



SUSQUEHANNA COMMUNITY FINANCIAL, INC.

HELPING OUR FAMILY, FRIENDS, AND NEIGHBORS SUCCEED

A BETTER BANKING EXPERIENCE



**SUSQUEHANNA COMMUNITY
FINANCIAL, INC.**

ANNUAL REPORT 2017



"We are an organization about people and relationships, not products. I am so privileged to be a part of this team."

PRESIDENT'S MESSAGE

DEAR SHAREHOLDERS,

Sixty-five percent of U.S. Banks from 1984 no longer exist. The consolidation wave has hit community banks the hardest. Much has been written about how community banks will need to be much larger to compete. That is why we focus on delivering a Better Banking Experience every day to help our family, friends, and neighbors succeed. If we continue to focus on this, our growth, performance, and independence will take care of itself.

To help communicate the Better Banking Experience, I visualize this similar to a victory quilt that my grandmother used to make back on the farm. We take a patch of the best people we can find to hire; a patch of training, nurturing, and mentoring; add a patch of technology convenience; add a patch of updated facilities for better customer interactions, and finally add the most important patch of Teamwork. It's not the individual patches but the collaborative effort of all employees weaving the final product that drives our success.

I can't make the quilt, but I can report on how beautiful it looked for 2017. I am pleased and proud to report the following results for your company:

- **Record Earnings!** 2017 marked the fifth out of the past seven years that we achieved record earnings.
- **Record Growth!** We continued to be a company of growth as assets topped **\$400 million** for the first time ever.

- **Record Revenue!** Core income grew over 20% as loans grew greater than 10% for the sixth consecutive year. Mortgage Fees and Investment Services also achieved record highs. Overhead remained controlled as the efficiency ratio remained well below peers.
- **Record Dividends!** This was our seventh consecutive year of increasing dividends.

Your community bank continues to lead its peers in financial ratios as well. Our Return on Assets (ROA) finished the year at **1.25%** and Return on Equity (ROE) at **12.23%**. These strong results propelled us to #1 in the state of Pennsylvania out of 153 banks based on eight different performance criteria. This is the third time out of the last five years we have finished **#1**. This also ranked us the **39th** most profitable community bank in the U.S. for 3-year average Return on Equity.

Just as my grandmother's quilt gives me warmth and fond memories, the past seven years as CEO of West Milton State Bank has done the same. We are an organization about people and relationships, not products. I am so privileged to be a part of this team. Please take a minute and review the following pages and let our employees do the talking.

We will continue to work hard every day to earn your support and preserve our independence.

On behalf of the Team,

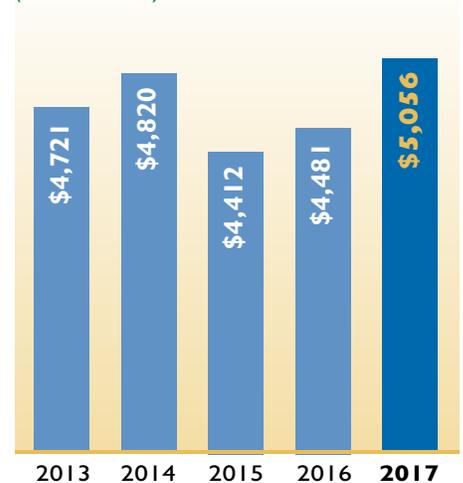
David S. Runk
President and CEO

2017 FINANCIAL HIGHLIGHTS

5 YEAR OVERVIEW

Earnings Per Share	\$ 1.56	\$ 1.60	\$ 1.47	\$ 1.51	\$ 1.71
Return on Average Assets	1.41%	1.37%	1.21%	1.16%	1.25%
Return on Average Equity	13.42%	12.90%	10.99%	10.66%	12.23%
Dividends Paid Per Share	\$ 0.55	\$ 0.61	\$ 0.65	\$ 0.67	\$ 0.71
	2013	2014	2015	2016	2017

NET INCOME (in thousands)





SENIOR MANAGEMENT

Seated (left to right):
Trisha K. Shearer
Dennis E. Keefer
David S. Runk (President)
Belinda M. Diefenbach
Stephen T. Young

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

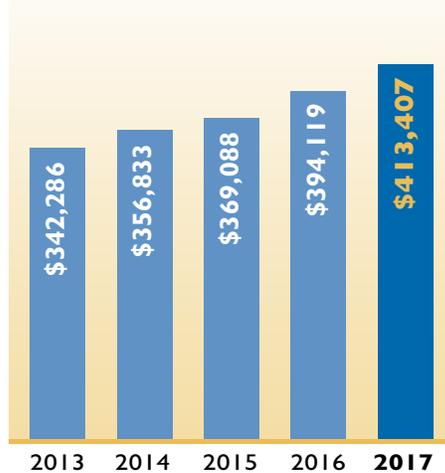
BOARD OF DIRECTORS

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

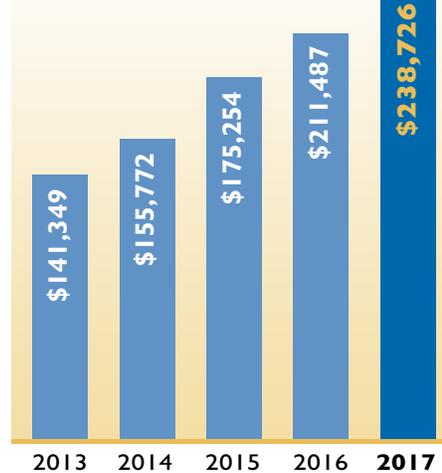
Standing (left to right):
Richard M. Bowersox
William F. Kear
Christian C. Trate (Chairman)
Carl L. Pardoe
Robert M. Brubaker



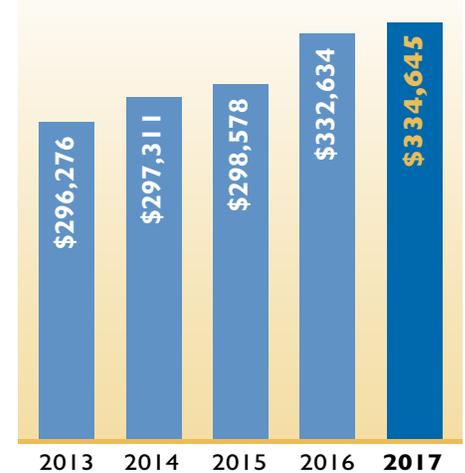
TOTAL ASSETS (in thousands)



GROSS LOANS (in thousands)



TOTAL DEPOSITS (in thousands)



WELCOME TO BETTER BANKING

Fulfilling our mission to help our family, friends and neighbors succeed is our number one priority. We take pride in being a top community bank where we personally know our customers and are able to partner with them to create customized solutions to ensure their future stability and growth. As trusted advisors, we customize a plan to assist each and every customer on his or her journey to financial well-being.

As soon as customers walk in the door, they feel the better banking experience. A friendly face is always ready to assist them. We want our customers to realize that we are here to guide them to a better tomorrow. Receptionist Kris Henninger is known for her outstanding service, and even if you don't frequent the West Milton Office, she's often the person to assist you when you call the bank. Kris connects customers to the proper experts that are happy to answer customer questions or discuss our full array of financial solutions.

Helping our family, friends and neighbors succeed doesn't stop at the bank. Our employees take pride in volunteering at community events and donating to local non-profits throughout the year. Understanding the needs of the communities we serve allows us to deliver a better banking experience.





**You should feel the
better banking experience
as soon as you walk
through the doors.**



Better Banking Leads to Growth and Success

Employees Rodney Smith, Executive Vice President and Chief Financial Officer, and Karla Landis, Assistant Vice President and Controller, have been delivering a better banking experience collectively for over 60 years. During this time, they have seen tremendous growth in the number of employees, and have taken the opportunity as leaders to share their knowledge and expertise with the next generation of community bankers. In addition to training on standard processes and procedures, their most important focus is sharing their dedication to our mission statement of helping our family, friends and neighbors succeed ensuring that our customers see a continuation of our better banking experience well into the future.



By mentoring new employees we ensure that our customers see a continuation of exceptional customer service.



From Near or Far

Customers are banking with us 24/7 in over 38 states, so it's important to provide the same level of service through our online and mobile channels as it is in our branches. Our Operations Department is staffed with experts to answer technical customer questions that they receive via phone and email. Many customers who have relocated have remained customers due to the level of service they have grown to expect and the convenience our expanding products and services provide, allowing them to bank with ease from near or far.

Kenetha Metzger, Operations Specialist, has been providing support to our customers for 27 years and takes pride in delivering a better banking experience.



Delivering Exceptional Service and Solutions

We are always looking for ways to improve upon the service we deliver. After a successful layout at our Northumberland office, we renovated our Lewisburg office with a similar design and were able to add two offices to better accommodate our growing customer base. The new layout better facilitates interaction between the staff and customers, further enhancing the better banking experience.

Brenda Wesner and Kathy Phillips with 19 and 30 years of experience, respectively, will be quick to tell you that visiting with customers is the best part of their job. When customers share their life events, we're able to provide solutions to meet their needs. Brenda shared, "When I hear that customers don't think they'll be able to purchase a home, I immediately connect them with Chris Romig, Vice President and Mortgage Originator, who can prepare a customized plan to help them achieve their goals of home ownership." That's helping our family, friends and neighbors succeed.

Consolidated Balance Sheet



December 31, 2017 and 2016 (In thousands, except share data)

ASSETS	2017	2016
Cash and due from banks	\$ 4,309	\$ 4,512
Interest-bearing deposits with banks	143	1,175
Available-for-sale securities, at fair value	150,185	157,757
Loans, net	236,208	209,268
Bank premises and equipment, net	6,322	6,254
Foreclosed assets held for sale	-	195
Accrued interest receivable	1,982	2,011
Cash surrender value of life insurance	8,470	8,252
Other assets	5,788	4,695
TOTAL	\$ 413,407	\$ 394,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest-bearing deposits	\$ 324,688	\$ 323,637
Noninterest-bearing deposits	9,957	8,997
Total Deposits	334,645	332,634
Other borrowings	33,391	19,282
Dividends payable	1,033	962
Accrued interest payable	284	220
Other liabilities	1,376	1,445
Total Liabilities	370,729	354,543
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	41,751	39,116
Accumulated other comprehensive income	1,964	1,365
Treasury stock at cost (422,869 and 415,369 shares in 2017 and 2016, respectively)	(4,867)	(4,735)
Total Shareholders' Equity	42,678	39,576
TOTAL	\$ 413,407	\$ 394,119

See Notes to Consolidated Financial Statements

Consolidated Statement of Income

For the Years Ended December 31, 2017, 2016, and 2015 (In thousands, except share data)

	2017	2016	2015
INTEREST INCOME			
Interest and fees on loans	\$ 10,211	\$ 8,494	\$ 7,609
Interest and dividends on available-for-sale securities:			
Taxable interest	2,986	3,600	4,098
Tax-exempt interest	1,996	1,642	1,539
Dividends	66	62	66
Interest on deposits with other banks	21	50	31
Total Interest Income	15,280	13,848	13,343
INTEREST EXPENSE			
Interest on deposits	2,261	2,048	1,908
Interest on other borrowings	362	332	321
Total Interest Expense	2,623	2,380	2,229
NET INTEREST INCOME	12,657	11,468	11,114
PROVISION FOR LOAN LOSSES	500	1,089	110
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,157	10,379	11,004
OTHER INCOME			
Service charges on deposit accounts	584	628	559
Realized gains on available-for-sale securities, net	821	669	644
Realized gains on loan sales, net	567	589	67
Bank card and credit card interchange fees	471	439	389
Brokerage fees and commissions	442	251	160
Gain on life insurance benefits	-	536	-
Increase in cash surrender value of life insurance	218	188	180
Other operating income	350	478	249
Total Other Income	3,453	3,778	2,248
OTHER EXPENSES			
Salaries and employee benefits	5,534	5,239	4,259
Occupancy expense	419	426	347
Furniture and equipment expenses	1,033	974	765
Automated teller machine expense	261	243	206
Data processing expenses	266	266	226
Pennsylvania corporate and shares taxes	334	316	318
Other operating expenses	1,692	1,623	1,544
Total Other Expenses	9,539	9,087	7,665
INCOME BEFORE PROVISION FOR INCOME TAXES	6,071	5,070	5,587
PROVISION FOR INCOME TAXES	1,015	589	1,175
NET INCOME	\$ 5,056	\$ 4,481	\$ 4,412
EARNINGS PER SHARE - BASIC AND DILUTED	\$ 1.71	\$ 1.51	\$ 1.47

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, 2017, 2016, and 2015 (In thousands)

	2017	2016	2015
Net income	\$ 5,056	\$ 4,481	\$ 4,412
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) on available-for-sale securities	1,238	(2,528)	(1,998)
Reclassification adjustment for (gains) realized in earnings (a) (b)	(821)	(669)	(644)
Other comprehensive gain (loss) on available-for-sale securities	417	(3,197)	(2,642)
Income (tax) benefit	(143)	1,087	898
Net other comprehensive income (loss)	274	(2,110)	(1,744)
Total comprehensive income	\$ 5,330	\$ 2,371	\$ 2,668

(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 \$279 in 2017, \$227 in 2016, and \$219 in 2015, are included in the Provision for Income Taxes on the Consolidated Statement of Income. This resulted in reclassifications net of tax, of \$542 in 2017, \$442 in 2016, and \$425 in 2015.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2017, 2016, and 2015 (In thousands, except share data)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, DECEMBER 31, 2014	\$ 844	\$ 2,986	\$ 34,152	\$ 5,219	\$ (3,827)	\$ 39,374
Net income	-	-	4,412	-	-	4,412
Other comprehensive loss	-	-	-	(1,744)	-	(1,744)
Treasury stock purchased, 8,233 shares	-	-	-	-	(601)	(601)
Dividends declared, \$0.65 per share	-	-	(1,946)	-	-	(1,946)
BALANCE, DECEMBER 31, 2015	844	2,986	36,618	3,475	(4,428)	39,495
Net income	-	-	4,481	-	-	4,481
Other comprehensive loss	-	-	-	(2,110)	-	(2,110)
Treasury stock purchased, 4,300 shares	-	-	-	-	(307)	(307)
Stock split, four-for-one	2,531	(2,531)	-	-	-	-
Dividends declared, \$0.67 per share	-	-	(1,983)	-	-	(1,983)
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

See Notes to Consolidated Financial Statement

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2017, 2016, and 2015 (In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016	2015
Net income	\$ 5,056	\$ 4,481	\$ 4,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation	581	562	448
Provision for loan losses	500	1,089	110
Increase in cash surrender value of life insurance	(218)	(188)	(180)
Gain on life insurance benefits	-	(536)	-
Amortization and accretion of investment securities, net	666	903	817
Realized gains on available-for-sale securities, net	(821)	(669)	(644)
Deferred income tax provision	(375)	(83)	39
Gain on sales of loans, net	(567)	(589)	(67)
Net loss on sale of foreclosed assets held for sale	10	-	-
Origination of loans for sale	(13,959)	(15,710)	(2,043)
Proceeds from sales of loans	14,139	16,426	2,095
Change in:			
Accrued interest receivable and other assets	(17)	79	(193)
Accrued interest payable and other liabilities	177	56	333
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,172	5,821	5,127
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale securities	(48,224)	(47,579)	(63,820)
Proceeds from maturities of available-for-sale securities	11,136	16,291	18,803
Proceeds from sale of available-for-sale securities	45,232	41,901	51,379
Purchase of Federal Home Loan Bank of Pittsburgh stock	(997)	(277)	(535)
Net decrease in interest-bearing deposits with banks	1,032	149	1,682
Net increase in loans	(27,053)	(37,423)	(19,586)
Acquisition of bank premises and equipment	(649)	(586)	(3,326)
Proceeds from bank-owned life insurance	-	1,078	-
Purchase of bank-owned life insurance	-	(2,000)	-
Proceeds from sale of foreclosed assets held for sale	185	-	-
NET CASH USED IN INVESTING ACTIVITIES	(19,338)	(28,446)	(15,403)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	2,011	34,056	1,267
Net decrease in repurchase agreements	-	-	(536)
Net increase (decrease) in other borrowings	14,109	(8,129)	11,871
Acquisition of treasury stock	(132)	(307)	(601)
Dividends paid	(2,025)	(1,929)	(1,888)
NET CASH PROVIDED BY FINANCING ACTIVITIES	13,963	23,691	10,113
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(203)	1,066	(163)
CASH AND CASH EQUIVALENTS, Beginning	4,512	3,446	3,609
CASH AND CASH EQUIVALENTS, Ending	\$ 4,309	\$ 4,512	\$ 3,446
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	\$ 2,559	\$ 2,350	\$ 2,197
Income taxes paid	\$ 1,437	\$ 675	\$ 1,076
Assets acquired through foreclosure of real estate loans	\$ -	\$ 195	\$ 70

See Notes to Consolidated Financial Statements



Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Susquehanna Community Financial, Inc., and its wholly-owned subsidiaries, West Milton State 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, Watsonstown, 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.

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, the fair value of financial instruments, and valuation of deferred tax assets.

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 2017 or 2016.

Trading securities - includes debt and equity 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 2017 or 2016.

Available-for-sale securities - includes debt and equity 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, net of deferred income taxes.

These unrealized holding gains and losses are the sole component of the Corporation's accumulated other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms 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.

West Milton State 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, West Milton State 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 \$2,571,000 at December 31, 2017 and \$1,574,000 at December 31, 2016. The Corporation evaluated its holding of FHLB-Pittsburgh stock for impairment and deemed the stock to not be impaired at December 31, 2017 and 2016. 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.

Notes to Consolidated Financial Statements

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, 2017) 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 88% at December 31, 2017) 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.

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 \$52,000, \$69,000, and \$83,000 in 2017, 2016, and 2015, 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

Notes to Consolidated Financial Statements

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, 2017 and 2016 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, 2017, 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 as restated to reflect the 4-for-1 stock split effected on July 15, 2016. The number of shares used in the earnings per share computation for the years ended December 31, 2017, 2016 and 2015 was 2,952,315, 2,961,134, and 3,005,342, 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 \$771,400 and \$807,105 at December 31, 2017 and 2016, 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 \$36,000, \$45,000 and \$41,000 for 2017, 2016 and 2015, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2017, and 2016 the partnership had total assets of approximately \$934,000 and \$956,000, respectively, and total liabilities of approximately \$128,000 and \$113,000, 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 \$1,378,960 and \$1,393,228 at December 31, 2017 and 2016, respectively, and is included in Other Assets in the consolidated balance sheet. The Corporation accounts for

this investment using the equity method, adjusting the Corporation's basis in the partnership by the Corporation's pro-rata portion of income or loss each year. The Corporation recognized a loss from the partnership of \$14,000 for 2017 and income from the partnership of approximately \$5,000 and \$31,000 for 2016 and 2015, respectively. The Corporation's maximum exposure to loss is limited to the carrying value of its investment at year-end. As of December 31, 2017, and 2016 the partnership had total assets of approximately \$1,425,000 and \$1,488,000, respectively, and had total liabilities of approximately \$99,000 and \$77,000, 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 2016 and 2015 financial statements to conform to the 2017 presentation.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*", which provides a principles-based framework for revenue recognition that supersedes virtually all previously issued revenue recognition guidance under GAAP. Additionally, the ASU requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The core principle of the five-step revenue recognition framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Several additional ASUs have been issued subsequent to ASU 2014-09 to provide clarifying guidance related to various revenue recognition areas and to defer the effective date of the standard by a year, making it applicable for the Corporation in 2018. More than 78% of the Corporation's revenue comes from net interest income and is explicitly out of the scope of ASU 2017-09. The Corporation's largest sources of noninterest revenue which are subject to the guidance include service charges on deposit accounts, interchange revenue and brokerage fees and commissions. Management has evaluated the Corporation's noninterest revenue streams and determined that the adoption of ASU 2014-09 using the modified retrospective method will have no material effect on the Corporation's revenue recognition practices. Additionally, the ASU requires expanded disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Management is in the process of reviewing the expanded disclosure requirements that will be effective in 2018.

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Liabilities*." This makes significant changes in GAAP related to certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The changes provided for in this ASU that are applicable to the Corporation are as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; however, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus



changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) for equity investments without readily determinable fair values, require a qualitative assessment to identify impairment, and if a qualitative assessment indicates that impairment exists, requiring an entity to measure the investment at fair value; (3) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments (at December 31, 2017 and 2016, the Corporation has no liabilities for which the fair value measurement option has been elected); (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this ASU will become effective for the Corporation in 2018. Amendments are to be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values should be applied prospectively. At December 31, 2017, the Corporation's investment in marketable equity securities was \$2,798,000 and the net unrealized gain related to these securities was \$298,000. Management is in the process of reviewing the changes in disclosure requirements that will become effective in 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases." This will require organizations that lease assets to recognize on 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 on the balance sheet, the new ASU will require both types of leases to be recognized on 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. Accordingly, the Corporation is currently evaluating the effect this guidance may have on its operating results or financial position.

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 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 addresses eight cash flow issues with specific guidance on how certain cash receipts and cash payments should be presented on the statement of cash flows. ASU 2016-15 is effective for the Corporation in 2018. Early adoption is permitted. The Corporation does not believe that the adoption of ASU No. 2016-15 will have a material effect on its cash flows.

In March 2017, the FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs." ASU No. 2017-08 will shorten the amortization period for certain callable debt securities held at a premium. Under current U.S. GAAP, entities generally amortize the premium over the contractual life of the instrument. ASU No. 2017-08 requires the premium be amortized to the earliest call date. Discounts will continue to be amortized to maturity. The Corporation expects to adopt the amendments in this ASU through a cumulative-effect adjustment directly to retained earnings in 2018, and does not expect the amount of the adjustment to be significant.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income." The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, which was enacted in December 2017. Consequently, the amendments eliminate the stranded tax effects resulting from the reduction in corporate tax rates. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. The Corporation elected to early adopt the amendments in this Update in 2017. The amount of the reclassification from accumulated other comprehensive income to retained earnings was \$325,000 for 2017, and can be seen in the consolidated statement of changes in shareholders' equity.

Subsequent Events

The Corporation has evaluated and disclosed all material subsequent events that provide additional evidence about conditions that existed as of December 31, 2017. The Corporation evaluated these subsequent events through March 30, 2018, 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 2017 and 2016 was approximately \$174,000 and \$132,000, 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. Included in interest-bearing deposits with banks for 2016 is one certificate of deposit for \$250,000 at a rate of 2% with a 60-month maturity.

Notes to Consolidated Financial Statements

3. AVAILABLE-FOR-SALE SECURITIES

The amortized cost and fair value of available-for-sale securities at December 31, 2017 and 2016 are as follows (in thousands):

December 31, 2017	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
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 Debt Securities	145,199	3,028	(840)	147,387
Other equity securities	2,500	322	(24)	2,798
TOTAL	\$ 147,699	\$ 3,350	\$ (864)	\$ 150,185

December 31, 2016

Mortgage-backed securities	\$ 60,720	\$ 657	\$ (1,027)	\$ 60,350
Obligations of state and political subdivisions	83,662	3,464	(1,035)	86,091
Corporate debt securities	9,367	70	(178)	9,259
Total Debt Securities	153,749	4,191	(2,240)	155,700
Other equity securities	1,939	132	(14)	2,057
TOTAL	\$ 155,688	\$ 4,323	\$ (2,254)	\$ 157,757

At December 31, 2017 and 2016, investment securities with a carrying value of \$61,136,000 and \$69,302,000, 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, 2017	AMORTIZED COST	FAIR VALUE
Due in one year or less	\$ 1,151	\$ 1,169
Due after one year through five years	5,735	5,736
Due after five years through ten years	15,931	16,149
Due after ten years	72,223	74,424
	95,040	97,478
Mortgage-backed securities	50,159	49,909
TOTAL	\$ 145,199	\$ 147,387



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 securities for the years ended December 31, 2017, 2016, and 2015, were as follows (in thousands):

	2017	2016	2015
Gross realized gains	\$ 1,267	\$ 765	\$ 909
Gross realized losses	446	96	265

The following tables present gross unrealized losses and fair value of investments 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, 2017 and 2016 (in thousands):

December 31, 2017	Less Than 12 Months		12 Months or More		Total	
	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 Debt Securities	21,630	123	28,344	717	49,974	840
Other equity securities	122	18	52	6	174	24
Total Temporarily Impaired Securities	\$ 21,752	\$ 141	\$ 28,396	\$ 723	\$ 50,148	\$ 864

December 31, 2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 45,321	\$ 982	\$ 904	\$ 45	\$ 46,225	\$ 1,027
Obligations of state and political subdivisions	26,470	1,035	-	-	26,470	1,035
Corporate debt securities	5,278	45	2,284	133	7,562	178
Total Debt Securities	77,069	2,062	3,188	178	80,257	2,240
Other equity securities	510	5	98	9	608	14
Total Temporarily Impaired Securities	\$ 77,579	\$ 2,067	\$ 3,286	\$ 187	\$ 80,865	\$ 2,254

Notes to Consolidated Financial Statements

3. AVAILABLE-FOR-SALE SECURITIES (continued)

Mortgage-Backed Securities

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

At December 31, 2017, thirty mortgage-backed securities had unrealized losses, and twenty 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, 2017, twenty-five state and political subdivision securities had unrealized losses, and nineteen 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 credit 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, 2017, fourteen corporate debt securities had unrealized losses, and four of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

Other Equity Securities

Other equity securities consist of investments in common and preferred stocks of U.S. financial institutions, U.S. corporations, and investments in various equity-based mutual funds. The Corporation's largest holdings of preferred stock contain preferential liquidation rights upon the voluntary or involuntary liquidation or dissolution of the issuer. Management evaluates the financial condition, earnings, dividend payment prospects and other relevant factors related to each issuer for which the stock is in an unrealized loss position, to determine whether the Corporation can realistically expect to recover its cost basis without realizing a loss.

At December 31, 2017, five other equity securities had unrealized losses, and one of the securities had been in a continuous loss position for twelve months or more. These unrealized losses relate principally to low investor perceptions of financial institution securities.

The Corporation recognized no other-than-temporary impairment losses during 2017, 2016, and 2015.



4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Corporation's loan portfolio at December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Commercial real estate	\$ 56,231	\$ 49,873
Commercial real estate - construction	9,775	5,785
Commercial and industrial	19,441	15,906
Acquisition, construction and development	464	2,083
Agricultural	24,159	21,361
Residential mortgage	53,758	48,670
Home equity	41,554	36,153
Consumer - other	18,085	15,173
Obligation of state and political subdivisions	15,259	16,483
	<u>238,726</u>	<u>211,487</u>
Less: Allowance for loan losses	<u>2,518</u>	<u>2,219</u>
Loans, Net	\$ 236,208	\$ 209,268

Transactions in the allowance for loan losses for the years ended December 31, 2017, 2016, and 2015 are summarized as follows (in thousands):

	2017	2016	2015
Balance, beginning of year	\$ 2,219	\$ 2,068	\$ 2,007
Provision for loan losses	500	1,089	110
Loans charged-off	(208)	(956)	(55)
Recoveries	<u>7</u>	<u>18</u>	<u>6</u>
Balance, End of Year	\$ 2,518	\$ 2,219	\$ 2,068

Notes to Consolidated Financial Statements

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2017 and 2016 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2017, 2016, and 2015 (in thousands):

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



December 31, 2016 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	\$ 451	\$ (900)	\$ -	\$ 1,057	\$ 608	\$ -	\$ 608
Commercial real estate - construction	62	-	-	-	62	-	62
Commercial and industrial	125	(5)	-	13	133	-	133
Acquisition, construction and development	510	-	-	(79)	431	431	-
Agricultural	132	-	-	18	150	-	150
Residential mortgage	302	-	-	(26)	276	7	269
Home equity	231	-	-	55	286	-	286
Consumer - other	146	(51)	18	45	158	18	140
Obligation of state and political subdivisions	109	-	-	6	115	-	115
Unallocated	-	-	-	-	-	-	-
Total	\$ 2,068	\$ (956)	\$ 18	\$ 1,089	\$ 2,219	\$ 456	\$ 1,763

December 31, 2016	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	\$ 49,873	\$ -	\$ 49,873
Commercial real estate - construction	5,785	-	5,785
Commercial and industrial	15,875	-	15,875
Acquisition, construction and development	2,083	2,083	-
Agricultural	21,361	-	21,361
Residential mortgage	48,701	57	48,644
Home equity	36,153	5	36,148
Consumer - other	15,173	98	15,075
Obligation of state and political subdivisions	16,483	-	16,483
Total	\$ 211,487	\$ 2,243	\$ 209,244

Notes to Consolidated Financial Statements

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

December 31, 2015	BEGINNING BALANCE	CHARGE-OFFS	RECOVERIES	PROVISION (CREDIT)	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	\$ 378	\$ -	\$ -	\$ 73	\$ 451	\$ -	\$ 451
Commercial real estate - construction	62	-	-	-	62	-	62
Commercial and industrial	100	-	-	25	125	5	120
Acquisition, construction and development	518	-	-	(8)	510	510	-
Agricultural	101	-	-	31	132	-	132
Residential mortgage	295	-	-	7	302	-	302
Home equity	185	-	-	46	231	-	231
Consumer - other	122	(55)	6	73	146	22	124
Obligation of state and political subdivisions	90	-	-	19	109	-	109
Unallocated	156	-	-	(156)	-	-	-
Total	\$ 2,007	\$ (55)	\$ 6	\$ 110	\$ 2,068	\$ 537	\$ 1,531

December 31, 2015	ENDING BALANCE	ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT
Commercial real estate	\$ 37,807	\$ -	\$ 37,807
Commercial real estate - construction	8,012	-	8,012
Commercial and industrial	12,801	5	12,796
Acquisition, construction and development	2,169	2,169	-
Agricultural	16,611	-	16,611
Residential mortgage	41,388	-	41,388
Home equity	27,596	-	27,596
Consumer - other	13,230	83	13,147
Obligation of state and political subdivisions	15,640	-	15,640
Total	\$ 175,254	\$ 2,257	\$ 172,997

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, 2017 and 2016 (in thousands):

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

December 31, 2016	PASS	SPECIAL MENTION	SUBSTANDARD	TOTAL
Commercial real estate	\$ 44,353	\$ 224	\$ 5,296	\$ 49,873
Commercial real estate - construction	5,785	-	-	5,785
Commercial and industrial	12,822	2,575	509	15,906
Acquisition, construction and development	-	-	2,083	2,083
Agricultural	21,361	-	-	21,361
Residential mortgage	48,644	-	26	48,670
Home equity	36,148	-	5	36,153
Consumer - other	15,075	-	98	15,173
Obligation of state and political subdivisions	16,483	-	-	16,483
Total	\$ 200,671	\$ 2,799	\$ 8,017	\$ 211,487



No loans were classified as doubtful or loss as of December 31, 2017 and 2016.

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, 2017, 2016, and 2015 (in thousands):

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	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential mortgage	68	68	-	75	1
Home equity	-	-	-	-	-
Consumer - other	67	67	-	73	1
Obligation of state and political subdivisions	-	-	-	-	-
With An Allowance Recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	464	464	464	464	22
Agricultural	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer - other	16	16	4	17	-
Obligation of state and political subdivisions	-	-	-	-	-
Total:					
Commercial real estate	\$ 650	\$ 650	\$ -	\$ 785	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	464	464	464	464	22
Agricultural	-	-	-	-	-
Residential mortgage	68	68	-	75	1
Home equity	-	-	-	-	-
Consumer - other	83	83	4	90	1
Obligation of state and political subdivisions	-	-	-	-	-

Notes to Consolidated Financial Statements

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

December 31, 2016	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	5	5	-	5	-
Consumer - other	-	-	-	-	-
Obligation of state and political subdivisions	-	-	-	-	-
With An Allowance Recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	2,083	2,083	431	2,127	113
Agricultural	-	-	-	-	-
Residential mortgage	57	57	7	58	1
Home equity	-	-	-	-	-
Consumer - other	98	98	18	111	2
Obligation of state and political subdivisions	-	-	-	-	-
Total:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	2,083	2,083	431	2,127	113
Agricultural	-	-	-	-	-
Residential mortgage	57	57	7	58	1
Home equity	5	5	-	5	-
Consumer - other	98	98	18	111	2
Obligation of state and political subdivisions	-	-	-	-	-



December 31, 2015	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Acquisition, construction and development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer - other	37	37	-	47	1
Obligation of state and political subdivisions	-	-	-	-	-
With An Allowance Recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	-
Commercial and industrial	5	5	5	5	-
Acquisition, construction and development	2,169	2,169	510	2,271	100
Agricultural	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer - other	46	46	22	51	3
Obligation of state and political subdivisions	-	-	-	-	-
Total:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - construction	-	-	-	-	\$ -
Commercial and industrial	5	5	5	5	\$ -
Acquisition, construction and development	2,169	2,169	510	2,271	\$ 100
Agricultural	-	-	-	-	\$ -
Residential mortgage	-	-	-	-	\$ -
Home equity	-	-	-	-	\$ -
Consumer - other	83	83	22	98	\$ 4
Obligation of state and political subdivisions	-	-	-	-	\$ -

A significant portion of the Corporation's loan portfolio consists of single-family loans in Union, Montour, Northumberland, and Snyder counties. The regional economy consists of agriculture, manufacturing and service related industries. The ultimate collectibility of a substantial portion of the Corporation's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed assets held for sale are susceptible to changes in local market conditions.

While management uses available information, including independent appraisals for significant properties, to recognize losses on loans and foreclosed assets, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowances for loan losses and foreclosed assets. Such agencies may require the Corporation to recognize changes to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for loan losses and foreclosed assets may change materially in the near term.

Notes to Consolidated Financial Statements

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Commercial real estate	\$ 650	\$ -
Commercial real estate - construction	-	-
Commercial and industrial	-	-
Acquisition, construction and development	-	-
Agricultural	-	-
Residential mortgage	68	57
Home equity	-	5
Consumer - other	83	98
Obligation of state and political subdivisions	-	-
Total	\$ 801	\$ 160

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, 2017 and 2016 (in thousands):

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	\$ -

DECEMBER 31, 2016	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	\$ 772	\$ -	\$ -	\$ 772	\$ 49,101	\$ 49,873	\$ -
Commercial real estate - construction	-	-	-	-	5,785	5,785	-
Commercial and industrial	-	-	-	-	15,906	15,906	-
Acquisition, construction and development	-	464	-	464	1,619	2,083	-
Agricultural	28	-	-	28	21,333	21,361	-
Residential mortgage	169	75	57	301	48,369	48,670	-
Home equity	415	-	5	420	35,733	36,153	-
Consumer - other	302	52	6	360	14,813	15,173	-
Obligation of state and political subdivisions	-	-	-	-	16,483	16,483	-
Total	\$ 1,686	\$ 591	\$ 68	\$ 2,345	\$ 209,142	\$ 211,487	\$ -

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, 2017, 2016, and 2015, the Corporation determined that no modifications were classified as troubled debt restructurings.

Foreclosed Assets Held For Sale

At December 31, 2017 and 2016 the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession (included in Foreclosed assets held for sale in the consolidated balance sheet) was \$0 and \$195,000, respectively. At December 31, 2017 there were no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure. At December 31, 2016 there was one consumer mortgage loan collateralized by residential real estate property with a balance of \$26,000 that was in the process of foreclosure.



5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2017 and 2016 are summarized as follows (in thousands):

	2017	2016
Land	\$ 1,451	\$ 1,451
Bank premises	5,780	5,599
Furniture and equipment	5,885	5,433
Total	13,116	12,483
Less accumulated depreciation	6,794	6,229
Bank Premises and Equipment, Net	\$ 6,322	\$ 6,254

6. DEPOSITS

The aggregate amount of time deposits issued in amounts of \$100,000 or more was approximately \$44,468,000 and \$36,458,000 at December 31, 2017 and 2016, respectively. The interest paid on such deposits amounted to approximately \$590,000, \$477,000 and \$390,000 for 2017, 2016, and 2015, respectively.

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2017 and 2016 were \$16,061,000 and \$9,982,000, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows (in thousands):

2018	\$ 37,936
2019	34,266
2020	13,951
2021	12,410
2022	5,806
Total	\$ 104,369

7. OTHER BORROWINGS

Other borrowings are summarized as follows (in thousands):

	2017	2016
Federal Home Loan Bank of Pittsburgh ("FHLB"):		
Fixed-rate advances (1)	\$ 17,641	\$ 19,282
Line of credit (2)	15,750	-
Atlantic Community Bankers Bank ("ACBB"):		
Line of credit (3)	-	-
Total	\$ 33,391	\$ 19,282

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 West Milton State Bank stock.

(1) FHLB fixed-rate advances with stated maturities at December 31, 2017 are as follows (in thousands):

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 1.51%, maturing 2018	1,000
Fixed-rate at 5.50%, maturing 2019	6
Fixed-rate at 1.84%, maturing 2019	3,000
Fixed-rate at 1.22%, maturing 2019	1,000
Fixed-rate at 1.46%, maturing 2019	625
Fixed-rate at 1.64%, maturing 2019	1,500
Fixed-rate at 1.30%, maturing 2020	1,000
Fixed-rate at 1.64%, maturing 2020	625
Fixed-rate at 1.90%, maturing 2021	625
Fixed-rate at 2.10%, maturing 2022	625
Total	\$ 17,641

(2) The Corporation has an open-ended \$50,949,150 line-of-credit at a variable interest rate (1.54% at December 31, 2017).

(3) The Corporation has an open-ended \$2,000,000 line-of-credit at a variable interest rate (5.00% at December 31, 2017).

8. INCOME TAXES

The following temporary differences gave rise to the net deferred tax liability at December 31, 2017 and 2016 (in thousands):

	2017	2016
Deferred tax assets:		
Allowance for loan losses	\$ 471	\$ 661
Supplemental employee retirement plan	95	108
Low income housing investments	59	95
Nonaccrual interest income	12	15
Preferred stock amortization	3	5
Total	\$ 640	\$ 884
Deferred tax liabilities:		
Depreciation	311	502
Loan fees and costs	13	7
Loan servicing rights	78	106
Bond accretion	6	86
Unrealized holding gains on AFS securities	522	704
Total	930	1,405
Deferred Tax Liability, Net	\$ (290)	\$ (521)

Notes to Consolidated Financial Statements

8. INCOME TAXES (continued)

The deferred tax liability, net, is included in Other Liabilities in the accompanying consolidated balance sheet at December 31, 2017 and 2016.

The provision for income taxes consists as follows, for the years ended December 31, 2017, 2016, and 2015 (in thousands):

	2017	2016	2015
Currently payable	\$ 1,390	\$ 672	\$ 1,136
Deferred income tax provision	(375)	(83)	39
Provision for Income Taxes	\$ 1,015	\$ 589	\$ 1,175

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

	2017	2016	2015
Provision at the expected statutory rate	\$ 2,064	\$ 1,724	\$ 1,899
Effect of tax-exempt income	(892)	(726)	(693)
Nondeductible interest	34	27	24
Life Insurance proceeds on policies	-	(182)	-
Increase in cash value of life insurance	(74)	(64)	(61)
Low income housing credit	-	-	(2)
Effect of tax rate change	(180)	-	-
Other, net	63	(190)	8
Provision for Income Taxes	\$ 1,015	\$ 589	\$ 1,175

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, 2016, and 2015. Included in the total related provision was \$325,000 associated with items included in Accumulated Other Comprehensive Income in the consolidated balance sheet.

9. COMMON STOCK

On June 16, 2016, the Corporation's board of directors declared a four-for-one stock split, effected in the form of a stock dividend, on shares of the Corporation's common stock. Each shareholder of record on June 30, 2016, received three additional shares for each share of common stock then held. The stock was issued July 15, 2016. The Corporation retained the current par value of \$1.00 per share for all shares of common stock. All references in the financial statements to the number of shares outstanding and per-share amounts of the Corporation's common stock have been restated to reflect the effect of the stock split for all periods presented.

Shareholders' equity reflects the stock split by reclassifying from "Additional paid-in capital" to "Common stock" an amount equal to the par value of the additional shares arising from the split.

The Corporation offers a dividend reinvestment plan to eligible shareholders. During 2017, 2016, and 2015, 11,631, 13,350, and 13,116 shares, respectively, of the Corporation's common stock were acquired in the open market for approximately \$246,000, \$248,000, and \$239,000 respectively, and were reissued under this plan. These amounts are included in "Dividends Declared" in the consolidated statement of changes in shareholders' equity for 2017, 2016, and 2015, respectively.

The board of directors has approved the repurchase of outstanding Corporation common stock during 2018 in an aggregate amount not to exceed \$750,000.

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 2017, 2016 and 2015 was approximately \$176,000, \$159,000 and \$140,000, 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 \$8,470,000 and \$8,252,000 at December 31, 2017 and 2016, 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, 2017 and 2016 was \$454,000 and \$318,000, respectively, and is included in Other Liabilities in the consolidated balance sheet. The related expense was \$135,000, \$93,000, and \$61,000 for the years ended December 31, 2017, 2016, and 2015, 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):

	2017	2016	2015
Balance, beginning of year	\$ 4,023	\$ 4,220	\$ 4,789
New loans	1,480	492	174
Repayments	(675)	(689)	(743)
Balance, End of Year	\$ 4,828	\$ 4,023	\$ 4,220

Deposits and other funds from related parties held by the Corporation at December 31, 2017, 2016, and 2015 were approximately \$1,048,000, \$1,689,000, and \$713,000, 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, 2017, 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 holding companies with less than \$500 million in assets an exemption from regulatory capital requirements. Susquehanna Community Financial, Inc. meets the eligibility criteria and is exempt from all regulatory capital requirements.



The Bank's actual capital amounts and ratios are as follows at December 31, 2017 and 2016 (dollar amounts in thousands):

As of December 31, 2017	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS		MINIMUM REQUIRED FOR CAPITAL ADEQUACY PURPOSES WITH CONSERVATION BUFFER
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	
Total Capital (to Risk-Weighted Assets)	\$41,870	14%	≥\$23,774	≥8%	≥\$29,718	≥10%	9.25%
Tier I Capital (to Risk-Weighted Assets)	\$39,352	13%	≥\$17,831	≥6%	≥\$23,774	≥8%	7.25%
Common Equity Tier I (CET1) Capital (to Risk-Weighted Assets)	\$39,352	13%	≥\$13,373	≥4.5%	≥\$19,316	≥6.5%	5.75%
Tier I Capital (to Average Assets)	\$39,352	10%	≥\$16,202	≥4%	≥\$20,253	≥5%	

As of December 31, 2016							
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	
Total Capital (to Risk-Weighted Assets)	\$39,114	15%	≥\$21,392	≥8%	≥\$26,740	≥10%	8.625%
Tier I Capital (to Risk-Weighted Assets)	\$36,895	14%	≥\$16,044	≥6%	≥\$21,392	≥8%	6.625%
Common Equity Tier I (CET1) Capital (to Risk-Weighted Assets)	\$36,895	14%	≥\$12,033	≥4.5%	≥\$17,381	≥6.5%	5.125%
Tier I Capital (to Average Assets)	\$36,895	9%	≥\$15,567	≥4%	≥\$19,459	≥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, 2017 and 2016 are as follows (in thousands):

	2017	2016
Commitments to extend credit	\$ 58,390	\$ 62,167
Financial standby letters of credit	442	296
Performance standby letters of credit	772	1,063

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, 2017 or 2016.

Standby letters of credit as of December 31, 2017 expire as follows:

Year of Expiration	Amount (in thousands)
2018	\$ 634
2019	58
Total	\$ 1,214

Notes to Consolidated Financial Statements

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

	2017	2016
ASSETS		
Cash	\$ 3	\$ 7
Investment in subsidiaries	44,107	40,979
TOTAL ASSETS	\$ 44,110	\$ 40,986
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	\$ 1,033	\$ 962
Note payable	398	448
Other liabilities	1	-
Shareholders' equity	42,678	39,576
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 44,110	\$ 40,986

CONDENSED INCOME STATEMENT

	2017	2016	2015
INCOME			
Equity in undistributed earnings of subsidiaries	\$ 2,853	\$ 2,199	\$ 1,885
Dividends from subsidiaries	2,260	2,380	2,595
TOTAL INCOME	5,113	4,579	4,480
Operating expenses	(57)	(98)	(68)
NET INCOME	\$ 5,056	\$ 4,481	\$ 4,412

CONDENSED STATEMENT OF CASH FLOWS

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 5,056	\$ 4,481	\$ 4,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(2,853)	(2,199)	(1,885)
Increase (decrease) in other liabilities	1	(1)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,204	2,281	2,527
CASH FLOWS FROM FINANCING ACTIVITIES:			
Acquisition of treasury stock	(133)	(307)	(601)
Repayment of notes payable	(50)	(49)	(31)
Dividends paid	(2,025)	(1,929)	(1,888)
NET CASH USED IN FINANCING ACTIVITIES	(2,208)	(2,285)	(2,520)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4)	(4)	7
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7	11	4
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3	\$ 7	\$ 11



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, 2017 and 2016 are as follows (in thousands):

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 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 Debt Securities	-	147,387	-	147,387
Marketable equity securities	2,798	-	-	2,798
Total Available-For-Sale Securities	\$ 2,798	\$ 147,387	\$ -	\$ 150,185

December 31, 2016	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
AVAILABLE-FOR-SALE SECURITIES:				
Mortgage-backed securities	\$ -	\$ 60,350	\$ -	\$ 60,350
Obligations of state and political subdivisions	-	86,091	-	86,091
Corporate debt securities	-	9,259	-	9,259
Total Debt Securities	-	155,700	-	155,700
Marketable equity securities	2,057	-	-	2,057
Total Available-For-Sale Securities	\$ 2,057	\$ 155,700	\$ -	\$ 157,757

The Corporation made no transfers between levels in 2017 or 2016.

Notes to Consolidated Financial Statements

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

Assets measured at fair value on a nonrecurring basis and the valuation methods used at December 31, 2017 and 2016 are as follows (in thousands):

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

December 31, 2016	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL FAIR VALUE
Impaired loans, net	\$ -	\$ -	\$ 1,782	\$ 1,782
Forclosed assets held for sale	-	-	195	195
Total Non-Recurring Fair Value Measurements	\$ -	\$ -	\$ 1,977	\$ 1,977



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, 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%

December 31, 2016	FAIR VALUE ESTIMATE	VALUATION TECHNIQUES	UNOBSERVABLE INPUT	RANGE
Impaired loans	\$ 1,782	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 35%
			Liquidation Expenses (2)	0% - 35%
Foreclosed assets held for sale	\$ 195	Appraisal of Collateral (1)	Appraisal Adjustments (2)	0% - 35%
			Liquidation Expenses (2)	0% - 35%

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

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

Notes to Consolidated Financial Statements

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

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. 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 following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported in the consolidated balance sheet for cash and due from banks approximate those assets' fair values.

Interest-bearing deposits with banks: The carrying amounts reported in the consolidated balance sheet for interest-bearing demand deposits with banks approximate those assets' fair values.

Certificate of Deposits: The fair values for certificates of deposit, included in interest-bearing deposits with banks, are based on quoted market prices for certificates of similar remaining maturities.

Investment securities: The fair value of investment securities, excluding restricted equity securities, are based on quoted market prices or other methods as described above. The carrying value of restricted equity securities approximates fair value based on applicable redemption provisions.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed-rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates fair value.

Mortgage servicing rights: The fair value of servicing rights, included in Other Assets in the consolidated balance sheet, is determined through a discounted cash flow valuation. Significant inputs include expected net servicing income, the discount rate and the expected prepayment speeds of the underlying loans.

Deposits: The fair value disclosed for demand deposits (for example, interest-bearing and noninterest-bearing checking accounts and passbook accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities of such time deposits.

Other borrowings: The estimated fair value of other borrowings is determined using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest payable: The carrying amount of accrued interest payable approximates fair value.

Off-balance sheet instruments: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. Such amounts are not considered significant and have not been reported.



The estimated fair values of the Corporation's financial instruments are as follows at December 31, 2017 and 2016 (in thousands):

	VALUATION METHOD(S) USED	2017 CARRYING AMOUNT		FAIR VALUE	2016 CARRYING AMOUNT		FAIR VALUE		
FINANCIAL ASSETS:									
Cash and due from banks	Level 1	\$	4,309	\$	4,309	\$	4,512	\$	4,512
Interest-bearing deposits with banks	Level 1		143		143		925		925
Certificate of deposits	Level 2		-		-		250		250
Available-for-sale securities	See Above		150,185		150,185		157,757		157,757
Restricted securities (included in Other Assets)	Level 2		2,583		2,583		1,586		1,586
Loans, net	Level 3		236,208		235,586		209,268		211,017
Accrued interest receivable	Level 2		1,982		1,982		2,011		2,011
Mortgage servicing rights	Level 3		369		316		311		311
FINANCIAL LIABILITIES:									
Deposits	Level 2	\$	334,645	\$	302,833	\$	332,634	\$	332,254
Other borrowings	Level 2		33,391		33,275		19,282		19,254
Accrued interest payable	Level 2		284		284		220		220

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, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, 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.

Auditor's 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Vichow Krause, LLP

Williamsport, Pennsylvania
March 30, 2018



SENIOR MANAGEMENT

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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

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Operations and Technology
Division Manager and Chief
Information Officer

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Lindsay N. Bowersox
Kelly S. Burrows
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Jenna L. Clymer
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Kellie J. Criswell
Tammy C. Dauberman
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Keith B. Downey
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Susan A. Erdley
Peggy L. Fullmer
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Mariah E. Gress

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