2,096)
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

See Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2018 and 2017 (In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Net income	$ 5,123	$ 5,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	626	581
Provision for loan losses	465	500
Increase in cash surrender value of life insurance	(209)	(218)
Amortization and accretion of investment securities, net	575	666
Realized gains on available-for-sale debt securities, net	(483)	(682)
Realized gains on marketable equity securities, net	(155)	(139)
Deferred income tax provision	(166)	(375)
Gains on sales of loans, net	(570)	(567)
Net loss on sale of foreclosed assets held for sale	-	10
Origination of loans for sale	(14,478)	(13,959)
Proceeds from sales of loans	14,807	14,139
Change in:		
Accrued interest receivable and other assets	467	(17)
Accrued interest payable and other liabilities	(245)	177
NET CASH PROVIDED BY OPERATING ACTIVITIES	**5,757**	**5,172**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(38,744)	(48,224)
Proceeds from maturities of available-for-sale securities	9,740	11,136
Proceeds from sale of available-for-sale securities	23,261	45,232
Purchase of Federal Home Loan Bank of Pittsburgh stock	(347)	(997)
Net (increase) decrease in interest-bearing deposits with banks	(963)	1,032
Net increase in loans	(1,559)	(27,053)
Acquisition of bank premises and equipment	(1,338)	(649)
Proceeds from sale of foreclosed assets held for sale	-	185
NET CASH USED IN INVESTING ACTIVITIES	**(9,950)**	**(19,338)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	13,971	2,011
Proceeds from Federal Home Loan Bank fixed-rate advances	-	2,500
Repayments of Federal Home Loan Bank fixed-rate advances	(8,636)	(4,141)
Net increase in Federal Home Loan Bank line-of-credit	4,250	15,750
Acquisition of treasury stock	-	(132)
Dividends paid	(2,140)	(2,025)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**7,445**	**13,963**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,252**	**(203)**
CASH AND CASH EQUIVALENTS, Beginning	**4,309**	**4,512**
CASH AND CASH EQUIVALENTS, Ending	**$ 7,561**	**$ 4,309**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**$ 3,296**	**$ 2,559**
Income taxes paid	**$ 822**	**$ 1,437**

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 six offices located in West Milton, Lewisburg, Mifflinburg, Watsontown, Beaver Springs and Northumberland, 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 2018 or 2017.

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 2018 or 2017.

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 in 2018 and in other comprehensive income in 2017.

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

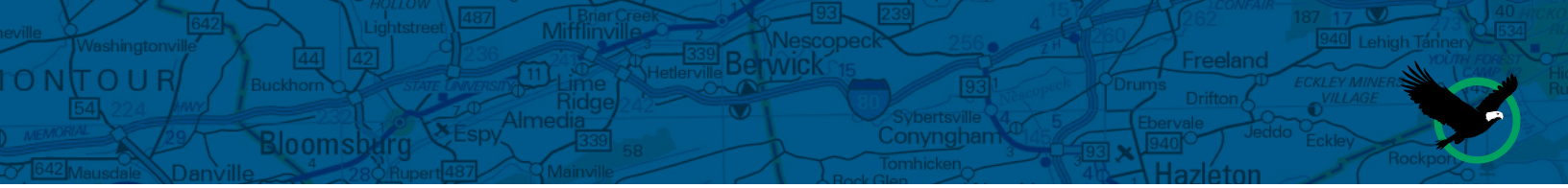
Other-than-temporary impairment ("OTTI") – credit-related declines in the fair value of available-for-sale and held-to-maturity securities that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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. 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 equity securities – Restricted equity securities consist of Federal Home Loan Bank of Pittsburgh stock, and Atlantic Community Bankers Bank stock, and are carried at cost and evaluated for impairment. Holdings of restricted equity securities are included in Other Assets in the Consolidated Balance Sheet, and dividends received on restricted 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 $2,918,600 at December 31, 2018 and $2,571,000 at December 31, 2017. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2018 and 2017. 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. 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 77% at December 31, 2018) 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 90% at December 31, 2018) 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

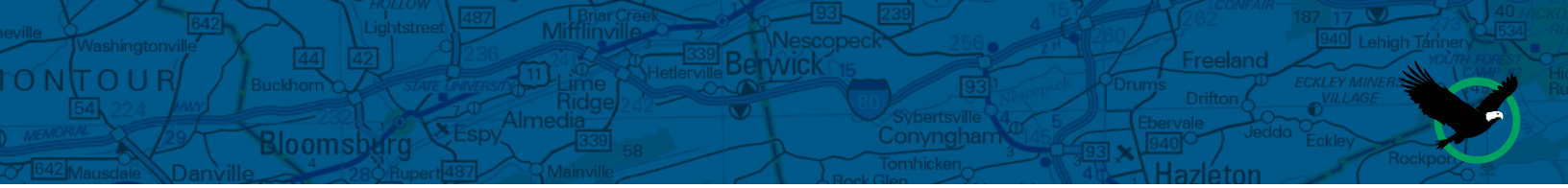
Foreclosed assets held for sale are carried at the lower of the fair value minus estimated costs to sell or cost. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the property to be acquired by a charge to the allowance for loan losses, if necessary. 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, 2018 or 2017.

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 $57,000 and $52,000 in 2018 and 2017, respectively.

Income Taxes

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

The Corporation has evaluated its material tax positions as of December 31, 2018 and 2017 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, 2018, 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, 2018 and 2017 was 2,952,131 and 2,952,315, 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 $777,000 and $771,000 at December 31, 2018 and 2017, 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 income from the partnership of approximately $6,000 for 2018 and a loss of approximately $36,000 for 2017. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2018, and 2017 the partnership had total assets of approximately $938,000 and $934,000, respectively, and total liabilities of approximately $100,000 and $128,000, 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 $1,290,000 and $1,379,000 at December 31, 2018 and 2017, 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 $89,000 and $14,000 for 2018 and 2017, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2018, and 2017 the partnership had total assets of approximately $1,428,000 and $1,425,000, respectively, and had total liabilities of approximately $129,000 and $99,000, 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 2017 financial statements to conform to the 2018 presentation.

Recent Accounting Standards

Recent Accounting Pronouncements - Adopted

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 in 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 February 2016, the FASB issued ASU 2016-02, *"Leases."* This will require 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 current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by the lessee will primarily depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized in the balance sheet, the new ASU will require 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 will include both qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective for the Corporation in 2019. Adoption of this ASU is not expected to have a material impact on the Corporation's consolidated financial position or results of operations.

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. ASU 2016-13 is effective for the Corporation in 2021. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. 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 in 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, 2018. The Corporation evaluated these subsequent events through April 18, 2019, the date on which the financial statements contained herein were available to be issued.

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 2018 and 2017 was $145,000 and $174,000, 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, 2018 and 2017 are as follows (in thousands):

December 31, 2018	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
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**
December 31, 2017				
Mortgage-backed securities	$ 50,159	$ 199	$ (449)	$ 49,909
Obligations of state and political subdivisions	83,667	2,798	(254)	86,211
Corporate debt securities	11,373	31	(137)	11,267
Total Available-for-Sale Debt Securities	**$ 145,199**	**$ 3,028**	**$ (840)**	**$ 147,387**

At December 31, 2018 and 2017, investment securities with a carrying value of $72,047,000 and $61,136,000, respectively, were pledged to secure certain deposits and for other purposes as required by law.

The amortized cost and fair value of available-for-sale debt securities by contractual maturity are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

DECEMBER 31, 2018	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ -	$ -
Due after one year through five years	4,187	4,079
Due after five years through ten years	13,681	13,630
Due after ten years	79,319	78,699
	97,187	96,408
Mortgage-backed securities	56,248	55,171
TOTAL	**$ 153,435**	**$ 151,579**

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, 2018 and 2017, were as follows (in thousands):

	2018	2017
Gross realized gains	$ 593	$ 1,128
Gross realized losses	110	446

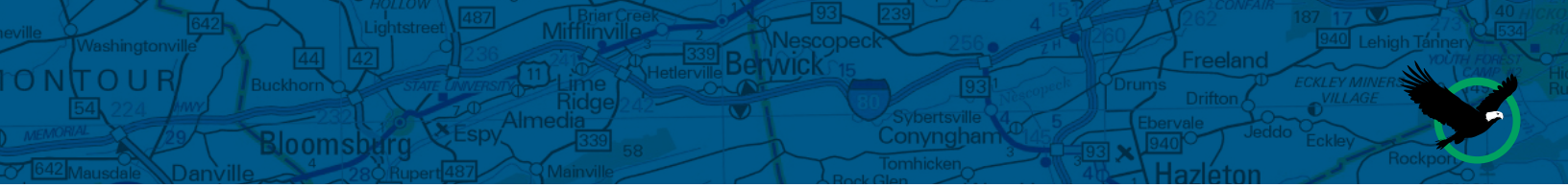
A summary of realized and unrealized gains and (losses) on equity securities for the year ended December 31, 2018 is as follows (in thousands):

Net gains and (losses) recognized during the period on equity securitites	$ (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	$ (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, 2018 and 2017 (in thousands):

	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**

	Less Than 12 Months		12 Months or More		Total	
December 31, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 13,957	$ 87	$ 19,256	$ 362	$ 33,213	$ 449
Obligations of state and political subdivisions	3,380	20	7,460	234	10,840	254
Corporate debt securities	4,293	16	1,628	121	5,921	137
Total Temporarily Impaired Securities	**$ 21,630**	**$ 123**	**$ 28,344**	**$ 717**	**$ 49,974**	**$ 840**



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, 2018, forty-one mortgage-backed securities had unrealized losses, and twenty-nine 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, 2018, one hundred ten state and political subdivision securities had unrealized losses, and twenty-four of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

Corporate Debt Securities

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

At December 31, 2018, sixteen corporate debt securities had unrealized losses, and ten 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 2018 and 2017.

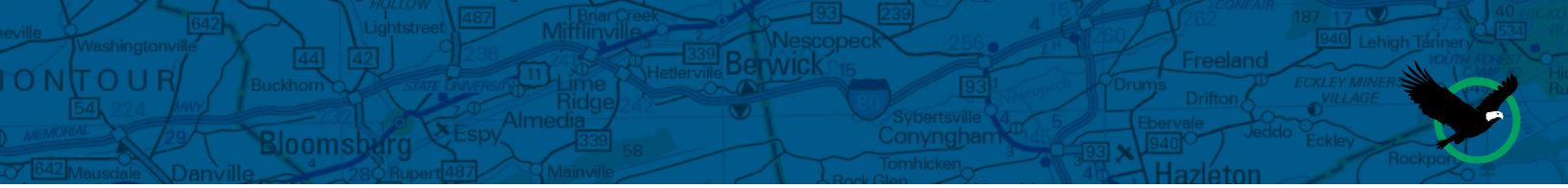
4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Corporation's loan portfolio at December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
Commercial real estate	$ 61,783	$ 56,231
Commercial real estate - construction	8,084	9,775
Commercial and industrial	21,420	19,441
Acquisition, construction and development	464	464
Agricultural	28,595	24,159
Residential mortgage	50,357	53,758
Home equity	40,991	41,554
Consumer - other	16,913	18,085
Obligation of state and political subdivisions	11,865	15,259
	240,472	238,726
Less: Allowance for loan losses	2,929	2,518
Loans, Net	**$ 237,543**	**$ 236,208**

Transactions in the allowance for loan losses for the years ended December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Balance, beginning of year	$ 2,518	$ 2,219
Provision for loan losses	465	500
Loans charged-off	(61)	(208)
Recoveries	7	7
Balance, End of Year	**$ 2,929**	**$ 2,518**



The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2018 and 2017 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2018 and 2017 (in thousands):

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 and 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
Obligation of state and political subdivisions	99	-	-	(22)	77	-	77
Unallocated	-	-	-	175	175	-	175
Total	**$ 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 and 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
Obligation of state and political subdivisions	11,865	-	11,865
Total	**$ 240,472**	**$ 1,315**	**$ 239,157**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES *(continued)*

December 31, 2017 **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	$ 608	$ (145)	$ -	$ 329	$ 792	$ -	$ 792
Commercial real estate - construction	62	-	-	-	62	-	62
Commercial and industrial	133	-	-	43	176	-	176
Acquisition, construction and development	431	-	-	33	464	464	-
Agricultural	150	-	-	7	157	-	157
Residential mortgage	276	-	-	6	282	-	282
Home equity	286	(1)	-	25	310	-	310
Consumer - other	158	(62)	7	73	176	4	172
Obligation of state and political subdivisions	115	-	-	(16)	99	-	99
Unallocated	-	-	-	-	-	-	-
Total	**$ 2,219**	**$ (208)**	**$ 7**	**$ 500**	**$ 2,518**	**$ 468**	**$ 2,050**

December 31, 2017	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	$ 56,231	$ 650	$ 55,581
Commercial real estate - construction	9,775	-	9,775
Commercial and industrial	19,441	-	19,441
Acquisition, construction and development	464	464	-
Agricultural	24,159	-	24,159
Residential mortgage	53,758	68	53,690
Home equity	41,554	-	41,554
Consumer - other	18,085	83	18,002
Obligation of state and political subdivisions	15,259	-	15,259
Total	**$ 238,726**	**$ 1,265**	**$ 237,461**

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Corporation's internal risk rating system as of December 31, 2018 and 2017 (in thousands):

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 and 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
Obligation of state and political subdivisions	11,865	-	-	11,865
Total	**$ 227,182**	**$ 3,502**	**$ 9,788**	**$ 240,472**

December 31, 2017	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	$ 49,502	$ 1,715	$ 5,014	$ 56,231
Commercial real estate - construction	9,775	-	-	9,775
Commercial and industrial	15,966	96	3,379	19,441
Acquisition, construction and development	-	-	464	464
Agricultural	23,197	962	-	24,159
Residential mortgage	53,420	-	338	53,758
Home equity	41,307	247	-	41,554
Consumer - other	18,002	-	83	18,085
Obligation of state and political subdivisions	15,259	-	-	15,259
Total	**$ 226,428**	**$ 3,020**	**$ 9,278**	**$ 238,726**

No loans were classified as doubtful or loss as of December 31, 2018 and 2017.

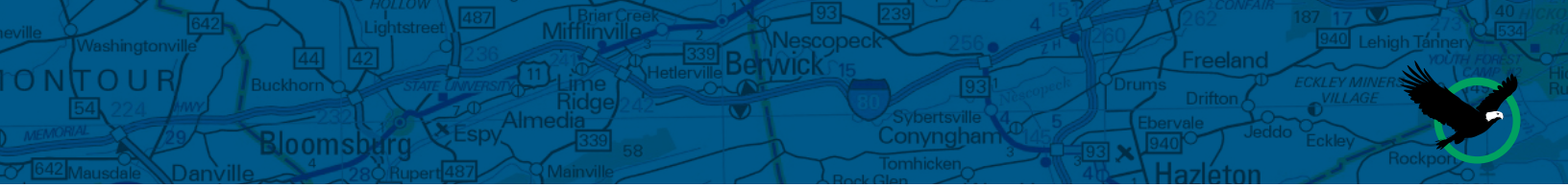
4. LOANS AND ALLOWANCE FOR LOAN LOSSES *(continued)*

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, 2018 and 2017 (in thousands):

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 and 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 and 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

December 31, 2017	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Commercial real estate	$ 650	$ 650	$ -	$ 785	$ -
Residential mortgage	68	68	-	75	1
Consumer - other	67	67	-	73	1
With An Allowance Recorded:					
Acquisition, construction and development	$ 464	$ 464	$ 464	$ 464	$ 22
Consumer - other	16	16	4	17	-
Total:					
Commercial real estate	$ 650	$ 650	$ -	$ 785	$ -
Acquisition, construction and development	464	464	464	464	22
Residential mortgage	68	68	-	75	1
Consumer - other	83	83	4	90	1



The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Commercial real estate	$ 650	$ 650
Residential mortgage	132	68
Home equity	6	-
Consumer - other	63	83
Total	**$ 851**	**$ 801**

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, 2018 and 2017 (in thousands):

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 and 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	-
Obligation of state and political subdivisions	-	-	-	-	11,865	11,865	-
Total	**$ 2,201**	**$ 1,646**	**$ 797**	**$ 4,644**	**$ 235,828**	**$ 240,472**	**$ -**

DECEMBER 31, 2017	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	$ -	$ -	$ 650	$ 650	$ 55,581	$ 56,231	$ -
Commercial real estate - construction	-	-	-	-	9,775	9,775	-
Commercial and industrial	15	-	-	15	19,426	19,441	-
Acquisition, construction and development	249	215	-	464	-	464	-
Agricultural	-	-	-	-	24,159	24,159	-
Residential mortgage	258	-	-	258	53,500	53,758	-
Home equity	-	-	-	-	41,554	41,554	-
Consumer - other	135	25	-	160	17,925	18,085	-
Obligation of state and political subdivisions	-	-	-	-	15,259	15,259	-
Total	**$ 657**	**$ 240**	**$ 650**	**$ 1,547**	**$ 237,179**	**$ 238,726**	**$ -**

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, 2018 and 2017, there were no modifications classified as troubled debt restructurings.

Foreclosed Assets Held For Sale

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. At December 31, 2017 there were no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Land	$ 1,451	$ 1,451
Bank premises	6,223	5,780
Furniture and equipment	6,416	5,885
Construction in progress	364	-
Total	**14,454**	**13,116**
Less accumulated depreciation	7,420	6,794
Bank Premises and Equipment, Net	**$ 7,034**	**$ 6,322**

6. DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2018 and 2017 were $15,670,000 and $16,061,000, respectively.

At December 31, 2018, the scheduled maturities of time deposits are as follows (in thousands):

2019	$ 41,858
2020	29,938
2021	12,333
2022	5,687
2023	3,551
Total	**$ 93,367**

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2018	2017
Federal Home Loan Bank of Pittsburgh ("FHLB"):		
Fixed-rate advances (1)	$ 9,005	$ 17,641
Line of credit (2)	20,000	15,750
Atlantic Community Bankers Bank ("ACBB"):		
Line of credit (3)	-	-
Total	**$ 29,005**	**$ 33,391**

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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Fixed-rate at 2.07%, maturing 2018	$ -	$ 6,000
Fixed-rate at 5.50%, maturing 2018	-	10
Fixed-rate at 1.16%, maturing 2018	-	625
Fixed-rate at 1.10%, maturing 2018	-	1,000
Fixed-rate at 1.15%, maturing 2018	-	1,000
Fixed-rate at 5.50%, maturing 2019	5	6
Fixed-rate at 1.84%, maturing 2019	3,000	3,000
Fixed-rate at 1.22%, maturing 2019	1,000	1,000
Fixed-rate at 1.46%, maturing 2019	625	625
Fixed-rate at 1.64%, maturing 2019	1,500	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	**$ 9,005**	**$ 17,641**

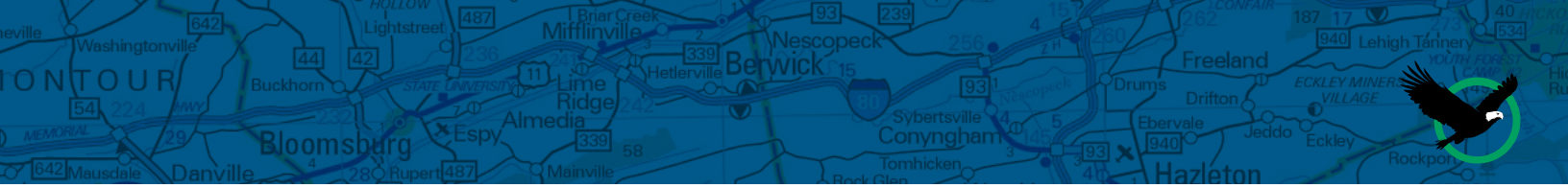
(2) The Corporation has an open-ended $55,590,850 line-of-credit at a variable interest rate (2.67% at December 31, 2018).

(3) The Corporation has an open-ended $2,000,000 line-of-credit at a variable interest rate (5.50% at December 31, 2018).

8. INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset (liability) at December 31, 2018 and 2017 (in thousands):

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 557	$ 471
Supplemental employee retirement plan	123	95
Low income housing investments	21	59
Nonaccrual interest income	21	12
Preferred stock amortization	-	3
Unrealized holding losses on securities	391	-
Total	**$ 1,113**	**$ 640**
Deferred tax liabilities:		
Depreciation	497	311
Loan fees and costs	13	13
Loan servicing rights	89	78
Bond accretion	7	6
Prepaid expenses	50	-
Unrealized holding gains on securities	-	522
Total	**656**	**930**
Deferred Tax Asset (Liability), Net	**$ 457**	**$ (290)**



8. INCOME TAXES *(continued)*

The deferred tax asset (liability), net, is included in Other Assets in the accompanying consolidated balance sheet at December 31, 2018 and Other Liabilities at December 31, 2017.

The provision for income taxes consists as follows, for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Currently payable	$ 674	$ 1,390
Deferred income tax provision	(166)	(375)
Provision for Income Taxes	**$ 508**	**$ 1,015**

A reconciliation of income tax at the federal statutory rate (21% for 2018 and 34% for 2017) to the Corporation's actual provision for income taxes is as follows, listed according to years ended December 31 (in thousands):

	2018	2017
Provision at the expected statutory rate	$ 1,183	$ 2,064
Effect of tax-exempt income	(535)	(892)
Nondeductible interest	27	34
Increase in cash value of life insurance	(44)	(74)
Effect of tax rate change	-	(180)
Other, net	(123)	63
Provision for Income Taxes	**$ 508**	**$ 1,015**

In 2017, the Corporation recognized a reduction in the carrying value of the net deferred tax liability of $180,000 as a result of the December 2017 enactment of a reduction in the federal corporate income tax rate to 21% effective January 1, 2018, from the 35% marginal tax rate in effect throughout 2017.

9. COMMON STOCK

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2018 and 2017, 11,829 and 11,631 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately $254,000 and $246,000, respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2018 and 2017, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2019 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 2018 and 2017 was approximately $199,000 and $176,000, respectively.

The Corporation is the beneficiary of insurance policies on the lives of current and former directors and executive officers. The aggregate cash surrender values of these policies were approximately $8,678,000 and $8,470,000 at December 31, 2018 and 2017, 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, 2018 and 2017 was $585,000 and $454,000, respectively, and is included in Other Liabilities in the consolidated balance sheet. The related expense was $131,000 and $126,000 for the years ended December 31, 2018 and 2017, respectively. 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):

	2018	2017
Balance, beginning of year	$ 4,828	$ 4,023
New loans	940	1,480
Repayments	(679)	(675)
Balance, End of Year	**$ 5,089**	**$ 4,828**

Deposits and other funds from related parties held by the Corporation at December 31, 2018 and 2017 were approximately $1,642,000 and $1,048,000, 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 I capital to risk-weighted assets. Management believes, as of December 31, 2018, 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.

12. REGULATORY MATTERS *(continued)*

The Bank's actual capital amounts and ratios are as follows at December 31, 2018 and 2017 (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, 2018	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**	**AMOUNT**	**RATIO**	
Total Capital (to Risk-Weighted Assets)	$45,348	14%	≥$25,376	≥8%	≥$31,720	≥10%	9.875%
Tier 1 Capital (to Risk-Weighted Assets)	$42,419	13%	≥$19,032	≥6%	≥$25,376	≥8%	7.875%
Common Equity Tier 1 (CET1) Capital (to Risk-Weighted Assets)	$42,419	13%	≥$14,274	≥4.5%	≥$20,618	≥6.5%	6.375%
Tier 1 Capital (to Average Assets)	$42,419	10%	≥$16,674	≥4%	≥$20,843	≥5%	
As of December 31, 2017							
Total Capital (to Risk-Weighted Assets)	$41,870	14%	≥$23,774	≥8%	≥$29,718	≥10%	9.25%
Tier 1 Capital (to Risk-Weighted Assets)	$39,352	13%	≥$17,831	≥6%	≥$23,774	≥8%	7.25%
Common Equity Tier 1 (CET1) Capital (to Risk-Weighted Assets)	$39,352	13%	≥$13,373	≥4.5%	≥$19,316	≥6.5%	5.75%
Tier 1 Capital (to Average Assets)	$39,352	10%	≥$16,202	≥4%	≥$20,253	≥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, 2018 and 2017 are as follows (in thousands):

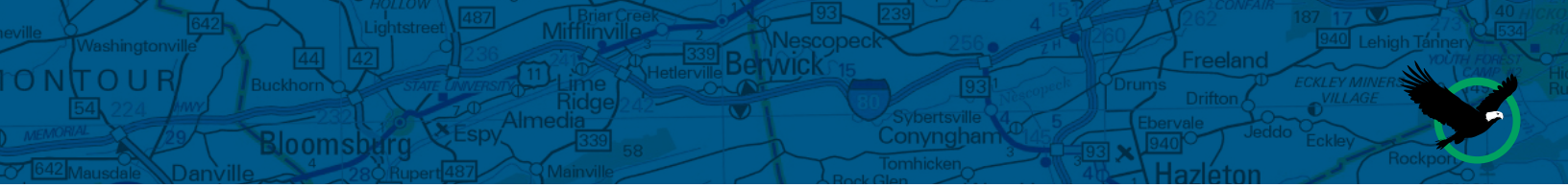
	2018	2017
Commitments to extend credit	$ 58,500	$ 58,390
Financial standby letters of credit	354	442
Performance standby letters of credit	2,483	772

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 obligate 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, 2018 or 2017.

Standby letters of credit as of December 31, 2018 expire as follows:

Year of Expiration	Amount (in thousands)
2019	$ 2,709
2020	108
2023	20
Total	**$ 2,837**



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

	2018	2017
ASSETS		
Cash	$ 3	$ 3
Investment in subsidiaries	43,843	44,107
TOTAL ASSETS	**$ 43,846**	**$ 44,110**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 1,137	$ 1,033
Note payable	348	398
Other liabilities	-	1
Shareholders' equity	42,361	42,678
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 43,846**	**$ 44,110**

CONDENSED INCOME STATEMENT

	2018	2017
INCOME		
Equity in undistributed earnings of subsidiaries	$ 2,932	$ 2,853
Dividends from subsidiaries	2,240	2,260
TOTAL INCOME	**5,172**	**5,113**
Operating expenses	(49)	(57)
NET INCOME	**$ 5,123**	**$ 5,056**

CONDENSED STATEMENT OF CASH FLOWS

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,123	$ 5,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,932)	(2,853)
(Decrease) increase in other liabilities	(1)	1
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,190**	**2,204**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Acquisition of treasury stock	-	(133)
Repayment of notes payable	(50)	(50)
Dividends paid	(2,140)	(2,025)
NET CASH USED IN FINANCING ACTIVITIES	**(2,190)**	**(2,208)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	(4)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3	7
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 3**	**$ 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, 2018 and 2017 are as follows (in thousands):

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**

December 31, 2017	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	$ -	$ 49,909	$ -	$ 49,909
Obligations of state and political subdivisions	-	86,211	-	86,211
Corporate debt securities	-	11,267	-	11,267
Total Available-For-Sale Debt Securities	**$ -**	**$ 147,387**	**$ -**	**$ 147,387**

The Corporation made no transfers between levels in 2018 and 2017.

Assets measured at fair value on a nonrecurring basis and the valuation methods used at December 31, 2018 and 2017 are as follows (in thousands):

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

December 31, 2017	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Impaired loans, net	$ -	$ -	$ 12	$ 12

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, 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%

December 31, 2017	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE
Impaired loans	$ 12	**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, 2018 and 2017 (in thousands):

	VALUATION METHOD(S) USED	2018 CARRYING AMOUNT	FAIR VALUE	2017 CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:					
Cash and due from banks	Level 1	$ 7,561	$ 7,561	$ 4,309	$ 4,309
Interest-bearing deposits with banks	Level 1	1,106	1,106	143	143
Available-for-sale securities	Level 2	151,579	151,579	147,387	147,387
Marketable equity securities	Level 1	67	67	2,798	2,798
Restricted securities (included in Other Assets)	Level 2	2,931	2,931	2,583	2,583
Loans, net	Level 3	237,543	234,366	236,208	235,586
Accrued interest receivable	Level 2	2,051	2,051	1,982	1,982
Mortgage servicing rights	Level 3	424	421	369	316
FINANCIAL LIABILITIES:					
Deposits	Level 2	$ 348,616	$ 347,291	$ 334,645	$ 333,656
Other borrowings	Level 2	29,005	28,881	33,391	33,275
Accrued interest payable	Level 2	289	289	284	284

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 ASC 606. The Corporation has elected to apply the ASU 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 statement of financial position consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees which are recognized at the time transaction is executed as that is the point in time the Corporation fulfills the customer's request. 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 provides a broad range of personal and corporate fiduciary services. Assets held in a fiduciary capacity are not assets of the Corporation and are therefore not included in the Corporation's Consolidated Financial Statements. 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 is 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, 2018 and 2017, 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.

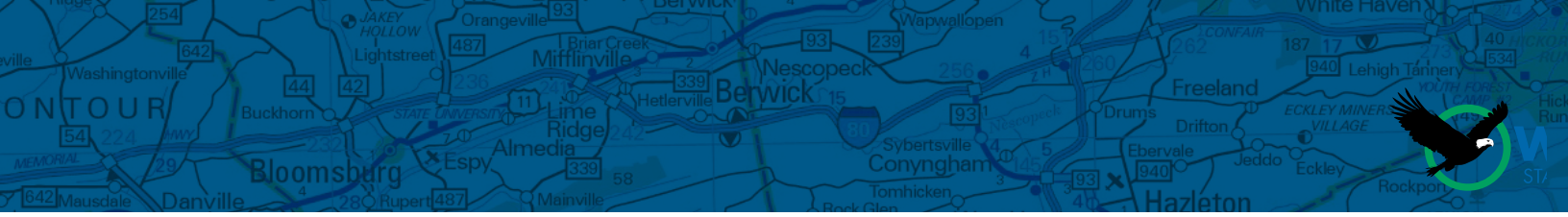
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, 2018 and 2017, 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 Vichow Krause, LLP

Williamsport, Pennsylvania
April 18, 2019



SENIOR MANAGEMENT

David S. Runk
President
Chief Executive Officer

Rebecca A. Bingaman
Vice President
Director of Credit Administration and Loan Compliance 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

Dennis E. Keefer
Vice President
Agricultural and Commercial Relationship Manager

Jill D. Shambach
Vice President
Investment Executive and Wealth Management Director

Trisha K. Shearer
Vice President
Director of Marketing and Human Resources

Rodney H. Smith
Executive Vice President
Treasurer and Chief Financial Officer

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

Christine J. Appleman
Jamie L. Aumiller
Sydney E.N. Beagle
Debra A. Bennett
Donna K. Bennett
Jeanetta M. Bixler
Kelly A. Boop
Lindsay N. Bowersox
Kelly S. Burrows
Laurie A. Carr
Jackie L. Clemens
Jenna L. Clymer
Sara A. Cooper
Kellie J. Criswell
Tammy C. Dauberman
Vanessa R. Day
Eliza M. Derr
Stephanie N. Dietz
Keith B. Downey
Linda S. Dressler
Jack W. Emery, Jr.
Susan A. Erdley
Tessa K. Fox
Peggy L. Fullmer
Melissa S. Gottschall
Mariah E. Gress
Andrea I. Harmon
Kristin I. Henninger
Rexford B. Hilton
Lauren M. Hursh
Kathy L. Kline
Kristy D. Kratzer
Lindsey D. Kratzer
Lauren E. Krum
Robin A. Kunkel
Karla S. Landis
Ellie M. Lash
Michael R. Loeh
Sarah L. Maneval
Melissa L. Marin
Betty J. Marks
Kathleen L. Marks
Morgan E. Mattern
Tyler A. Mattern
Thomas J. McClintock
Russell H. Meachum
Christian H. P. Menges
Kenetha M. Metzger
Janelle A. Mook
Stacy J. Mook
Lisa M. Morgan
Melissa S. Musser
Diane L. Paulukinas
Kathy A. Phillips
Lauren M. Reid
No S. Ringer
Christopher D. Romig
Scott B. Ryder
Phyllis E. Salcedo
Beth A. Satteson
Cristerland K. Schreffler
Kala J. Seibert
James A. Shaffer
Deborah A. Shief
Nancilee Snyder
Sarah F. Stockton
Terri S. Struble
Christopher J. Sullivan
Kassidy M. Susan
Gerard K. Tiede III
Kathrine J. Troxell
Julie G. Watts
Brenda L. Wesner
Abra L Woodling
Rebecca N. Yeager
Stephanie L. Young
Krysia A. Ziegler

Equal Opportunity and Affirmative Action Employer

MARKET MAKERS

Boenning & Scattergood
Eugene B. Bodo
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

SUSQUEHANNA COMMUNITY BANK OFFICES

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

SCB.BANK

Member FDIC