looking AHEAD

annual report

2019

First Community Financial Corporation

looking AHEAD

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DEAR SHAREHOLDER:

The past year was a year of milestones and challenges. We made our official entrance into a new market with a renovated branch and a team of fresh faces to help drive our growth. Despite this exciting change, we couldn't ignore fluctuating Federal Reserve rate policy, coupled with changes in consumer banking trends, making 2019 a challenging year for community banks.

Our local market has seen the impact of changing consumer habits on financial institutions. With constantly evolving technologies, the modern customer does much of their transactional banking from their computer, smart phone or tablet. Because of these changing behaviors, we've continued to invest in upgrading our technology, while modifying branch hours to align with evolving consumer demands.

We do know, however, that the bank branch will continue to play a major role in delivering banking access for our customers. As we continue to grow, we were excited to open our first new branch location since 2012. In August, the West Shore Office opened its doors in a high-traffic section of Lemoyne in Cumberland County. With this latest office, we welcomed new team members, which included a market executive, branch manager, commercial lender and front line staff.

Opening a new location and hiring the right people was a significant investment. However, we know the addition of the West Shore Office will put us in an excellent position for growth opportunities in the coming year. Our focus is on the long-term strategy of adding benefit to our customers with technology and high-touch customer service, while focusing on shareholder value.

The addition of products and services to meet consumer and business demand is always at the forefront of our planning. This year, we launched our first digital lending platform for consumers and businesses. MinuteLender allows for customers of Pennian Bank to apply for a loan online, receive a response in minutes and close the loan completely online. No paperwork or visits to the branch is required. This was a significant addition to our product line-up and has been highly successful with our customers.

Simply put, 2019 was a year of expansion and growth. We hope you will share in our excitement as we look ahead to 2020. Our customers and the communities we service remain our focus and driving force of what has kept us a local institution for 156 years.

JOHN P. HENRY III
Chairman

SCOTT E. FRITZ
President & Chief
Executive Officer

PennianBank

continued GROWTH

Pennian Bank had quite a few changes in 2019, but perhaps the most exciting of them all was the introduction of our West Shore Office in Cumberland County. After several months of remodeling, the new office opened its doors on August 19.

Though the bank has had a customer base in that region for a number of years, this was the first physical location in the area. The new office is conveniently located in Lemoyne, beside the Camp Hill Post Office. Directly behind it are professional offices that are home to businesses from law firms to commercial realtors. Across the street is the Radisson Hotel, as well as Harrisburg Academy, a highly sought after private school.

A new location also meant expansion of the Pennian team. We've added a market executive, branch executive officer, commercial lender and will be expanding our business development team. We're excited to see where this year takes us!

B

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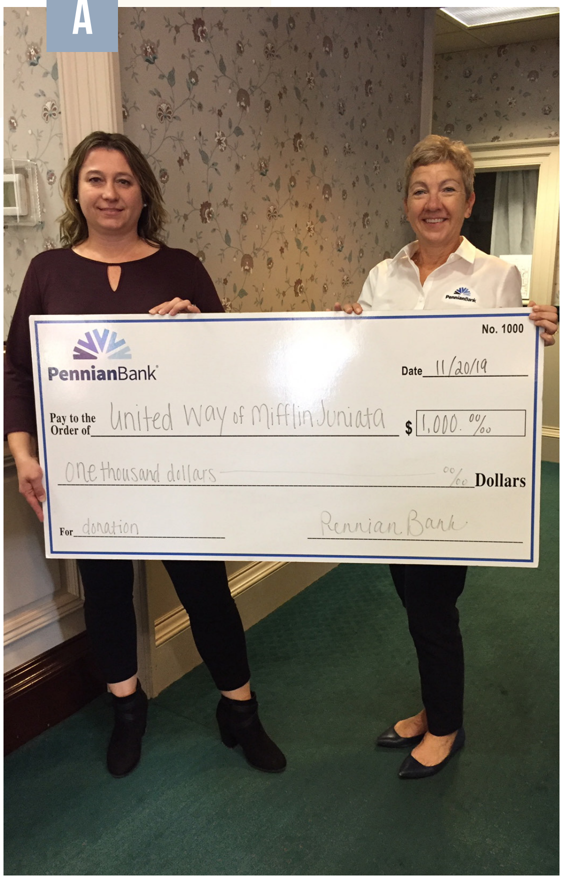

C

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- **A** United Way Corporate Donation
- **B** 2019 Community Golf Tournament Winners
- **C** Join Hands Ministry Donation
- **D** East Pennsboro Education Foundation EITC Donation
- **E** Greenwood Wildcat Foundation EITC Donation

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- **F** Newport EMS Donation
- **G** Heritage Christian School EITC Donation
- **H** United Way's Day of Caring (Capital Region)
- **I** Juniata Mennonite School EITC Donation
- **J** Port Royal Speedway Coin Scramble

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
First Community Financial Corporation
Mifflintown, Pennsylvania

We have audited the accompanying consolidated financial statements of First Community Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from 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 audit opinion.

OPINION

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

EFFECT OF ADOPTING NEW ACCOUNTING STANDARD

As discussed in Note 1 to the financial statements, in 2019 the entity adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to lease accounting.

Our opinion is not modified with respect to this matter.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
February 28, 2020

	December 31, 2019	December 31, 2018
	(In Thousands, Except Share Data)	
ASSETS		
Cash and due from banks	**$ 16,427**	$ 10,945
Interest-bearing demand deposits	**2,201**	182
Federal funds sold	**201**	-
Cash and Cash Equivalents	**18,829**	11,127
Time certificates of deposit	**199**	199
Securities available for sale	**142,163**	131,429
Loans	**354,368**	344,127
Less: Allowance for loan losses	**(3,919)**	(3,786)
Plus: Deferred loan costs, net	**1,428**	1,151
Net loans	**351,877**	341,492
Premises and equipment, net	**6,793**	6,351
Other real estate owned, net of allowance	**1,761**	42
Restricted investment in bank stocks	**1,626**	1,867
Investment in life insurance	**12,127**	12,076
Other assets	**7,039**	7,338
Total Assets	**$ 542,414**	$ 511,921
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	**$ 68,365**	$ 63,715
Interest-bearing	**383,990**	358,908
Total Deposits	**452,355**	422,623
Short-term borrowings	**2,802**	6,670
FHLB advances	**27,000**	27,000
Junior subordinated debt	**5,155**	5,155
Other liabilities	**4,743**	4,007
Total Liabilities	**492,055**	465,455
SHAREHOLDERS' EQUITY		
Preferred stock, without par value; 10,000,000 shares authorized and unissued	**-**	-
Common stock, $5 par value; 10,000,000 shares authorized; Shares issued, 2019 – 2,832,036; 2018 – 2,832,036 Shares outstanding, 2019 – 2,823,567; 2018 – 2,828,105	**14,160**	14,160
Capital in excess of par value	**720**	720
Retained earnings	**34,159**	32,550
Treasury stock, at cost 2019 – 8,469 shares; 2018 – 3,931 shares	**(200)**	(97)
Accumulated other comprehensive income (loss)	**1,520**	(867)
Total Shareholders' Equity	**50,359**	46,466
Total Liabilities and Shareholders' Equity	**$ 542,414**	$ 511,921

See notes to consolidated financial statements

	Years Ended December 31, 2019	2018
	(In Thousands, Except per Share Data)	
INTEREST INCOME		
Loans, including fees	**$ 16,321**	$ 15,793
Securities:		
Taxable	**3,006**	2,438
Tax exempt	**742**	727
Other	**298**	258
Total Interest Income	**20,367**	19,216
INTEREST EXPENSE		
Deposits	**4,845**	3,382
Short-term borrowings	**113**	91
Long-term debt	**802**	816
Total Interest Expense	**5,760**	4,289
Net Interest Income	**14,607**	14,927
PROVISION FOR LOAN LOSSES	**450**	345
Net Interest Income after Provision for Loan Losses	**14,157**	14,582
OTHER INCOME		
Service charges on deposits	**647**	748
Fiduciary activities	**617**	673
Earnings on investment in life insurance	**297**	303
ATM and debit card fees	**822**	752
Investment securities gains from sales	**139**	5
Unrealized gain (loss) on equity securities	**119**	(4)
Realized gains on sales of assets	**19**	-
Other	**564**	492
Total Other Income	**3,224**	2,969
OTHER EXPENSES		
Employee compensation and benefits	**6,963**	6,591
Net occupancy and equipment	**1,692**	1,489
Professional fees	**564**	548
Director and advisory boards compensation	**431**	398
ATM expenses	**371**	419
Supplies and postage	**396**	328
FDIC/OCC expense	**113**	229
Pennsylvania bank shares tax	**314**	442
Advertising	**371**	183
Internet banking	**340**	413
Information systems	**349**	154
Telecommunications expenses	**355**	318
Other operating	**1,105**	1,183
Total Other Expenses	**13,364**	12,695
Income before Income Taxes	**4,017**	4,856
PROVISION FOR INCOME TAXES	**460**	622
Net Income	**$ 3,557**	$ 4,234

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (CONTINUED)

	Years Ended December 31, 2019	2018
	(In Thousands, Except per Share Data)	
Other Comprehensive Income		
Unrealized gains (losses) on investment securities, net of tax	**2,497**	(903)
Reclassification adjustment for realized gains on sales, net of tax	**(110)**	(4)
Total Other Comprehensive Income (Loss)	**2,387**	(907)
Total Comprehensive Income	**5,944**	3,327
Basic Earnings per Share	**$ 1.26**	$ 1.50
Dividends per Share	**$ 0.69**	$ 0.68

	Common Stock	Capital In Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	(In Thousands, Except per Share Data)					
Balance - January 1, 2018	$ 14,160	$ 677	$ 29,828	$ (137)	$ 449	$ 44,977
Comprehensive income:						
Net income			4,234			4,234
Change in net unrealized (losses) on securities available for sale, net of deferred income taxes					(907)	(907)
Total comprehensive income						3,327
Reclassification of unrealized gains on equities			409		(409)	-
Treasury Stock sale (8,588 shares)		43		137		180
Treasury Stock purchase (3,931 shares)				(97)		(97)
Cash dividends, $0.68 per share			(1,921)			(1,921)
Balance, December 31, 2018	$ 14,160	$ 720	$ 32,550	$ (97)	$ (867)	$ 46,466
Comprehensive income:						
Net income			**3,557**			**3,557**
Change in net unrealized gains on securities available for sale, net of deferred income taxes					**2,387**	**2,387**
Total comprehensive income						**5,944**
Treasury Stock purchase (4,538 shares)				**(103)**		**(103)**
Cash dividends, $0.69 per share			**(1,948)**			**(1,948)**
Balance, December 31, 2019	**$ 14,160**	**$ 720**	**$ 34,159**	**$ (200)** `	**$ 1,520**	**$ 50,359**

	Years Ended December 31, 2019	2018
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	**$ 3,557**	$ 4,234
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	**588**	569
Net amortization of debt investment securities	**696**	949
Earnings on investment in life insurance	**(297)**	(303)
Realized gains on securities	**(139)**	(5)
Realized losses on sales of assets	**1**	-
Realized gains on sale of premises and equipment	**(20)**	
Unrealized gains on equity securities	**(119)**	4
Provision for loan losses	**450**	345
Deferred income taxes	**31**	39
Increase in accrued interest receivable and other assets	**(866)**	(20)
Increase in accrued interest payable and other liabilities	**735**	118
Net Cash Provided by Operating Activities	**4,617**	5,930
Cash Flows from Investing Activities		
Securities available for sale:		
Proceeds from maturities, calls and principal repayments	**26,013**	17,352
Proceeds from sales	**4,766**	9,434
Purchases	**(38,928)**	(41,411)
Net decrease (increase) in loans	**(12,658)**	3,731
Purchases of premises and equipment	**(856)**	(342)
Proceeds from sale of assets	**479**	-
Purchase of annuities	**-**	(643)
Proceeds from life insurance death benefit	**216**	-
Net purchase of interest bearing time deposits	**-**	(100)
Net disposition of restricted investment in bank stocks	**240**	606
Net Cash Used in Investing Activities	**(20,728)**	(11,373)
Cash Flows from Financing Activities		
Net increase in deposits	**29,732**	18,824
Net decrease in short-term borrowings	**(3,868)**	(111)
Decrease in FHLB advances	**-**	(14,000)
Sale of treasury stock	**-**	180
Purchases of treasury stock	**(103)**	(97)
Cash dividends paid	**(1,948)**	(1,921)
Net Cash Provided by Financing Activities	**23,813**	2,875
Net Increase (Decrease) in Cash and Cash Equivalents	**7,702**	(2,568)
Cash and Cash Equivalents - Beginning	**11,127**	13,695
Cash and Cash Equivalents - Ending	**$ 18,829**	$ 11,127
Supplementary Cash Flows Information		
Interest paid	**$ 5,731**	$ 4,266
Income taxes paid	**$ 442**	$ 634
Non-cash investing activities		
Transfers from loans to foreclosed real estate	**$ 1,823**	$ 42
Unrealized gain (loss) on debt securities available for sale – net of tax	**$ 2,387**	$ (907)

See notes to consolidated financial statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

First Community Financial Corporation (the Corporation) through its wholly-owned subsidiary, Pennian Bank (the Bank), provides loan, deposit, trust and other related financial services through twelve full service banking offices in Juniata and Perry Counties of Pennsylvania. The Corporation's other subsidiary, First Community Financial Capital Trust I (the Trust), was established during December 2003 for the purpose of issuing $5,000,000 of trust preferred securities. On June 29, 2017, the bank changed from a National-Chartered bank to a Pennsylvania State-chartered bank. The Bank's name was changed from The First National Bank of Mifflintown to Pennian Bank on July 1, 2017. In February 2019 the Bank formed a subsidiary insurance agency and year to date there has been no activity. The Corporation is subject to regulation and supervision by the Federal Reserve Board and the Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and the FDIC.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation, and its wholly-owned subsidiaries, the Bank and the Trust. In consolidation, significant intercompany accounts and transactions between the Bank and the Corporation have been eliminated. The Trust qualifies as a variable interest entity and is accounted for under the provisions of GAAP. The subordinated debt of the Trust is reflected as a liability of the Corporation.

Subsequent Events

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2019, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 28th, 2020 the date these consolidated financial statements were available to be issued.

Basis of Accounting

The Corporation uses the accrual basis of accounting.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet dates, and the reported amounts of income and expenses for the years then ended. Actual results could differ from those estimates. The material estimates that are particularly susceptible to significant change in the near term are the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment of securities, the valuation of foreclosed real estate and deferred tax assets.

While management uses available information to recognize losses on loans, future additions to the allowance 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 Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trust Department Assets

Assets held by the Trust Department in an agency or fiduciary capacity for its customers are excluded from the consolidated financial statements since they do not constitute assets of the Corporation. The market value of assets held by the Trust Department amounted to $87,076,000 and $85,056,000 at December 31, 2019 and 2018, respectively. Income from fiduciary activities is recognized on the accrual method.

Significant Group Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within the Central Pennsylvania region. Note 3 discusses the types of securities in which the Corporation invests. Note 4 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations in any one industry or customer.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and due from banks, interest bearing demand deposits, federal funds sold and investments with an original maturity of 90 days or less. Federal funds are typically purchased and sold for one day periods. At times, the Corporation may have due from bank balances with its correspondent banks that exceed the federally insured limits, which management considers to be normal and acceptable business risk.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities available for sale are those debt securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell an available for sale debt security would be based on various factors. These securities are stated at fair value. Unrealized gains (losses) are reported as changes in other comprehensive income, a component of shareholders' equity, net of the related deferred tax effect. Premiums and discounts are recognized as interest income over the estimated lives of the securities, using the interest method. Securities held to maturity are those debt securities that the Corporation has the intent and ability to hold to maturity. These debt securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which is recognized as interest income over their estimated lives, using the interest method. Equity securities unrealized gains and losses are recognized in the income statement. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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, and (3) for equity securities, 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. Other than temporary impairment (OTTI) loss is recognized in earnings through the income statement in the period in which OTTI loss is incurred, except for the non-credit component of OTTI losses on debt securities, which are recognized in other comprehensive income.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Time Certificates of Deposit

Time certificates of deposit are carried at cost, which approximates fair value.

Loans

The Bank grants commercial, residential and consumer loans to customers primarily within Juniata and Perry Counties of Pennsylvania and the surrounding area. A large portion of the loan portfolio is secured by real estate. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

Loans 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 related 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 accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 to 120 days past due, or management has significant 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 non-accrual status, unpaid interest credited to income is reversed. Interest received on non-accrual 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 and the ultimate collectability of the total contractual principal and interest is no longer in doubt. When management determines that the Bank will not be able to collect the entire outstanding principal from either primary or secondary repayment sources, management recommends for charge-off the amount of principal that exceeds the liquidation value (orderly or forced) of the collateral or the entire principal balance if unsecured.

Loan Risk Assessment:

The Bank has a diverse loan portfolio with varying degrees of risk within each segment of the portfolios as discussed below.

Commercial –

a. Commercial and industrial loans include loans to businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit, demand, or term loans. Some commercial and industrial loans may be unsecured to higher-rated customers, but the majority of these loans are secured by the borrower's accounts receivable, inventory and machinery and equipment and in many loans, the collateral also includes the business real estate or the business owner's personal real estate or assets. Commercial and industrial loans have credit exposure since they are more susceptible to risk of loss during a downturn in the economy as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Risk Assessment (Continued)

b. Obligations of state and political subdivisions in the U.S. These loans are generally pledged by the full faith, credit and taxing power of the governmental entity.

c. Commercial construction and land development loans are also included in this segment. The risk of loss on these loans is contingent on the assessment of the property's value at the completion of the project, which should exceed the property's construction costs. A number of factors can negatively affect the project during the construction phase such as cost overruns, delays in completing the project, competition, and real estate market conditions which may change based on the supply of similar properties in the area. If the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, repayment of the loan would potentially need to rely on other repayment sources, including the guarantors of the project or other collateral securing the loan.

Commercial Real Estate –

a. Owner-occupied commercial real estate loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of these loans. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy, which could increase the risk of loss.

b. Non-owner occupied and multi-family commercial real estate loans are dependent on the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which may affect the ability of the borrower to meet debt service requirements, and may result in lower collateral values, which represents a higher inherent risk than owner-occupied commercial loans.

Agricultural –

Farm and agricultural loans consist of commercial loans to local, family-owned farms for operation of farm activities including raising and selling cattle or milk produced, raising and selling poultry, and raising and selling crops. The risks to repayment of farm loans include unfavorable weather conditions that can affect the production of crops for sale or feed, milk production and mortality rates of cattle and poultry that can be affected if cattle or poultry become ill, and milk prices paid which can vary depending on market prices and government subsidies. Collateral for these types of loans typically consists of farm real estate, but can also include equipment, livestock and crops.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOAN RISK ASSESSMENT (CONTINUED)

Residential –

a. 1-4 family owner-occupied real estate loans include fixed and adjustable-rate first and junior-lien mortgage loans with the underlying 1-4 family owner-occupied residential property securing the loan. Risk exposure is mitigated somewhat through the evaluation of the credit worthiness of the borrower, including credit scores and debt-to-income ratios, and limits on the loan-to-value ratios.

b. Home equity term loans and lines of credit represent a slightly higher risk than 1-4 family first liens, as these loans can be first or second liens on 1-4 family owner occupied residential property, but there are loan-to-value limits on the value of the real estate taken as collateral. The credit worthiness of the borrower is considered including credit scores and debt-to-income ratios.

c. Non-owner occupied 1-4 family residential loans are dependent on the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which may affect the ability of the borrower to meet debt service requirements, and may result in lower collateral values, which represents a higher inherent risk than owner-occupied 1-4 family residential loans.

Consumer –

Installment and other consumer loan credit risk is mitigated through evaluation of the credit worthiness of the borrower through credit scores and debt-to-income ratios and, if secured, the collateral value of the assets. However, these loans can be unsecured or secured by assets that may depreciate quickly or may fluctuate and represent a greater risk than 1-4 family residential loans.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of 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 change, including the amounts and timing of future cash flows expected to be received on impaired loans.

Loans are risk rated by a universal bank grading system (1-9) endorsed by federal agencies. Level 1 is a loan with minimal risk; 2 – moderate risk; 3 – average risk; 4 – acceptable risk; 5 – marginally

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

acceptable risk (grades 1 - 5 are considered pass loans); 6 – Other Assets Especially Mentioned (OAEM) (potential weaknesses identified); 7 – Substandard (well defined weaknesses); 8 – Doubtful (unlikely to be paid in full); 9 – Loss (will not be paid in full).

A loan review of a sample of the loan portfolio by an independent third-party is conducted semi-annually. All criticized and classified loans graded 6 and higher are reviewed by management quarterly.

The allowance consists of specific and general components. There have been no significant changes in management's methodology for evaluating the allowance for loan losses from prior periods. The

specific component relates to loans that are classified as impaired. For such loans, 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 for that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Individual portfolio segments are evaluated on a quarterly basis that values internal and external qualitative factors including: trends in loan volume and mix, past due loans, watch and criticized loans, economic factors; and changes in lending personnel, underwriting processes, underlying collateral and loan policies. Historical losses are evaluated on a rolling 16 quarter basis.

Commercial loans classified OAEM and below are reviewed for possible impairment. A commercial 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 and 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, financial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

A Troubled Debt Restructuring (TDR) identification process has been established to determine whether a debtor is experiencing financial difficulty and, if so, whether the Bank has granted a

concession to the borrower by modifying or renewing their loan. Then, mitigating factors are evaluated to determine a final conclusion as to whether the loan should be considered a troubled debt restructuring.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual installment and residential loans for impairment consideration unless such loans are the subject of a restructuring agreement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investment in Bank Stocks

Restricted investment in bank stocks represents required investments in the common stock of correspondent banks, including Atlantic Community Bankers Bank in the amount of $20,000, and the Federal Home Loan Bank (FHLB) of Pittsburgh in the amount of $1,605,600 for the year ended December 31, 2019. At December 31, 2018, the required investment in Atlantic Community Bankers Bank was $20,000 and the Federal Home Loan Bank (FHLB) of Pittsburgh was $1,846,800. No readily available market exists for these stocks. These restricted investments are carried at cost, which is considered to be fair value.

Management evaluates the restricted stock for impairment in accordance with FASB ASC Topic 942, *Financial Services – Depository and Lending*. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the entity as compared to the capital stock amount and the length of time this situation has persisted, (2) commitments by the entity to make payments required by law or regulation and the level of such payments in relation to the operating performance of the entity, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the entity.

Management believes no impairment charge is necessary related to its restricted stock as of December 31, 2019.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the lease terms. Maintenance and repairs are expensed when incurred and expenditures for significant improvements are capitalized.

Foreclosed Real Estate

Foreclosed real estate includes assets acquired through foreclosure and loans identified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when the Corporation has taken possession of the collateral regardless of whether formal foreclosure proceedings have been commenced. Foreclosed real estate is initially valued at its estimated fair market value, net of anticipated selling costs, at the time of foreclosure, establishing the property's new basis. Subsequent to foreclosure, valuations are periodically performed by management and the foreclosed assets are carried at the lower of carrying amount or fair value less cost to sell. Gains and losses on the sale of foreclosed real estate and writedowns from periodic revaluations on foreclosed real estate are included in other income, while incurred expenses on foreclosed real estate are included in other expenses. Foreclosed real estate amounted to $1,761,000 at December 31, 2019 and $42,000 at December 31, 2018.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs

The Corporation charges the costs of advertising to expense as incurred. Advertising expense was $371,000 and $183,000 for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the date of enactment.

Earnings per Share and Stock Split

Basic earnings per share represents net income divided by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding was 2,823,741 for the year ended 2019 and 2,823,766 for the year ended 2018.

Segment Reporting

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and other operations of the Corporation. As such, discrete financial information is not available and segment reporting would not be meaningful.

Comprehensive Income

Accounting principles generally accepted in the United States of America generally require that recognized revenue, expenses, gains and losses be included in net income. Changes in certain assets and liabilities, such as unrealized gains (losses) on debt securities available for sale, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. Changes in equity securities are recorded in the income statement

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The components of other comprehensive income and the related tax effects are as follows:

	Years Ended December 31, 2019	2018
	(In Thousands)	
Unrealized holding gains (losses) on available for sale securities	**$ 3,163**	$ (1,143)
Reclassification adjustment for gains realized in net income	**(139)**	(5)
Net Unrealized Gains (Losses)	**3,022**	(1,148)
Tax effect	**(635)**	241
Net of Tax Amount	**$ 2,387**	$ (907)

Reclassifications out of accumulated other comprehensive income

Years ended December 31,

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income		Affected line item in the statement where net income is presented
	2019	2018	
Realized gains and losses on available-for-sale securities	**$ 139**	$ 5	Investment securities gains from sales
Tax effect	**29**	1	Provision for income taxes
	$ 110	$ 4	Net of Tax

Loans Serviced

Currently, the Bank originates some single-family residential loans for immediate sale in the secondary market and Quicken Loan services the loans. At December 31, 2019 and 2018, the balance of loans serviced for others was $38,231,000 and $44,159,000 respectively. The estimated fair value of mortgage servicing rights (MSRs) related to loans sold and serviced by the Corporation is recorded as an asset upon sale of such loans. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are evaluated periodically for impairment, by comparing the carrying amount to the estimated fair value. Mortgage servicing income was $56,000 and $5,000 for 2019 and 2018, respectively, which is reflected in other income

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Serviced (Continued)

on the consolidated statement of income and comprehensive income. Fair value of MSRs was $58,000 and $112,000 at December 31, 2019 and 2018 respectively.

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 standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Fair Value Measurements

Fair values of financial instruments are estimated using relevant information and assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions would significantly affect the estimates.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current year presentation.

Changes in Accounting Principles

Lease Accounting

In February 2016, the Financial Accounting Standards Board (FASB) released Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. The Update is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of the Update is that a lessee recognizes the assets and liabilities that arise from leases, which is a change from previous GAAP that did not require lease assets and lease liabilities to be recognized on the balance sheet for operating leases.

The Corporation implemented ASU 2016-02 and all subsequent ASUs that modified Topic 842 on January 1, 2019 using the modified retrospective approach. As allowed by ASU 2018-11, the guidance was applied on a prospective basis using the alternative transition method, which eliminates the requirement to restate periods prior to the date of implementation. As such, financial information related to December 31, 2018 and the year then ended have not been updated and the disclosures required under the new standard have not been provided for dates and periods prior to January 1, 2019. Additionally, implementation of this Update did not result in a cumulative-effect adjustment to retained earnings.

The standard provides for several practical expedients in transition, which have been described at Note 8. The Corporation elected to apply the practical expedients, which, among other things, allowed it to carryforward the prior conclusions on lease identification, lease classification, initial direct costs and determination of the lease term.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

In January 2016, the FASB, the FASB issued ASU 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities"*. This standard update amended the guidance on the classification and measurement of financial instruments. Certain amendments within this update include 1) requiring equity investments to be measured at fair value with changes in fair value recognized in net income, 2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, 3) requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

On January 1, 2018, the Corporation adopted the provisions of ASU 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities"*. Beginning January 1, 2018, equity securities with readily determinable fair values are stated at fair value on the balance sheet, with realized and unrealized gains and losses reported in other income on the income statement. For periods prior to January 1, 2018, equity securities were classified as available-for-sale with unrealized gains and losses reported as a separate component of accumulated other comprehensive loss, net of tax. Equity securities without readily determinable fair values are recorded at cost less any impairment. Upon adoption of the provision, the Corporation reclassified the fair value of equity securities by increasing retained earnings by $ 409,000 and decreasing accumulated other comprehensive income by the same amount.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Codification ("ASC") Update 2014-09, "Revenue from Contracts with Customers." This standard update established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes 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. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. The Corporation adopted this standard, and all subsequent ASU's that modified the standard, on January 1, 2018 under the modified retrospective approach with no material impact on its consolidated financial statements.

The Corporation implemented ASU 2014-09 during the year ended December 31, 2018. The sources of revenue for the Corporation are interest income from loans and investments and non-interest income. Non-interest income is generally earned from various banking and financial services that the Corporation offers, from changes in the value of investments, and from the sale of assets. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. Most revenues of the Corporation are accounted for under guidance implemented prior to 2018 and are outside of the scope of ASU 2014-09, including interest income on loans and investments. All revenues determined to be in the scope of ASU 2014-09 are presented within noninterest income within the Income Statement and are recognized as performance obligations to the customer are met.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Following is further detail of the various types of revenue the Corporation earns and when it is recognized.

Interest income: Interest income is generated from various sources, including loans outstanding and investments, and is recognized on an accrual basis according to loan agreements, securities contracts or other such written contracts. These revenues are outside the scope of ASU 2014-09.

Service charges on deposit accounts: Service charges are generated from customer deposit accounts for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. The Corporation also earns fees from its customers for other transaction-based services. Such services include safe deposit, box, ATM, stop payment, wire transfer fees, foreign currency order fees and merchant service fees. In each case, these service charges and fees are recognized in income at the time or within the same period that the Corporation's performance obligation is satisfied.

Fiduciary activities: Revenue is primarily comprised of fees earned from the management and administration of trusts, estates and other customer assets and by providing investment brokerage services. Fees that are transaction-based (e.g., execution of trades) are recognized at the time of the transaction. Other fees, such as general management of assets, are earned over time as the contracted monthly or quarterly services, such as account availability, reporting and general administration, are provided. These fees are assessed based on either account activity or the market value of assets under management at month end.

Earnings on investment in life insurance: Revenues are generated from life insurance policies by increases in cash surrender values as premiums are paid, and by the redemption and payout of the policies. These revenues are recognized at the time of carriers reporting cash surrender values to the Corporation and at the time proceeds are received. These revenues are outside the scope of ASU 2014-09.

ATM and debit card fees: ATM fees are generated from non-customer ATM transactions initiated with the Corporation's ATM's. These fees are transaction-based and are recognized at the time the Corporation processes the transaction. Other debit card fees are primarily comprised of interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions are substantially driven by the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Investment securities gains from sales and unrealized gains on equities: Gains presented in other income represent amounts realized on the sale of all types of investment securities. Unrealized gains on equity securities are also included in this grouping representing changes in market value of equity investment securities that are available for

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

sale. These gains are recognized upon being realized or at the time the investments are marked to market (generally daily), as applicable. These revenues are outside the scope of ASU 2014-09.

Realized gains on sales of assets: Realized gains on the sale of assets represent proceeds in excess of carrying value for property and equipment used in the operations of the Corporation, repossessed assets, or real estate acquired through foreclosure. These gains are recognized at a point in time once control of the assets have transferred to the buyers and collectability of the transaction price is reasonably assured.

Other income: Other income is comprised primarily of secondary market loan fees, other fees and commissions, and mutual fund commissions, all of which are transaction-based fees that are recognized in income at the time or within the same period that the Corporation's performance obligation is satisfied. Also included within other income is a minimal amount of income from an insignificant investment in a limited liability company. The income recognized from this investment is recognized when earned and is outside the scope of ASU 2014-09.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

In return for services obtained through correspondent banks, the Corporation is required to maintain non-interest bearing cash balances in those correspondent banks. At December 31, 2019 and 2018, compensating balances approximated $1,179,000 and $1,456,000, respectively.

NOTE 3 - SECURITIES

Amortized cost and fair value at December 31, 2019 and December 31, 2018 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
SECURITIES AVAILABLE FOR SALE:				
December 31, 2019:				
U.S. agency securities	**$ 58,332**	**$ 784**	**$ (372)**	**$ 58,744**
Mortgage-backed securities	**53,252**	**752**	**(135)**	**53,869**
Corporate securities	**500**	**-**	**-**	**500**
State and municipal securities	**26,886**	**937**	**(41)**	**27,782**
Equity securities	**635**	**633**	**-**	**1,268**
	$ 139,605	**$ 3,106**	**$ (548)**	**$ 142,163**
December 31, 2018:				
U.S. agency securities	$ 59,019	$ 114	$ (819)	$ 58,314
Mortgage-backed securities	48,906	151	(868)	48,189
Corporate securities	499	5	-	504
State and municipal securities	22,954	373	(54)	23,273
Equity securities	635	514	-	1,149
	$ 132,013	$ 1,157	$ (1,741)	$ 131,429

The following table shows the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and December 31, 2018:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019			(In Thousands)			
SECURITIES AVAILABLE FOR SALE:						
U.S. agency securities	**$ 5,019**	**$ 48**	**$ 20,317**	**$ 324**	**$ 25,336**	**$ 372**
Mortgage-backed securities	**14,896**	**62**	**6,314**	**73**	**21,210**	**135**
State and municipal securities	**3,304**	**41**	**-**	**-**	**3,304**	**41**
	$ 23,219	**$ 151**	**$ 26,631**	**$ 397**	**$ 49,850**	**$ 548**

NOTE 3 - SECURITIES (CONTINUED)

December 31, 2018	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(In Thousands)			
SECURITIES AVAILABLE FOR SALE:						
U.S. agency securities	$ 18,245	$ 220	$ 25,675	$ 599	$ 43,920	$ 819
Mortgage-backed securities	3,927	19	30,008	849	33,935	868
State and municipal securities	2,234	16	2,940	38	5,174	54
	$ 24,406	$ 255	$ 58,623	$ 1,486	$ 83,029	$ 1,741

At December 31, 2019, thirty mortgage-backed securities have unrealized losses. The aggregate depreciation from the Corporation’s amortized cost basis on these securities is 0.3%. At December 31, 2018, forty-four mortgage-backed securities had unrealized losses. The aggregate depreciation from the Corporation’s amortized cost basis on these securities was 1.8%. In management’s opinion, these unrealized losses relate to changes in interest rates. The Corporation’s mortgage backed security portfolio consists of only government sponsored agencies, and contains no private label securities.

At December 31, 2019, eight state and municipal securities have unrealized losses with aggregate depreciation of 0.2% from the Corporation’s amortized cost basis. At December 31, 2018, thirteen state and municipal securities had unrealized losses with aggregate depreciation of 0.2% from the Corporation’s amortized cost basis. In management’s opinion, these unrealized losses relate primarily to changes in interest rates. In analyzing the issuer’s financial condition, management considers the issuer’s bond rating as well as the financial performance of the respective municipality.

At December 31, 2019, twenty-seven U.S. agency securities have unrealized losses with aggregate depreciation of 0.6% from the Corporation’s amortized cost basis. At December 31, 2018, forty U.S. agency securities had unrealized losses with aggregate depreciation of 1.4% from the Corporation’s amortized cost basis. In management’s opinion, these unrealized losses relate primarily to changes in interest rates.

In management’s opinion none of the debt securities have declines in value that are deemed to be other than temporary.

NOTE 3 - SECURITIES (CONTINUED)

Gross realized gains and losses for the years ending December 31, 2019 and December 31, 2018 were as follows (in thousands):

	Gross Realized Gains	Gross Realized Losses	Net Gains (Losses)
December 31, 2019:			
State and municipal securities	**$ 3**	**$ -**	**$ 3**
Mortgage-backed securities	**-**	**(3)**	**(3)**
U.S. agency securities	**139**	**-**	**139**
	$ 142	**$ (3)**	**$ 139**
December 31, 2018:			
State and municipal securities	$ 119	$ (5)	$ 114
Mortgage-backed securities	1	(110)	(109)
U.S. agency securities	-	-	-
	$ 120	$ (115)	$ 5

Amortized cost and fair value at December 31, 2019 by contractual maturity are shown below. Municipal securities with prerefunded issues are included in the category in which payment is expected to occur. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale	
	Amortized Cost	**Fair Value**
1 year or less	**$ 5,971**	**$ 5,935**
Over 1 year through 5 years	**33,575**	**33,932**
Over 5 years through 10 years	**38,720**	**39,451**
Over 10 years	**7,452**	**7,708**
Mortgage-backed securities	**53,252**	**53,869**
Equity securities	**635**	**1,268**
	$ 139,605	**$ 142,163**

Note 3 - Securities (Continued)

At December 31, 2019 and 2018, securities with a carrying value of $72,803,911 and $78,846,000, respectively, were pledged as collateral as required by law on public deposits and for other purposes.

Note 4 - Loans

Allowance for loan losses at December 31, 2019 and December 31, 2018 and loans receivable at December 31, 2019 and December 31, 2018 are as follows:

Allowance for Loan Losses:

	Commercial	Commercial Real Estate	Agricultural	Consumer	Residential Real Estate	Un - allocated	Total
			(in Thousands)				
December 31, 2018 Total Allowance for loan losses	**$ 634**	**$ 572**	**$ 1,209**	**$ 14**	**$ 1,287**	**$ 70**	**$ 3,786**
Provision	**168**	**101**	**171**	**5**	**(11)**	**16**	**450**
Charge-offs	**(138)**	**-**	**(125)**	**-**	**(70)**	**-**	**(333)**
Recoveries	**15**	**-**	**1**	**-**	**-**	**-**	**16**
December 31, 2019 Total Allowance for loan losses	**$ 679**	**$ 673**	**$ 1,256**	**$ 19**	**$ 1,206**	**$ 86**	**$ 3,919**
Ending balance for loans individually evaluated for impairment	**$ -**	**$ -**	**$ 1**	**$ -**	**$ -**	**$ -**	**$ 1**
Ending balance for loans collectively evaluated for impairment	**$ 679**	**$ 673**	**$ 1,255**	**$ 19**	**$ 1,206**	**$ 86**	**$ 3,918**

NOTE 4 - LOANS (CONTINUED)

Allowance for Loan Losses:

	Commercial	Commercial Real Estate	Agricultural	Consumer	Residential Real Estate	Un - allocated	Total
			(in Thousands)				
December 31, 2017 Total Allowance for loan losses	$ 723	$ 617	$ 847	$ 27	$ 1,233	$ 261	$ 3,708
Provision	(45)	77	443	(9)	70	(191)	345
Charge-offs	(44)	(126)	(84)	(5)	(16)	-	(275)
Recoveries	-	4	3	1	-	-	8
December 31, 2018 Total Allowance for loan losses	$ 634	$ 572	$ 1,209	$ 14	$ 1,287	$ 70	$ 3,786
Ending balance for loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance for loans collectively evaluated for impairment	$ 634	$ 572	$ 1,209	$ 14	$ 1,287	$ 70	$ 3,786

NOTE 4 - LOANS (CONTINUED)

Loans Receivable:

December 31, 2019	**Commercial**	**Commercial Real Estate**	**Agricultural**	**Consumer**	**Residential**	**Total**
			(in Thousands)			
Individually evaluated for impairment	**$ 6**	**$ -**	**$ 1,435**	**$ -**	**$ 358**	**$ 1,799**
Collectively evaluated for impairment	**81,056**	**73,441**	**63,572**	**1,560**	**132,940**	**352,569**
Total loans	**$ 81,062**	**$ 73,441**	**$ 65,007**	**$ 1,560**	**$ 133,298**	**$ 354,368**

December 31, 2018	Commercial	Commercial Real Estate	Agricultural	Consumer	Residential	Total
			(in Thousands)			
Individually evaluated for impairment	$ 16	$ -	$ 2,061	$ -	$ 261	$ 2,338
Collectively evaluated for impairment	83,208	57,379	$ 62,222	1,475	137,505	341,789
Total loans	$ 83,224	$ 57,379	$ 64,283	$ 1,475	$ 137,766	$ 344,127

Analysis of credit quality indicators is as follows:

December 31, 2019	**Commercial**	**Commercial Real Estate**	**Agricultural**	**Consumer**	**Residential**	**Total**
			(in Thousands)			
Pass	**$ 80,781**	**$ 71,153**	**$ 54,535**	**$ 1,524**	**$ 130,596**	**$ 338,589**
Special Mention	**19**	**8**	**2,087**	**-**	**334**	**2,448**
Substandard	**262**	**2,280**	**8,385**	**36**	**2,368**	**13,331**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**
Loss	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 81,062**	**$ 73,441**	**$ 65,007**	**$ 1,560**	**$ 133,298**	**$ 354,368**

Note 4 - Loans (Continued)

December 31, 2018	Commercial	Commercial Real Estate	Agricultural	Consumer	Residential	Total
			(in Thousands)			
Pass	$ 82,132	$ 54,647	$ 52,041	$ 1,427	$ 133,609	$ 323,856
Special Mention	125	11	4,135	-	718	4,989
Substandard	967	2,721	8,107	48	3,439	15,282
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total loans	$ 83,224	$ 57,379	$ 64,283	$ 1,475	$ 137,766	$ 344,127

The following is a summary of impaired loans:

December 31, 2019	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
			(In Thousands)		
With no specific allowance needed					
Commercial	**$ 6**	**$ 79**	**$ -**	**$ 12**	**$ -**
Agricultural	**1,354**	**1,384**	**-**	**1,479**	**57**
Residential	**358**	**394**	**-**	**233**	**-**
With an allowance recorded					
Commercial	**-**	**-**	**-**	**-**	**-**
Agricultural	**81**	**81**	**1**	**82**	**4**
Residential	**-**	**-**	**-**	**-**	**-**
Total					
Commercial	**6**	**79**	**-**	**12**	**-**
Agricultural	**1,435**	**1,465**	**1**	**1,561**	**61**
Residential	**358**	**394**	**-**	**233**	**-**
Total	**$ 1,799**	**$ 1,938**	**$ 1**	**$ 1,805**	**$ 61**

NOTE 4 - LOANS (CONTINUED)

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no specific allowance needed					
Commercial	$ 16	$ 84	$ -	$ 20	$ -
Agricultural	2,061	2,087	-	2,094	99
Residential	261	424	-	292	-
With an allowance recorded					
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	-	-	-	-	-
Total					
Commercial	16	84	-	20	-
Agricultural	2,061	2,087	-	2,094	99
Residential	261	424	-	292	-
Total	$ 2,338	$ 2,595	$ -	$ 2,406	$ 99

Age analysis of past-due loans is as follows:

December 31, 2019	30 – 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	>90 Days And Still Accruing	Nonaccruals
				(In Thousands)				
Commercial	$ 5	$ -	$ -	$ 5	$ 81,057	$ 81,062	$ -	$ 14
Commercial Real Estate	104	-	-	104	73,337	73,441	-	30
Agricultural	-	-	1,487	1,487	63,520	65,007	1,261	226
Consumer	-	-	-	-	1,560	1,560	-	-
Residential	324	88	297	709	132,589	133,298	-	659
Total	$ 433	$ 88	$ 1,784	$ 2,305	$352,063	$354,368	$ 1,261	$ 929

NOTE 4 - LOANS (CONTINUED)

December 31, 2018

	30 – 59 Days Past Due	60 - 89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	>90 Days And Still Accruing	Nonaccruals
	(In Thousands)							
Commercial	$ 75	$ 14	$ 117	$ 206	$ 83,018	$ 83,224	$ 117	$ 35
Commercial Real Estate	-	39	-	39	57,340	57,379	-	39
Agricultural	-	-	1,562	1,562	62,721	64,283	1,463	333
Consumer	17	-	-	17	1,458	1,475	-	-
Residential	475	72	214	761	137,005	137,766	170	761
Total	$ 567	$ 125	$ 1,893	$ 2,585	$341,542	$344,127	$ 1,750	$ 1,168

The following is a summary of Troubled Debt Restructurings (in thousands):

	Twelve Months Ended December 31, 2019			Twelve Months Ended December 31, 2018		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Commercial Real Estate	-	$ -	$ -	-	$ -	$ -
Residential Real Estate	1	154	154	1	27	27
Consumer	-	-	-	1	3	3
Commercial	-	-	-	-	-	-
Agriculture	-	-	-	1	615	615

Four troubled debt restructurings subsequently defaulted during 2019 and none in 2018.

	Twelve Months Ended December 31, 2019		Twelve Months Ended December 31, 2018	
	Number of contracts	Outstanding Recorded Investment	Number of contracts	Outstanding Recorded Investment
Troubled Debt Restructurings Defaulted				
Commercial Real Estate	-	$ -	-	$ -
Residential Real Estate	-	-	-	-
Consumer	-	-	-	-
Commercial	1	141	-	-
Agriculture	3	1,743	-	-

NOTE 4 - LOANS (CONTINUED)

During 2019 modifications to one residential real estate troubled debt restructuring was a term extension. During 2018 modifications to one residential real estate, one consumer, and one agriculture troubled debt restructurings were term extensions.

No additional funds are committed to be advanced in connection with any loans whose terms have been modified in troubled debt restructurings.

As of December 31, 2019 no consumer mortgage loans were in process of foreclosure.

The Corporation, in the ordinary course of business, has loan, deposit and other routine transactions with its officers, directors and principal shareholders and entities in which they have principal ownership. Changes during 2019 and 2018 in these related party loans were as follows (in thousands):

	2019	2018
	(In Thousands)	
Balance, beginning	**$ 1,737**	$ 1,378
Advances	**1,473**	1,100
Repayments	**(836)**	(741)
Balance, ending	**$ 2,374**	$ 1,737

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	Range of Useful Lives	**2019**	2018
	(in years)	**(In Thousands)**	
Land	-	**$ 920**	$ 995
Buildings and improvements	7 - 39	**9,335**	9,836
Furniture, equipment and software	3 - 20	**8,064**	7,795
Construction in process		**124**	-
Right of use assets		**529**	-
		18,972	18,626
Accumulated depreciation		**(12,179)**	(12,275)
Premises and equipment, net		**$ 6,793**	$ 6,351

NOTE 6 - LEASES

On January 1, 2019, the Corporation adopted ASU No. 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Corporation elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. Financial results and disclosures for reporting periods beginning on or after January 1, 2019 are presented under the Topic 842 requirements,

NOTE 6 - LEASES (CONTINUED)

while prior period amounts and disclosures are not adjusted and continue to be reported in accordance with previous guidance. The Corporation also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of $443,621 at the date of adoption, which is related to the Bank's lease of premises used in operations. Since the calculated right of use asset and lease liability were materially the same, a cumulative effect adjustment to retained earnings as of the implementation date was not recorded.

Lease liabilities represent the Corporation's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted based on 6% rate in effect at the commencement date of the lease. Right-of-use assets represent the

Corporation's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Corporation's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. There are no variable or short-term lease costs for the year ended December 31, 2019.

The Corporation leases its Delaware office (Juniata County), Shermans Dale office, West Shore office, the Trust & Financial Services office in Mifflintown and the land on which its East Waterford office was constructed. The Corporation has an option through June 30, 2024 to purchase the leased land, for a predetermined price of $125,000. The East Waterford land lease is for five years and expires on June 30, 2024 with a five year renewal option. The West Shore office lease is for five years and expires December 31, 2023, and there are two renewal options each for five years. The Trust and Financial Services office lease is for five years and expires February 28, 2024, and there is a renewal option that allows the lease to be renewed at a year-to-year discretion. The Delaware office lease is for five years and expires March 31, 2024, and there is no renewal option. The Corporation also receives rental income for leasing of available space at its West Perry and Loysville offices.

As of December 31, 2019, the weighted average remaining lease term for all operating leases is 4.0 years. The discount rate used of 6% is based on our best estimate of the rate implicit in the leases. The weighted average discount rate associated with operating leases as of December 31, 2019 is 6%.

During the years ended December 31, 2019 and 2018, rent expense associated with leases is as follows:

	2019	2018
	(In Thousands)	
Operating lease cost:		
Fixed rent expense	**$ 167**	$ 89
Sublease income	**(46)**	(48)
Net lease cost	**121**	41
Lease cost included in net occupancy and equipment	**121**	41

NOTE 6 – LEASES (CONTINUED)

Amounts recognized as right-of-use assets related to operating leases are included in premises and equipment, net and related liabilities are included in other liabilities and the consolidated balance sheets. At December 31, 2019, right-of-use assets and lease liabilities to operating leases were as follows:

	2019
	(In Thousands)
Operating lease right-of-use assets	**$ 529**
Operating lease liabilities	529

During the year ended December 31, 2019, the corporation had the following cash and non-cash activities associated with leases:

	2019
	(In Thousands)
Cash paid for amounts related in the measurement of lease liabilities:	
Operating cash flows from operating leases	**$ 167**
Non-cost investing and financing activities:	
Additions to ROU assets obtained from:	
New operating leases	414

The future payments due under operating leases as of December 31, 2019 are as follows:

		2019
		(In Thousands)
Due in	2020	**$ 171**
	2021	153
	2022	153
	2023	153
	2024 and thereafter	13
Total		643
Less effects of discounting		(114)
Lease liabilities recognized		529

NOTE 7 - DEPOSITS

Deposits were comprised of the following as of December 31:

	2019	2018
	(In Thousands)	
Non-interest bearing demand	**$ 68,365**	$ 63,715
Interest bearing demand	**66,622**	67,748
Savings	**149,989**	123,796
Time deposits less than $100,000	**89,603**	87,186
Time deposits greater than $100,000	**77,776**	80,178
Total	**$ 452,355**	$ 422,623

Time deposits greater than $250,000 were $25,295,000 and $17,999,000 at year end 2019 and 2018, respectively.

Scheduled maturities of time deposits at December 31, 2019 were as follows (in thousands):

2020	**$ 99,509**
2021	**35,467**
2022	**11,393**
2023	**13,214**
2024	**7,796**
Total	**$ 167,379**

The aggregate amount of deposit account overdrafts reclassified as loan balances were $44,000 and $176,000 at December 31, 2019 and 2018, respectively.

Total aggregate deposits of employees, officers, directors and related interests were $5,633,000 and $5,898,000 at December 31, 2019 and 2018, respectively.

NOTE 8 - BORROWINGS

Short-term borrowings at December 31 were as follows:

	2019	2018
	(In Thousands)	
Amount outstanding at end of year:		
Securities sold under agreements to repurchase	**$ 2,802**	$ 2,038
Federal funds purchased & overnight FHLB borrowings	**-**	4,632
Total	**$2,802**	$ 6,670

Weighted average interest rate at end of year	**1.17 %**	2.38 %
Maximum amount outstanding at any end of month	**$ 17,933**	$ 11,238
Daily average amount outstanding	**5,268**	5,466
Approximate weighted average interest rate for the year	**2.15 %**	1.66 %

Securities sold under agreements to repurchase generally mature within one day from the transaction date. At December 31, 2019, securities with a fair value of $3,868,000 were pledged as collateral for these agreements. At December 31, 2018, securities with a fair value of $4,139,000 were pledged as collateral for these agreements. As of December 31, 2019 and 2018, the interest rate on securities sold under agreements to repurchase was 1.17% and 1.73%, respectively. The securities underlying the agreements were under the Corporation's control.

FHLB borrowings at December 31 were as follows:

	2019	2018
	(In Thousands)	
Fixed Rate:		
Maturing in 2019 with a weighted average rate of 1.59%	**-**	12,000
Maturing in 2020 with a weighted average rate of 1.72%	**13,000**	13,000
Maturing in 2021 with a weighted average rate of 2.25%	**6,000**	2,000
Maturing in 2022 with a weighted average rate of 2.53%	**4,000**	-
Maturing in 2023 with a weighted average rate of -	**-**	-
Maturing in 2024 with a weighted average rate of 1.69%	**4,000**	-
Total	**$ 27,000**	$ 27,000

The Corporation has a maximum borrowing capacity through the Federal Home Loan Bank of approximately $196,862,000, of which $169,862,000 was available at December 31, 2019. The borrowing capacity is collateralized by security agreements in certain residential real estate backed assets of the Corporation, including loans and investments. At December 31, 2019, the carrying amount of the qualifying loan collateral was $277 million.

NOTE 8 - BORROWINGS (CONTINUED)

The Corporation has a $5,000,000 unsecured fed fund borrowing line at Atlantic Community Bankers Bank. At December 31, 2019 and 2018, $0 and $632,000 was outstanding, respectively.

The Corporation has issued $5,155,000 of floating rate junior subordinated deferrable interest debentures to a non-consolidated subsidiary trust, First Community Financial Capital Trust I (the Trust). The Corporation owns all of the common equity of the Trust. The debentures held by the Trust are the sole assets of the Trust.

The Trust issued $5,000,000 of mandatorily redeemable preferred securities to third-party investors. The Corporation's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust's obligations under the preferred securities. The junior subordinated debt securities pay interest quarterly at 3-month LIBOR plus 3.00% (4.99% and 5.44% at December 31, 2019 and 2018, respectively). Pursuant to the debenture agreement, the Corporation can elect to defer payments of interest for up to 20 consecutive quarterly periods, provided there is no event of default as defined in the indenture. The Corporation has not deferred any quarterly interest payments through December 31, 2019. The preferred securities are redeemable quarterly by the Corporation at 100% of principal plus accrued interest on or after January 7, 2009. The preferred securities must be redeemed upon maturity of the debentures on January 7, 2034. The terms of the junior subordinated deferrable interest debentures match those of the preferred securities.

NOTE 9 - INCOME TAXES

The components of income tax expense for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	(In Thousands)	
Federal:		
Current	**$ 429**	$ 583
Deferred	**31**	39
Total	**$ 460**	$ 622

	Percentage of Income before Income Taxes	
	2019	2018
Federal income tax at statutory rate	**21.0 %**	21.0 %
Other Adjustments	**0.1**	-
Tax-exempt income	**(8.4)**	(7.1)
Earnings on investment in life insurance	**(1.3)**	(1.1)
Total	**11.4 %**	12.8 %

NOTE 9 – INCOME TAXES (CONTINUED)

Components of deferred tax assets and liabilities at December 31 were as follows:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Available for sale debt securities	**$ -**	$ 231
Allowance for loan losses	**798**	743
Nonaccrual loans interest	**28**	34
Retirement liabilities	**566**	542
Deferred loan fees	**130**	125
State net operating loss carryforward	**367**	340
Gross deferred tax asset	**1,889**	2,015
Valuation allowance	**(367)**	(340)
	1,522	1,675
Deferred tax liabilities:		
Accumulated depreciation	**239**	208
Available for sale debt securities	**404**	-
Deferred loan costs	**430**	366
Unrealized gain on equity securities	**133**	108
Mortgage servicing rights	**12**	24
	1,218	706
Net Deferred Tax Assets	**$ 304**	$ 969

The Corporation accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes*). The Corporation follows accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenue. The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

NOTE 9 – INCOME TAXES (CONTINUED)

As of December 31, 2019, the Corporation has state net operating loss carryforwards of $3,670,000 that expire through the year 2038. Management does not believe that these net operating loss carryforwards will be utilized prior to their expiration, as they were incurred by the holding company with little revenue opportunities to offset the losses, and as such, a valuation allowance has been provided for them.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals of litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being sustained upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Corporation recognizes interest and penalties on income taxes as a component of income tax expense.

NOTE 10 - RETIREMENT PLANS

The Corporation maintains a 401(k) plan for the benefit of eligible employees. Employer contributions include matching a portion of employee contributions. Corporation contributions to the Plan were $127,000 and $120,000 for the years ended December 31, 2019 and 2018, respectively.

The Corporation maintains non-qualified compensation plans for selected employees (supplemental retirement) and directors (deferred fees). The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. Expenses include the following amounts for these non-qualified plans:

	2019	2018
	(In Thousands)	
Employee compensation	**$ 128**	$ 123
Director compensation	**118**	103

The balance accrued for these plans included in other liabilities as of December 31, 2019 and 2018 totaled $2,686,000 and $2,583,000.

To fund the benefits under these plans, the Corporation is the owner of single premium life insurance policies on participants in the non-qualified retirement plans. At December 31, 2019 and 2018, the cash value of these policies was $12,127,000 and $12,076,000. The Corporation also uses annuities to fund the benefits of these plans. The value of these annuities was $3,383,000 at December 31, 2019 and $3,410,000 at December 31, 2018, and they are included in other assets.

The Corporation established an Employee Stock Ownership Plan (ESOP) during 2014. Contributions to the ESOP are made by the Corporation, and the ESOP uses funds contributed to purchase Corporation

NOTE 10 - RETIREMENT PLANS (CONTINUED)

stock for the accounts of ESOP participants. All employees who meet the eligibility requirements are participants in the Plan and receive an allocation of cash and stock contributions based on eligible compensation. Stock purchases can be made on the market or from the Corporation. Dividends paid on shares held by the ESOP are included in the calculation of weighted-average shares outstanding for purposes of calculating earnings per share. The Corporation's contributions to the ESOP totaled $156,000 in 2019 and $155,000 in 2018 and are reflected as compensation expense. The ESOP did not purchase shares in 2019. The ESOP held 8,588 shares of the Corporation at December 31, 2018. Total shares owned by the ESOP and allocated to participants at December 31, 2019 are 8,588.

Under Federal income tax regulations, the employer stock that is held by the Plan and its participants and is not readily tradable on an established market, or is subject to trading limitations, includes a put option. The put option is a right to demand that the Corporation buy any shares of its stock distributed to participants for which there is no market. The put price is representative of the current value of the stock. The Corporation can pay for the purchase with interest over a period of five years. The purpose of the put option is to ensure that the participant has the ability to ultimately obtain cash. The Corporation may assign the put option to the Plan.

The estimated fair value of the shares subject to a put or repurchase obligation at December 31, 2019 is approximately $180,000.

NOTE 11 - REGULATORY MATTERS AND SHAREHOLDERS' EQUITY

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as 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 Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of Tier 1 capital to average assets and of Tier 1 and total capital (as defined in the regulations) to risk weighted assets. Management believes, as of December 31, 2019, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2019, the most recent notification from the regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 11 – REGULATORY MATTERS AND SHAREHOLDERS' EQUITY (CONTINUED)

The actual and required capital amounts and ratios were as follows:

	Actual			For Capital Adequacy Purposes			To be Well Capitalized under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
				(Dollars in Thousands)					
BANK:									
As of December 31, 2019:									
Tier 1 leverage ratio (to average assets)	**$52,457**	**9.7**	%	**$≥21,549**	**≥4.0**	%	**$≥26,937**	**≥ 5.0**	%
Common Equity tier 1 capital ratio (to risk-weighted assets)	**52,457**	**16.6**		**≥14,236**	**≥4.5**		**≥20,564**	**≥6.5**	
Tier 1 risk-based capital ratio (to risk-weighted assets)	**52,457**	**16.6**		**≥18,982**	**≥6.0**		**≥25,309**	**≥ 8.0**	
Total risk-based capital ratio (to risk-weighted assets)	**56,414**	**17.9**		**≥25,309**	**≥8.0**		**≥31,636**	**≥10.0**	
As of December 31, 2018:									
Tier 1 leverage ratio (to average assets)	$50,964	9.9	%	$≥20,489	≥4.0	%	$≥25,611	≥ 5.0	%
Common Equity tier 1 capital ratio (to risk-weighted assets)	50,964	17.2		≥13,300	≥4.5		≥19,211	≥6.5	
Tier 1 risk-based capital ratio (to risk-weighted assets)	50,964	17.2		≥17,734	≥6.0		≥23,649	≥ 8.0	
Total risk-based capital ratio (to risk-weighted assets)	54,662	18.5		≥23,649	≥8.0		≥29,556	≥10.0	

Under the provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) so long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. Pennian Bank is well above these requirements and the balance of $43,842,000 in its retained earnings at December 31, 2019 is available for cash dividends to the Corporation. First Community Financial Corporation's balance of retained earnings at December 31, 2019 is $34,159,000 and would be available for dividends, although payment of dividends to such extent would not be prudent or likely.

On August 9, 2016, the Board of Directors of the Corporation authorized and approved the repurchase of shares of outstanding Corporation common stock in an aggregate amount not to exceed $1,000,000 (based on gross consideration paid). Share repurchases will be made from time to time and may be affected through open market purchases, block trades, or in privately negotiated transactions. The Corporation purchased 4,538 shares under this plan in 2019 and purchased 3,931 shares in 2018.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

The Corporation is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit (typically mortgages and commercial loans) and, to a lesser extent, standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in

NOTE 12 – FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK (CONTINUED)

excess of the amount recognized on the balance sheet. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. The Corporation does not anticipate any material losses from these commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties. On loans secured by real estate, the Corporation generally requires loan to value ratios of no greater than 80%.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and similar transactions. The terms of the letters of credit vary and may have renewal features. The credit risk involved in using letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2019 and 2018 for guarantees under standby letters of credit issued is not material.

The Corporation has not been required to perform on any financial guarantees, and has not incurred any losses on its commitments, during the past two years.

A summary of the Corporation's commitments, both fixed and variable rates, at December 31 were as follows:

	2019	2018
	(In Thousands)	
Commitments to extend credit	**$ 93,688**	$ 63,684
Standby letters of credit	**$ 421**	$ 368

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Corporation's consolidated financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

ASC Topic 820, *Fair Value Measurements and Disclosure*, which defines fair value, establishes a framework for measuring fair value under GAAP, expands disclosures about fair value measurements, and applies to other accounting pronouncements that require or permit fair value measurements.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Additional guidance is provided on determining when the volume and level of activity for the asset or liability has significantly decreased.

Fair value measurement and disclosure provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with fair value measurement and disclosure guidance.

ASC Topic 820 clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. This Topic provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

The following information regarding the fair value of the Corporation's financial instruments should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful.

Fair value measurement and disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following describes the valuation techniques used by the Corporation to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the consolidated financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or transferability, and such adjustments are generally based on available unobservable market evidence (Level 3).

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2019 and 2018 are as follows (in thousands):

Description	December 31, 2019	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
U. S. agency securities	**$ 58,744**	**$ -**	**$ 58,744**	**$ -**
Mortgage-backed securities	**53,869**	**-**	**53,869**	**-**
Corporate securities	**500**	**-**	**500**	**-**
State and municipal securities	**27,781**	**-**	**27,781**	**-**
Equity securities	**1,269**	**551**	**-**	**718**
Securities available for sale	**$ 142,163**	**$ 551**	**$ 140,894**	**$ 718**

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description	December 31, 2018	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
U. S. agency securities	$ 58,314	$ -	$ 58,314	$ -
Mortgage-backed securities	48,189	-	48,189	-
Corporate securities	504	-	504	-
State and Municipal securities	23,273	-	23,273	-
Equity securities	1,149	589	-	560
Securities available for sale	$ 131,429	$ 589	$ 130,280	$ 560

The table below presents a reconciliation of activity for available for sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ending December 31, 2019 and December 31, 2018.

	2019	2018
Fair Value, beginning of year	**$ 560**	$ 595
Total gains (losses) included in earnings	**158**	(35)
Total gains (losses) included in other comprehensive income	**-**	-
Transfers in/out	**-**	-
Fair Value, end of year	**$ 718**	$ 560

The following describes the valuation techniques used by the Corporation to measure certain financial assets recorded at fair value on a nonrecurring basis in the consolidated financial statements:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a non-recurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Foreclosed Real Estate: Certain assets such as real estate owned are measured at fair value less the estimated cost to sell.

Assets measured at fair value on a non-recurring basis at December 31, 2019 and 2018 are summarized below:

Description	December 31, 2019	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans	**$ 80**	**$ -**	**$ -**	**$ 80**
Foreclosed Real Estate	**1,761**	**-**	**-**	**1,761**

Description	December 31, 2018	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans	$ -	$ -	$ -	$ -
Foreclosed Real Estate	42	-	-	42

Total impaired loans with an allowance, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount of $81,000 and $0, net of the valuation allowances of $1,000 and $0 as of December 31, 2019 and December 31, 2018, respectively. This resulted in an additional provision for loan losses for the period ending December 31, 2019 of $1,000 and an additional provision $0 for the period ending December 31, 2018.

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2019 and December 31, 2018.

	Quantitative information about Level 3 fair value measurements for December 31, 2019			
	Fair Value	Valuation Techniques	Weighted Average	Unobservable Input
Securities available for sale	$ 718	Last sale price	-	-
Impaired loans	$ 80	Discounted cash flow Discounted appraised value	7.76% 10 – 20%	Constant prepayment rate, selling cost and discount for lack of marketability
Other real estate owned	$ 1,761	Discounted appraised value	10 – 20%	Selling cost and discount for lack of marketability

	Quantitative information about Level 3 fair value measurements for December 31, 2018			
	Fair Value	Valuation Techniques	Weighted Average	Unobservable Input
Securities available for sale	$ 560	Last sale price	-	-
Other real estate owned	$ 42	Discounted appraised value	10 – 20%	Selling cost and discount for lack of marketability

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Corporation's financial instruments were as follows at December 31, 2019 and 2018.

	December 31, 2019				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 18,829	$ 18,829	$ 18,829	$ -	$ -
Time certificates of deposit	199	199	199	-	-
Investment securities:					
Available for sale	142,163	142,163	551	140,894	718
Loans, net	351,877	352,538	-	352,538	-
Accrued interest receivable	1,758	1,758	-	1,758	-
Investment in life insurance	12,127	12,127	-	12,127	-
Investment in annuities	3,383	3,383	-	3,383	-
Foreclosed Real Estate	1,761	1,761	-	-	1,761
Restricted investment in bank stocks	1,626	1,626	-	1,626	-
Mortgage servicing rights	58	58	-	58	-
Total financial assets	$ 533,781	$ 534,442	$ 19,579	$ 512,384	$ 2,479
Financial liabilities:					
Deposits	$ 452,355	$ 452,908	$ -	$452,908	$ -
Short-term borrowings	2,802	2,802	-	2,802	-
FHLB advances	27,000	27,023	-	27,023	-
Junior subordinated debt	5,155	5,155	-	5,155	-
Accrued interest payable	288	288	-	288	-
Total financial liabilities	$ 487,600	$ 488,176	$ -	$ 488,176	$ -
Off-balance sheet financial instruments	$ -	$ -	$ -	$ -	$ -

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	December 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 11,127	$ 11,127	$ 11,127	$ -	$ -
Time certificates of deposit	199	199	199	-	-
Investment securities:					
Available for sale	131,429	131,429	589	130,280	560
Loans, net	341,492	339,906	-	339,906	-
Accrued interest receivable	1,734	1,734	-	1,734	-
Investment in life insurance	12,076	12,076	-	12,076	-
Investment in annuities	3,410	3,410	-	3,410	-
Foreclosed real estate	42	42	-	-	42
Restricted investment in bank stocks	1,867	1,867	-	1,867	-
Mortgage servicing rights	112	112	-	112	-
Total financial assets	$ 503,488	$ 501,902	$ 11,915	$ 489,385	$ 602
Financial liabilities:					
Deposits	$ 422,623	$ 421,247	$ -	$ 421,247	$ -
Short-term borrowings	6,670	6,670	-	6,670	-
FHLB advances	27,000	26,674	-	26,674	-
Junior subordinated debt	5,155	5,155	-	5,155	-
Accrued interest payable	259	259	-	259	-
Total financial liabilities	$ 461,707	$ 460,005	$ -	$ 460,005	$ -
Off-balance sheet financial instruments	$ -	$ -	$ -	$ -	$ -

NOTE 14 - CONTINGENCIES

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the consolidated financial position, consolidated results of operations or liquidity of the Corporation.

NOTE 15 - CONDENSED FINANCIAL INFORMATION FOR PARENT COMPANY ONLY

BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(In Thousands)	
ASSETS		
Cash	**$ 202**	$ 337
Investment in bank subsidiary	**53,977**	50,097
Investment in unconsolidated subsidiary trust	**155**	155
Securities available for sale	**1,269**	1,149
Other assets	**105**	55
Total Assets	**$ 55,708**	$ 51,793
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	**$ 194**	$ 172
Junior subordinated debt	**5,155**	5,155
Shareholders' equity	**50,359**	46,466
Total Liabilities and Shareholders' Equity	**$ 55,708**	$ 51,793

STATEMENTS OF INCOME

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(In Thousands)	
Dividends from bank subsidiary	**$ 2,151**	$ 1,922
Other dividends	**50**	49
Unrealized gain (loss) on equity securities	**119**	(4)
	2,320	1,967
Expenses	**256**	228
	2,064	1,739
Equity in undistributed earnings in bank subsidiary	**1,493**	2,495
Net Income	**$ 3,557**	$ 4,234
Total Comprehensive Income	**$ 5,944**	$ 3,327

NOTE 15 - CONDENSED FINANCIAL INFORMATION FOR PARENT COMPANY ONLY (CONTINUED)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2019	2018
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 3,557**	$ 4,234
Equity in undistributed earnings of bank subsidiary	**(1,493)**	(2,495)
Unrealized gain on securities	**(119)**	-
Decrease (increase) in other assets	**(50)**	(53)
Increase (decrease) in other liabilities	**21**	15
Net Cash Provided by Operating Activities	**1,916**	1,701
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	**(103)**	(97)
Sale of treasury stock	**-**	180
Cash dividends paid	**(1,948)**	(1,921)
Net Cash Used in Financing Activities	**(2,051)**	(1,838)
Net Decrease in Cash	**(135)**	(137)
CASH - BEGINNING	**337**	474
CASH - ENDING	**$ 202**	$ 337

NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents summarized unaudited quarterly financial data of the Corporation which in the opinion of management, reflects adjustments (comprising only normal recurring accruals) necessary for fair presentation:

	Three Months Ended			
	December 31	September 30	June 30	March 31
	(In Thousands, Except per Share Amounts)			
2019:				
Interest income	**$ 5,152**	**$ 5,210**	**$ 5,039**	**$ 4,966**
Interest expense	**1,486**	**1,507**	**1,474**	**1,293**
Net interest income	**3,666**	**3,703**	**3,565**	**3,673**
Provision for loan losses	**0**	**225**	**175**	**50**
Provision for income taxes	**107**	**118**	**82**	**153**
Net income	**867**	**903**	**757**	**1,030**
Net income per share, basic	**0.31**	**0.32**	**0.27**	**0.36**
2018:				
Interest income	$ 4,917	$ 4,772	$ 4,631	$ 4,896
Interest expense	1,207	1,118	1,034	930
Net interest income	3,710	3,654	3,597	3,966
Provision for loan losses	25	100	70	150
Provision for income taxes	93	140	188	201
Net income	811	1,020	1,157	1,246
Net income per share, basic	0.29	0.36	0.41	0.44

Summary of Selected Financial Data
(Amounts in Thousands, Except Per Share Data)

	2019	2018	2017	2016	2015
Income Statement Data					
Net interest income	**$ 14,607**	$ 14,927	$ 14,228	$ 14,116	$ 13,675
Provision for loan losses	**450**	345	-	400	373
Gains on sales of securities	**139**	5	62	186	102
Other income	**3,085**	2,964	2,697	2,434	2,677
Other expenses	**13,364**	12,695	11,855	11,659	11,365
Income before Income Taxes	**4,017**	4,856	5,132	4,677	4,716
Income tax expense	**460**	622	1,537	811	763
Net Income	**$3,557**	$ 4,234	3,595	3,866	$ 3,953
Balance Sheet Data (Period End)					
Total assets	**$ 542,414**	$ 511,921	$ 505,601	$ 477,924	$467,866
Loans, net	**351,877**	341,492	345,610	321,210	319,824
Investments:					
Held to maturity	**-**	-	-	-	-
Available for sale	**142,163**	131,429	118,900	119,302	113,707
Deposits	**452,355**	422,623	403,799	388,118	371,914
Short-term borrowings	**2,802**	6,670	6,781	2,728	7,451
Long-term debt	**32,155**	32,155	46,155	40,155	43,155
Shareholders' equity	**50,359**	46,466	44,977	43,071	41,987
Per Share Data					
Basic earnings	**$1.26**	$1.50	$1.27	$1.37	$1.40
Cash dividends declared	**0.69**	0.68	0.61	0.585	0.58
Book value	**17.83**	16.43	15.93	15.25	14.86
Weighted average common shares outstanding	**2,824**	2,824	2,824	2,825	2,825
Selected Ratios					
Return on average assets	**0.67** %	0.84 %	0.73 %	0.82 %	0.86 %
Return on average shareholders' equity	**7.25** %	9.34 %	8.03 %	8.89 %	9.56 %
Average equity to average assets	**9.25** %	8.95 %	9.12 %	9.19 %	8.99 %
Allowance for loan losses to total loans at end of period	**1.11** %	1.10 %	1.06 %	1.19 %	1.07 %
Dividend payout ratio	**54.77** %	45.37 %	47.92 %	42.73 %	41.43 %

FIRST COMMUNITY FINANCIAL CORPORATION

and

PENNIAN BANK

JOHN P. HENRY, III
Chairman of the Board of Directors of the Company and the Bank;
Vice President of JPH Enterprises, LLC, Port Royal, PA

ROGER SHALLENBERGER
Vice Chairman of the Board of Directors of the Company and the Bank;
President of KSM Enterprises

SCOTT E. FRITZ
President and Chief Executive Officer of the Company and the Bank

DAVID L. SWARTZ
Secretary of the Board of Directors of the Company and the Bank;
Assistant Director for Animal Systems Programs for Penn State Extension

DANIEL L. BENNER
Co-Owner of Benner's Butcher Shoppe LLC, Benner's Swine Barn LLC and Benner's Mobile Court LLC, Thompsontown, PA

DANIEL B. BROWN
President and Owner of Brown Funeral Homes, Inc., Mifflintown and McAlisterville, PA

MATTHEW J. FORD
CFO at Mammoth Restoration, Inc., Pleasant Gap, PA

ROBIN HOLMAN LOY
Attorney-at-Law, New Bloomfield, PA

DAVID M. McMILLEN
Owner of David McMillen Custom Contracting, Inc., Loysville, PA

JAMES M. SHEAFFER
Owner and Dealer Principal, Sheaffer Dodge-Chrysler-Jeep-Ram, Mexico, PA

TIMOTHY P. STAYER
Retired, EVP and Chief Operating Officer of the Company and the Bank

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Chairman

ROGER SHALLENBERGER
Vice Chairman

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President and Chief Executive Officer

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Secretary

RICHARD R. LEITZEL
Treasurer

BOBBI J. LEISTER
Assistant Secretary

JENNIFER S. MAHONEY
Assistant Secretary

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President and Chief Executive Officer

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EVP and Trust and Financial Services Division Manager

WILLIAM R. FEIST IV
EVP and Chief Lending Officer

RICHARD R. LEITZEL
EVP and Chief Financial Officer

MICHAEL A. MOORE
EVP and Chief Risk Officer

NANCI L. AUMILLER
SVP and AML/BSA/OFAC and Security Officer

G. LEWIS DAVEY
SVP and Market Executive

DRAGAN DODIK
SVP and Market Executive

AUDRA L. HUNTER
SVP and Director of Retail Delivery

BERNADETTE KENT
SVP and Operations Manager

WILLIAM B. MARTIN
SVP and Controller

NANETTE W. STAKE
SVP and IT Manager/Information Security Officer

JAMES L. CORDELL
VP and Credit Administration Manager

BILLIE JO DEITER
VP and Branch Executive Officer, Ickesburg and Loysville

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VP and Credit Officer

CANDACE A. HOFFMAN
VP and Director of Human Resources

DORIANN F. HOFFMAN
VP and Senior Financial Analyst

CANDICE NEFF HULL
VP and Relationship Banking Supervisor

HEATHER J. MILTENBERGER
VP and Director of Marketing and Business Services

OFFICERS

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VP and Trust Officer

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GENNA BROWNBACK
AVP and Branch Executive Officer, Bloomfield Borough and West Perry

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AVP and BSA/Security Officer

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AVP and Branch Executive Officer, Delaware

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AVP and Investment Representative

ANTHONY E. MAGGIO
AVP and Commercial Loan Officer

JENNIFER S. MAHONEY
AVP and Assistant Secretary/Executive Assistant

CATHRYN A. MEEHAN
AVP and Risk Management Officer

TYLER C. RITZMAN
AVP and Commercial Loan Officer

J. NEAL SHAWVER
AVP and Credit Analyst

JAMIE S. STEFFEN
AVP and Branch Executive Officer, Newport and Shermans Dale

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Accounting Specialist

BRENDA M. L. COMP
System Application Administrator Officer

NATHAN L. COOK
Branch Executive Officer, West Shore Office

BRENDA C. DUNCAN
Loan Documentation Officer

JENNIFER R. FORNWALT
Human Resources Officer

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PENNIAN BANK

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Data Processing Supervisor

SUSAN L. JENNINGS
Financial Analyst

MEGAN L. KERSTETTER
Loan Documentation Officer

BOBBI J. LEISTER
Assistant Secretary/Corporate Relations and Senior Marketing Officer

TAMMY S. MARSHALL
Credit Analyst

HOLLY N. TUSING
Branch Executive Officer, Fermanagh and Mifflintown

SHAWNA M. WELLER
Portfolio Manager

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FRED E. MORROW
CHARLES C. NYCE
CHARLES C. SMITH
JAMES E. SWENSON

First Community Financial Corporation
and Wholly Owned Subsidiary, Pennian Bank

Pennian Bank is a full-service financial institution serving customers in Cumberland, Juniata and Perry Counties.

JUNIATA COUNTY

MAIN OFFICE
Two North Main Street
Mifflintown, PA 17059
717-436-2144

DELAWARE OFFICE
24021 Rt. 333
Thompsontown, PA 17094
717-535-5158

EAST WATERFORD OFFICE
9775 Rt. 75 South
East Waterford, PA 17021
717-734-2400

FERMANAGH OFFICE
50 Stop Plaza Drive
Mifflintown, PA 17059
717-436-8968

TUSCARORA VALLEY OFFICE
5804 William Penn Highway
Port Royal, PA 17082
717-436-8947

TRUST & INVESTMENT SERVICES
146 Stoney Creek Drive
Mifflintown, PA 17059
717-436-2144

CUMBERLAND COUNTY

WEST SHORE OFFICE
559 North 12th Street
Lemoyne, PA 17043
717-510-7201

PERRY COUNTY

BLOOMFIELD BOROUGH OFFICE
216 South Carlisle Street
New Bloomfield, PA 17068
717-582-3977

ICKESBURG OFFICE
250 Tuscarora Path
Ickesburg, PA 17037
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LOYSVILLE OFFICE
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Loysville, PA 17047
717-789-2400

NEWPORT OFFICE
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Newport, PA 17074
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SHERMANS DALE OFFICE
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Shermans Dale, PA 17090
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WEST PERRY OFFICE
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Elliottsburg, PA 17024
717-789-4500

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TOLL FREE
1-866-950-2144

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The Corporation has only one class of common stock authorized, issued and outstanding. Although shares of the Corporation's common stock are traded from time to time in private transactions, and in the over-the-counter market, there is no established public trading market for the stock. The Corporation's common stock is not listed on any stock exchange or automated quotation system and there are no present plans to so list the stock. There can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Corporation's common stock. Price quotations for the Corporation's common stock do not appear regularly in any generally recognized investment media.

The Corporation pays dividends on the outstanding shares of our common stock as determined by the Board of Directors from time to time. It has been the practice of the Board of Directors to declare cash dividends on a quarterly basis. Future dividends will depend upon our earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has traded in private transactions and in the over-the-counter market during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in other transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's stock has previously traded may not necessarily be indicative of the true market value of the shares.

	Per Share Sales Price		
Quarter	**High**	**Low**	**Dividends per Share**
First, 2019	$29.95	$26.00	$0.14
Second	27.50	26.00	0.14
Third	27.00	25.00	0.14
Fourth	25.50	24.00	0.27
First, 2018	$26.95	$24.90	$0.14
Second	27.35	26.00	0.14
Third	28.35	27.00	0.14
Fourth	29.95	28.00	0.26

The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, par value $5.00 per share, of which 2,823,567 shares were outstanding at December 31, 2019. There were no shares of the Corporation's common stock (i) that are subject to outstanding options, warrants or securities convertible into common stock; (ii) that the Corporation has agreed to register under the Securities Act for sale by security holders; or (iii) that are or have been proposed to be publicly offered by the Corporation. The Corporation had approximately 764 shareholders of record as of December 31, 2019.

Notice of Annual Meeting

The Annual Meeting of Shareholders of the Corporation will be held on Tuesday, April 14, 2020, beginning at 10:30 a.m., at: Cedar Grove Brethren in Christ Church, located near the PA Route 75 and U.S. Route 22/322 interchange in Mifflintown, Pennsylvania. A Notice of the Annual Meeting, Proxy Statement and Proxy are being delivered together with this Annual Report to shareholders entitled to vote at the meeting.

NOTES

Pennian Bank
Two North Main Street
Mifflintown, PA 17059

www.pennianbank.com
1-866-950-2144 Member FDIC