Putting The Pieces Together For Your Financial Success

2020 Annual Report

MISSION STATEMENT

To be the most significant regional community bank

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Dear Shareholders,

2020 was a challenging year in many ways. The pandemic caused a new way to operate for many business sectors including banking. We addressed the challenges by working with our customer base to ensure their safety and long-term viability by offering PPP loans, payment extensions, and our normal credit and deposit products with expanded e-commerce solutions. Notwithstanding the challenging environment, our bank achieved strong financial performance. I would like to thank our employees who contributed greatly to this success as they stepped up in very adverse conditions to ensure we maintained a high standard of service.

In 2020 we had strong balance sheet growth as many of our growth initiatives continued to pay dividends. Our entrance into Blair County has produced strong results and we have built a great team to keep the momentum going. We expect to open another office in the Bellefonte market of Centre County in early 2021. We continue to take a very hard look at our branch footprint and have plans to consolidate and reposition our service points. We also will continue to invest in electronic banking solutions as consumer banking habits continue to evolve.

Financial Highlights

PWOD continued to return strong results during the past year. Highlights from the period ending December 31, 2020 include:

	Twelve Months Ended December 31, 2020	Twelve Months Ended December 31, 2019	% Change
Net Income	$15,206,000	$15,672,000	(2.97)%
Basic EPS	$2.16	$2.23	(3.14)%
Total Deposits	$1,494,443,000	$1,324,005,000	12.87%
Core Deposits	$1,230,798,000	$946,121,000	30.09%
Net Loans	$1,330,524,000	$1,343,650,000	(0.98)%
Total Assets	$1,834,643,000	$1,665,323,000	10.17%

Final Note

On behalf of the leadership team, all bank employees, and the board of directors we thank you for your support and confidence in our company. Our ability to drive shareholder value over the past 10 years has been unparalleled by our peer banks as illustrated in the Growth in Economic Value graph on the next page. Again, thank you.

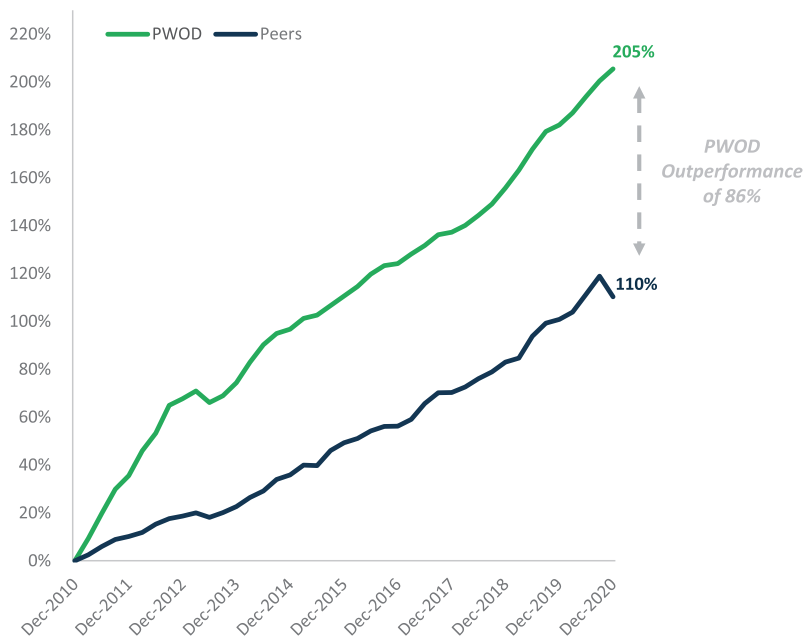
Sincerely,

Richard A. Grafmyre, CFP®
Chief Executive Officer

Performance Highlights

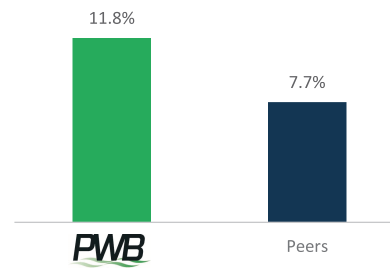
Growth in Economic Value – Since YE 2010

Tangible Book Value "TBV" + Dividends

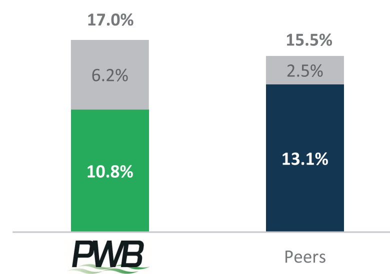


Annual Growth Rates

TBV + Dividends CAGR – Since YE 2010



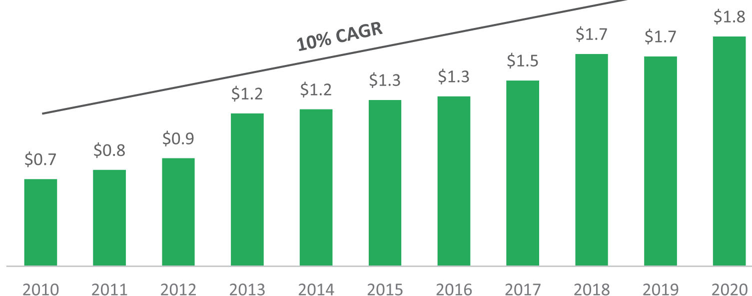
2020Q4 ROE(1) + Dividends



Source: S&P Global Market Intelligence.
Note: Peer group consists of exchange traded U.S. banks with total assets between $1 billion and $3 billion, excluding merger targets and mutuals.
(1) ROE = Return on Average Tangible Common Equity.

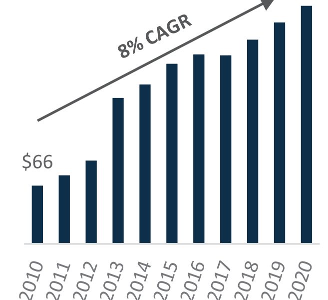
Total Assets

$ in billions



Tier 1 Capital ($M)

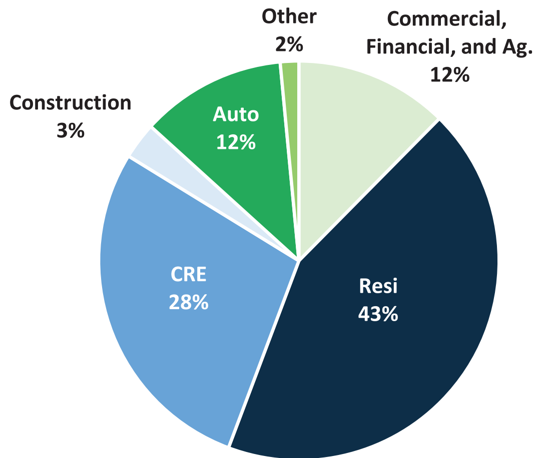
$ in millions



Performance Highlights

Loan Composition

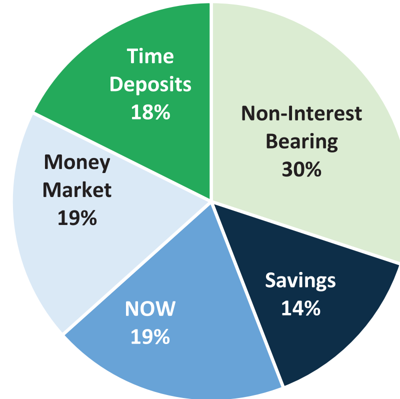
2020



Yield on Total Loans:	4.26 %
CRE / TRBC:	214 %

Deposit Composition

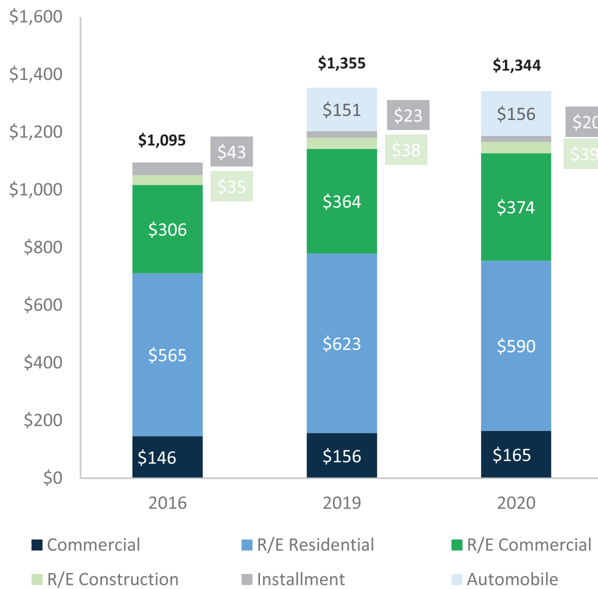
2020



Cost of Interest Bearing Deposits:	1.02 %
Cost of Total Deposits:	0.74 %
Cost of Funds:	0.90 %

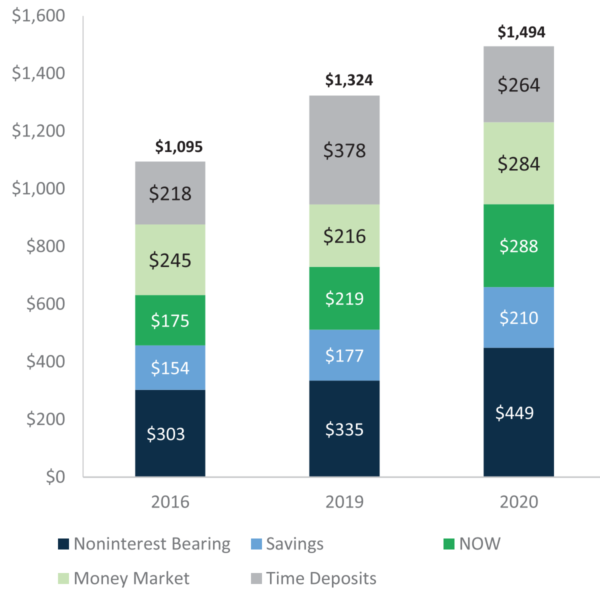
Total Loans

$ in millions

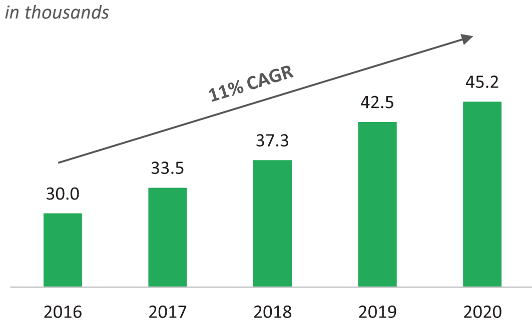


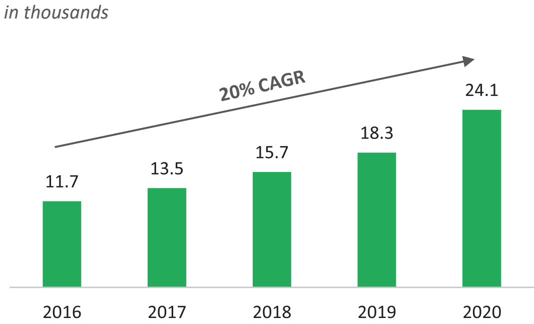
Total Deposits

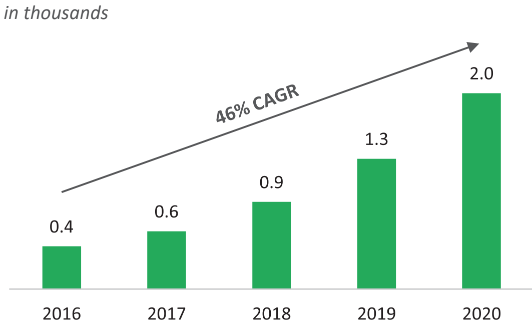
$ in millions

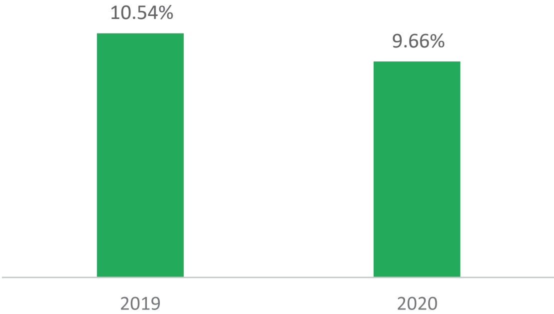


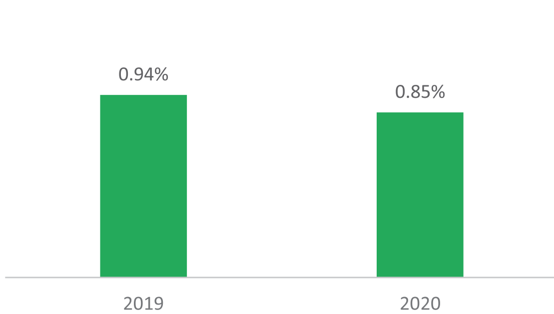
Performance Highlights

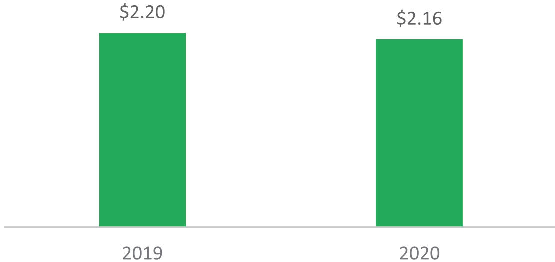












PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31, 2020	December 31, 2019
ASSETS:		
Noninterest-bearing balances	$ 31,821	$ 24,725
Interest-bearing deposits in other financial institutions	181,537	23,864
Total cash and cash equivalents	213,358	48,589
Investment debt securities, available for sale, at fair value	162,261	148,619
Investment equity securities, at fair value	1,288	1,261
Investment securities, trading	40	51
Restricted investment in bank stock, at fair value	15,377	13,528
Loans held for sale	5,239	4,232
Loans	1,344,327	1,355,544
Allowance for loan losses	(13,803)	(11,894)
Loans, net	1,330,524	1,343,650
Premises and equipment, net	32,702	32,929
Accrued interest receivable	8,394	5,246
Bank-owned life insurance	33,638	29,253
Goodwill	17,104	17,104
Intangibles	671	898
Operating lease right of use asset	3,136	4,154
Deferred tax asset	2,526	3,338
Other assets	8,385	12,471
TOTAL ASSETS	$ 1,834,643	$ 1,665,323
LIABILITIES:		
Interest-bearing deposits	$ 1,045,086	$ 989,259
Noninterest-bearing deposits	449,357	334,746
Total deposits	1,494,443	1,324,005
Short-term borrowings	5,244	4,920
Long-term borrowings	153,475	161,920
Accrued interest payable	1,112	1,671
Operating lease liability	3,175	4,170
Other liabilities	13,048	13,655
TOTAL LIABILITIES	1,670,497	1,510,341
SHAREHOLDERS' EQUITY:		
Preferred stock, 0 par value, 3,000,000 shares authorized; 0 shares issued	—	—
Common stock, par value $5.55, 22,500,000 shares authorized; 7,532,576 and 7,520,740 shares issued; 7,052,351 and 7,040,515 shares outstanding	41,847	41,782
Additional paid-in capital	52,523	51,487
Retained earnings	82,769	76,583
Accumulated other comprehensive (loss) gain:		
Net unrealized gain on available for sale securities	4,714	2,455
Defined benefit plan	(5,596)	(5,232)
Treasury stock at cost, 480,225 shares	(12,115)	(12,115)
TOTAL PENNS WOODS BANCORP, INC. SHAREHOLDERS' EQUITY	164,142	154,960
Non controlling interest	4	22
TOTAL SHAREHOLDERS' EQUITY	164,146	154,982
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,834,643	$ 1,665,323

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

(In Thousands, Except Per Share Data)	Year Ended December 31, 2020	2019	2018
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$ 57,217	$ 60,384	$ 54,000
Investment securities:			
Taxable	3,778	3,997	2,784
Tax-exempt	650	660	860
Dividend and other interest income	993	1,733	1,102
TOTAL INTEREST AND DIVIDEND INCOME	62,638	66,774	58,746
INTEREST EXPENSE:			
Deposits	10,565	11,443	6,370
Short-term borrowings	43	793	1,757
Long-term borrowings	3,807	3,723	2,809
TOTAL INTEREST EXPENSE	14,415	15,959	10,936
NET INTEREST INCOME	48,223	50,815	47,810
PROVISION FOR LOAN LOSSES	2,625	2,735	1,735
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	45,598	48,080	46,075
NON-INTEREST INCOME:			
Service charges	1,690	2,411	2,460
Net debt securities gains (losses), available for sale	1,592	640	(47)
Net equity securities gains (losses)	27	89	(170)
Net securities (losses) gains, trading	(11)	19	3
Bank-owned life insurance	653	574	662
Gain on sale of loans	4,148	1,754	1,518
Insurance commissions	416	433	365
Brokerage commissions	970	1,358	1,336
Debit card income	1,280	1,378	1,534
Other	1,403	1,796	1,800
TOTAL NON-INTEREST INCOME	12,168	10,452	9,461
NON-INTEREST EXPENSE:			
Salaries and employee benefits	21,632	21,829	21,083
Occupancy	2,650	2,712	2,702
Furniture and equipment	3,411	3,248	3,092
Software amortization	978	871	712
Pennsylvania shares tax	1,289	1,148	1,108
Professional fees	2,362	2,474	2,106
Federal Deposit Insurance Corporation deposit insurance	939	578	890
Write down of assets held for sale	—	475	—
Loss on sale of premises and equipment	—	474	—
Marketing	261	425	767
Intangible amortization	227	264	300
Other	5,319	5,210	5,247
TOTAL NON-INTEREST EXPENSE	39,068	39,708	38,007
INCOME BEFORE INCOME TAX PROVISION	18,698	18,824	17,529
INCOME TAX PROVISION	3,474	3,138	2,819
CONSOLIDATED NET INCOME	$ 15,224	$ 15,686	$ 14,710
Earnings attributable to noncontrolling interest	18	14	6
NET INCOME ATTRIBUTABLE TO PENNS WOODS BANCORP, INC.	$ 15,206	$ 15,672	$ 14,704
EARNINGS PER SHARE - BASIC	$ 2.16	$ 2.23	$ 2.09
EARNINGS PER SHARE - DILUTED	$ 2.16	$ 2.20	$ 2.09
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	7,044,542	7,038,714	7,035,381
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	7,044,542	7,113,339	7,035,381
DIVIDENDS PER SHARE	$ 1.28	$ 1.26	$ 1.25

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2020	2019	2018
Net Income	$ 15,206	$ 15,672	$ 14,704
Other comprehensive income (loss):			
Change in unrealized gain (loss) on available for sale securities	4,452	5,469	(1,022)
Tax effect	(935)	(1,148)	216
Net realized (gain) loss included in net income	(1,592)	(640)	47
Tax effect	334	134	(10)
(Accretion) amortization of unrecognized pension and post-retirement items	(461)	56	(451)
Tax effect	97	(12)	95
Total other comprehensive income (loss)	1,895	3,859	(1,125)
Comprehensive income	$ 17,101	$ 19,531	$ 13,579

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT						
Balance, December 31, 2017	7,514,008	$ 41,744	$ 50,173	$ 63,364	$ (4,974)	$ (12,115)	$ 2	$ 138,194
Net income				14,704			6	14,710
Adoption of ASU 2016-01				537	(537)			—
Other comprehensive loss					(1,125)			(1,125)
Stock-based compensation recognized in earnings			486					486
Dividends declared, ($1.25 per share)				(8,818)				(8,818)
Common shares issued for employee stock purchase plan	3,538	19	78					97
Balance, December 31, 2018	7,517,546	41,763	50,737	69,787	(6,636)	(12,115)	8	143,544
Net income				15,672			14	15,686
Other comprehensive income					3,859			3,859
Stock-based compensation recognized in earnings			680					680
Dividends declared, ($1.26 per share)				(8,876)				(8,876)
Common shares issued for employee stock purchase plan	3,414	19	70					89
Stock split fractional shares	(220)							—
Balance, December 31, 2019	7,520,740	41,782	51,487	76,583	(2,777)	(12,115)	22	154,982
Net income				15,206			18	15,224
Other comprehensive income					1,895			1,895
Stock-based compensation recognized in earnings			854					854
Dividends declared, ($1.28 per share)				(9,020)				(9,020)
Common shares issued for employee stock purchase plan	3,972	21	65					86
Common shares issued for director compensation plan	7,864	44	117					161
Distributions to noncontrolling interest							(36)	(36)
Balance, December 31, 2020	7,532,576	$ 41,847	$ 52,523	$ 82,769	$ (882)	$ (12,115)	$ 4	$ 164,146

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2020	2019	2018
OPERATING ACTIVITIES:			
Net Income	$ 15,224	$ 15,686	$ 14,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,076	2,951	2,515
Write down of assets held for sale	—	475	—
(Gain) loss on sale of premises and equipment	(14)	474	—
Amortization of intangible assets	227	264	300
Provision for loan losses	2,625	2,735	1,735
Stock based compensation	854	680	486
Amortization of investment security discounts and premiums, net	793	671	776
Securities (gains) losses, available for sale	(1,592)	(640)	47
Originations of loans held for sale	(131,775)	(61,723)	(55,283)
Proceeds of loans held for sale	134,916	62,174	55,068
Gain on sale of loans	(4,148)	(1,754)	(1,518)
Net equity securities (gains) losses	(27)	(89)	170
Net securities losses (gains), trading	11	(19)	(3)
Proceeds from sales of trading securities	—	78	466
Purchases of trading securities	—	(74)	(309)
Security trades receivable	—	(6,626)	—
Earnings on bank-owned life insurance	(653)	(574)	(662)
Decrease (increase) in deferred tax asset	309	814	(324)
Other, net	2,174	(1,453)	(904)
Net cash provided by operating activities	22,000	14,050	17,270
INVESTING ACTIVITIES:			
Investment debt securities available for sale:			
Proceeds from sales	20,767	23,799	19,296
Proceeds from calls, maturities and repayments	23,292	6,845	8,033
Purchases	(54,043)	(40,180)	(58,725)
Proceeds from sales of equity securities	—	604	570
Net decrease (increase) in loans	10,269	24,010	(139,776)
Acquisition of premises and equipment	(2,668)	(2,706)	(2,005)
Proceeds from sale of premises and equipment	336	297	—
Proceeds from the sale of foreclosed assets	226	502	445
Purchase of bank-owned life insurance	(3,970)	(30)	(30)
Proceeds from bank-owned life insurance death benefit	248	—	—
Investment in limited partnership	(3,347)	—	—
Proceeds from redemption of regulatory stock	3,561	13,934	15,352
Purchases of regulatory stock	(5,410)	(8,600)	(20,882)
Net cash (used for) provided by investing activities	(10,739)	18,475	(177,722)
FINANCING ACTIVITIES:			
Net increase in interest-bearing deposits	55,827	90,170	56,085
Net increase in noninterest-bearing deposits	114,611	13,932	17,498
Proceeds from long-term borrowings	35,000	50,000	80,000
Repayment of long-term borrowings	(43,333)	(32,608)	(12,028)
Net increase (decrease) in short-term borrowings	324	(162,945)	67,117
Finance lease principal payments	(112)	(440)	—
Dividends paid	(9,020)	(8,876)	(8,818)
Distributions to non-controlling interest	(36)	—	—
Issuance of common stock	247	89	97
Net cash provided by (used for) financing activities	153,508	(50,678)	199,951
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164,769	(18,153)	39,499
CASH AND CASH EQUIVALENTS, BEGINNING	48,589	66,742	27,243
CASH AND CASH EQUIVALENTS, ENDING	$ 213,358	$ 48,589	$ 66,742

See accompanying notes to the consolidated financial statements.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from to

Commission file number 0-17077

PENNS WOODS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**300 Market Street, P.O. Box 967**	**23-2226454**
(State or other jurisdiction of	**Williamsport,**	(I.R.S. Employer Identification No.)
incorporation or organization)	**Pennsylvania**	**17703-0967**
	(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (570**) 322-1111**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $5.55 par value	PWOD	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

State the aggregate market value of the voting stock held by non-affiliates of the registrant $159,931,723 **at June 30, 2020.**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at March 1, 2021**
Common Stock, $5.55 Par Value	7,056,712 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement prepared in connection with its annual meeting of shareholders to be held on April 27, 2021 are incorporated by reference in Part III hereof.

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PART I

ITEM 1 BUSINESS

A. General Development of Business and History

On January 7, 1983, Penns Woods Bancorp, Inc. (the "Corporation") was incorporated under the laws of the Commonwealth of Pennsylvania as a bank holding company. In connection with the organization of the Corporation, Jersey Shore State Bank ("JSSB"), a Pennsylvania state-chartered bank, became a wholly owned subsidiary of the Corporation. On June 1, 2013, the Corporation acquired Luzerne Bank ("Luzerne") with Luzerne operating as a subsidiary of the Corporation (JSSB and Luzerne are collectively referred to as the "Banks"). The Corporation's two other wholly-owned subsidiaries are Woods Real Estate Development Company, Inc. and Woods Investment Company, Inc. The Corporation is also a partner in United Insurance Solutions, LLC. The Corporation's business has consisted primarily of managing and supervising the Banks, and its principal source of income has been dividends paid by the Banks and Woods Investment Company, Inc.

The Banks are engaged in commercial and retail banking which includes the acceptance of time, savings, and demand deposits, the funding of commercial, consumer, and mortgage loans, and safe deposit services. Utilizing a branch office network, ATMs, Internet, and telephone banking delivery channels, the Banks deliver their products and services to the communities they reside in.

In October 2000, JSSB acquired The M Group, Inc. D/B/A The Comprehensive Financial Group ("The M Group"). The M Group, which operates as a subsidiary of JSSB, offers insurance and securities brokerage services. Securities are offered by The M Group through Voya Financial, a registered broker-dealer.

Neither the Corporation nor the Banks anticipate that compliance with environmental laws and regulations will have any material effect on capital expenditures, earnings, or their competitive position. The Banks are not dependent on a single customer or a few customers, the loss of whom would have a material effect on the business of the Banks.

As of December 31, 2020, JSSB employed 256 persons, Luzerne employed 76 persons, and The M Group employed 4 persons in either a full-time or part-time capacity. The Corporation does not have any employees. The principal officers of the Banks also serve as officers of the Corporation.

Woods Investment Company, Inc., a Delaware holding company, maintains an investment portfolio that is managed for total return and to fund dividend payments by the Corporation.

Woods Real Estate Development Company, Inc. serves the Corporation through its acquisition and ownership of certain properties utilized by the Banks.

United Insurance Solutions, LLC offers property and casualty and auto insurance products within the Corporation's market footprint.

We post publicly available reports required to be filed with the SEC on our website, www.pwod.com, as soon as reasonably practicable after filing such reports with the SEC. The required reports are available free of charge through our website. Information available on our website is not part of or incorporated by reference into this Report or any other report filed by this Corporation with the SEC.

B. Regulation and Supervision

The Corporation is a registered bank holding company and, as such is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the "BHCA") and to supervision and examination by the Board of Governors of the Federal Reserve System (the "FRB"). During 2017, the Corporation elected to become a financial holding company under the BHCA and the regulations of the FRB. The Banks are also subject to the supervision and examination by the Federal Deposit Insurance Corporation (the "FDIC"), as their primary federal regulator and as the insurer of the Banks' deposits. The Banks are also regulated and examined by the Pennsylvania Department of Banking and Securities (the "Department").

The insurance activities of The M Group are subject to regulation by the insurance departments of the various states in which The M Group conducts business, including principally the Pennsylvania Department of Insurance. The securities brokerage activities of The M Group are subject to regulation by federal and state securities commissions.

The insurance activities of United Insurance Solutions, LLC are subject to regulation by the Pennsylvania Department of Insurance.

The FRB has issued regulations under the BHCA that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the FRB, pursuant to such regulations, may require the Corporation to stand ready to use its resources to provide adequate capital funds to the Banks during periods of financial stress or adversity. The BHCA requires the Corporation to secure the prior approval of the FRB before it can acquire all or substantially all of the assets of any bank, or acquire ownership or control of 5% or more of any voting shares of any bank. Such a transaction would also require approval of the Department.

A bank holding company is prohibited under the BHCA from engaging in, or acquiring direct or indirect control of, more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The current minimum capital requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized"), a tier 1 capital ratio of 6.0%; (8.0% to be considered "well capitalized"), and a total capital ratio of 8.0% (10.0% to be considered "well capitalized"). In order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), as of January 1, 2019, a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets.

In addition to the risk-based capital guidelines, the FRB requires each bank holding company to comply with the leverage ratio, under which the bank holding company must maintain a minimum level of Tier 1 capital to average total consolidated assets of 4.0% (5.0% to be considered "well capitalized"). The Banks are subject to similar capital requirements adopted by the FDIC.

As noted in the discussion below relating Economic Growth, Regulatory Relief, and Consumer Protection Act, the FRB, effective August 30, 2018, raised the threshold of its "Small Bank Holding Company" exception to the application of consolidated capital requirements for qualifying small bank holding companies from $1 billion to $3 billion of consolidated assets. Consequently, qualifying bank holding companies having less than $3 billion of consolidated assets are not subject to the consolidated capital requirements unless otherwise directed by the FRB.

Dividends

Federal and state laws impose limitations on the payment of dividends by the Banks. The Pennsylvania Banking Code and the policies of the FDIC and the Department generally encourage the Banks to pay dividends from current net income and retained earnings. The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by the Banks to their additional paid-in capital.

In addition to the dividend restrictions described above, the banking regulators have the authority to prohibit or to limit the payment of dividends by the Banks if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the Banks.

Under Pennsylvania law, the Corporation may not pay a dividend, if, after giving effect thereto, it would be unable to pay its debts as they become due in the usual course of business and, after giving effect to the dividend, the total assets of the Corporation would be less than the sum of its total liabilities plus the amount that would be needed, if the Corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to those receiving the dividend.

It is also the policy of the FRB that a bank holding company generally may only pay dividends on common stock out of net income available to common shareholders over the past twelve months and only if the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality, and overall financial condition. A bank holding

company also should not maintain a dividend level that places undue pressure on the capital of such institution's subsidiaries, or that may undermine the bank holding company's ability to serve as a source of strength for such subsidiaries.

C. Regulation of the Banks

The Banks are highly regulated by the FDIC and the Department. The laws that such agencies enforce limit the specific types of businesses in which the Banks may engage, and the products and services that the Banks may offer to customers. Generally, these limitations are designed to protect the insurance fund of the FDIC and/or the customers of the Banks, and not the Banks or their shareholders. From time to time, various types of new federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Banks. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect business of the Banks. As a consequence of the extensive regulation of commercial banking activities in the United States, the Banks' business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business. Some of the major regulatory provisions that affect the business of the Banks are discussed briefly below.

Prompt Corrective Action

The FDIC has specified the levels at which an insured institution will be considered "well-capitalized," "adequately capitalized," "undercapitalized," and "critically undercapitalized." In the event an institution's capital deteriorates to the "undercapitalized" category or below, the Federal Deposit Insurance Act (the "FDIA") and FDIC regulations prescribe an increasing amount of regulatory intervention, including: (1) the institution of a capital restoration plan by a bank and a guarantee of the plan by a parent institution and liability for civil money damages for failure to fulfill its commitment on that guarantee; and (2) the placement of a hold on increases in assets, number of branches, or lines of business. If capital has reached the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management and (in critically undercapitalized situations) appointment of a receiver. For well-capitalized institutions, the FDIA provides authority for regulatory intervention where the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity.

Deposit Insurance

The FDIC maintains the Deposit Insurance Fund ("DIF") by assessing depository institutions an insurance premium. The FDIC insures deposit accounts up to $250,000 per depositor.

Under the FDIC's risk-based assessment system, insured institutions were previously assigned one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depended largely on the category to which it was assigned, with institutions deemed less risky paying lower FDIC deposit insurance premiums. The Dodd-Frank Act required the FDIC to revise its procedures to base deposit insurance assessments on each insured institution's total assets less tangible equity instead of deposits and also mandated that the Deposit Insurance Fund achieve a reserve ratio of 1.35% of insured deposits by September 2020. Assessment rates for most banks are based on certain financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure over three years, and also set maximum rates for institutions with composite CAMELS ratings of 1 or 2 and minimum rates for other institutions. The total base assessment range (after possible adjustments) for most banks is currently 1.5 basis points to 30 basis points.

Federal Home Loan Bank System

The Banks are members of the Federal Home Loan Bank of Pittsburgh (the "FHLB"), which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. At December 31, 2020, the Banks had $148,000,000 in FHLB advances.

As a member, the Banks are required to purchase and maintain stock in the FHLB. The amount of required stock varies based on the FHLB products utilized by the Banks and the amount of the products utilized. At December 31, 2020, the Banks had $14,872,000 in stock of the FHLB, which was in compliance with this requirement.

Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act"), amended certain provisions of the Dodd-Frank Act, as well as certain other statutes administered by the federal banking agencies. Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

One provision of the Regulatory Relief Act directed the federal banking agencies to develop a community bank leverage ratio ("CBLR") of not less than 8% and not more than 10% for qualifying community banks and bank holding companies with total consolidated assets of less than $10 billion. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules; (ii) the capital ratio requirements necessary to be considered "well capitalized" under the banking agencies' prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements. Under the applicable rules, a qualifying community banking organization has the option to elect the CBLR framework if its CBLR is greater than 9% and it has off-balance sheet exposures of 25% or less of consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. The leverage ratio for purposes of the CBLR is calculated as Tier I capital divided by average total assets, consistent with the manner banking organizations calculate the leverage ratio under generally applicable capital rules. For institutions that fall below the 9% capital requirement but remain above 8%, are allowed a two quarter grace period to either meet the qualifying criteria again or to comply with the generally applicable capital rules. As a result of the Coronavirus Aid, Relief, and Economic Security Act, during 2020 the CBLR was reduced to 8.0% for the remainder of 2020 and set at 8.5% for 2021.

The Corporation has not elected at this time to utilize the CBLR framework. The Corporation does not believe, however, that the changes resulting from the Regulatory Relief Act will materially impact the Corporation's business, operations, or financial results.

Other Legislation

The 2010 Dodd-Frank Act made significant changes to the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act, among other things: (i) expands the authority of the FRB to examine bank holding companies and their subsidiaries, including insured depository institutions; (ii) requires a bank holding company to be well capitalized and well managed to receive approval of an interstate bank acquisition; (iii) provides mortgage reform provisions regarding a customer's ability to pay and making more loans subject to provisions for higher-cost loans and new disclosures; (iv) creates the Consumer Financial Protection Bureau (the "CFPB") that has rule making authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws; (v) introduces additional corporate governance and executive compensation requirements on public companies subject to the Securities and Exchange Act of 1934, such as the Corporation; (vi) permits FDIC-insured banks to pay interest on business demand deposits; (vii) requires that holding companies and other companies that directly or indirectly control an insured depository institution serve as a source of financial strength to that institution; (viii) makes permanent the $250,000 limit for federal deposit insurance at all insured depository institutions; and (ix) permits national and state banks to establish interstate branches to the same extent as the branch host state allows establishment of in-state branches.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all

banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Banks will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

Under the Bank Secrecy Act, a financial institution is required to have systems in place to detect certain types of transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than $10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and that the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the law, or has no lawful purpose.

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA PATRIOT Act," financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum specified standards, follow minimum standards for customer identification and maintenance of customer identification records.

The Sarbanes-Oxley Act of 2002 was enacted to enhance penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures under the federal securities laws. The Sarbanes-Oxley Act generally applies to all companies, including the Corporation, that file or are required to file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or the Exchange Act. The legislation includes provisions, among other things, governing the services that can be provided by a public company's independent auditors and the procedures for approving such services, requiring the chief executive officer and principal accounting officer to certify certain matters relating to the company's periodic filings under the Exchange Act, requiring expedited filings of reports by insiders of their securities transactions and containing other provisions relating to insider conflicts of interest, increasing disclosure requirements relating to critical financial accounting policies and their application, increasing penalties for securities law violations, and creating a new public accounting oversight board, a regulatory body subject to SEC jurisdiction with broad powers to set auditing, quality control, and ethics standards for accounting firms. In response to the legislation, the national securities exchanges and NASDAQ, adopted new rules relating to certain governance matters, including the independence of members of a company's audit committee as a condition to listing or continued listing.

Congress is often considering financial industry legislation, and the federal banking agencies routinely propose new regulations. The Corporation cannot predict how any new legislation, or new rules adopted by federal or state banking agencies, may affect the business of the Corporation and its subsidiaries in the future.

Environmental Laws

Environmentally related hazards have become a source of high risk and potential liability for financial institutions relating to their loans. Environmentally contaminated properties owned by an institution's borrowers may result in a drastic reduction in the value of the collateral securing the institution's loans to such borrowers, high environmental clean up costs to the borrower affecting its ability to repay the loans, the subordination of any lien in favor of the institution to a state or federal lien securing clean up costs, and liability to the institution for clean up costs if it forecloses on the contaminated property or becomes involved in the management of the borrower. The Corporation is not aware of any borrower who is currently subject to any environmental investigation or clean up proceeding which is likely to have a material adverse effect on the financial condition or results of operations of the Corporation.

Effect of Government Monetary Policies

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States Government and its agencies. The monetary policies of the FRB have had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The FRB has a major effect upon the levels of bank loans, investments, and deposits through its open market operations in the United States Government securities and through its regulation of, among other things, the discount rate on borrowings by member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

DESCRIPTION OF THE BANKS

History and Business

JSSB was incorporated under the laws of the Commonwealth of Pennsylvania as a state bank in 1934 and became a wholly owned subsidiary of the Corporation on July 12, 1983. As of December 31, 2020, JSSB had total assets of $1,305,516,000; total shareholders' equity of $104,753,000; and total deposits of $1,044,288,000. JSSB's deposits are insured by the FDIC for the maximum amount provided under current law.

Luzerne was acquired by the Corporation on June 1, 2013. As of December 31, 2020, Luzerne had total assets of $528,223,000; total shareholders' equity of $55,520,000; and total deposits of $451,681,000. Luzerne's deposits are insured by the FDIC for the maximum amount provided under current law.

The Banks engage in business as commercial banks, doing business at locations in Lycoming, Clinton, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania. The Banks offer insurance, securities brokerage services, annuity and mutual fund investment products, and financial planning through the M Group.

Services offered by the Banks include accepting time, demand and savings deposits including Super NOW accounts, statement savings accounts, money market accounts, and fixed rate certificates of deposit. Their services also include making secured and unsecured business and consumer loans that include financing commercial transactions as well as construction and residential mortgage loans and revolving credit loans with overdraft protection.

The Banks' loan portfolio mix can be classified into three principal categories: commercial and agricultural, real estate, and consumer. Real estate loans can be further segmented into residential, commercial, and construction. Qualified borrowers are defined by our loan policy and our underwriting standards. Owner provided equity requirements range from 0% to 35%, depending on the collateral offered for the loan. Terms are generally restricted to 30 years or less with the exception of construction and land development, which are generally limited to one and five years, respectively. Real estate appraisals, property construction verifications, and site visitations comply with our loan policy and with industry regulatory standards.

Prospective residential mortgage customer's repayment ability is determined from information contained in the application and recent income tax returns, or other verified income sources. Emphasis is on credit, employment, income, and residency verification. Broad hazard insurance is always required and flood insurance where applicable. In the case of construction mortgages, builders risk insurance is requested.

Agricultural loans for the purchase or improvement of real estate must meet the Banks' real estate underwriting criteria. Agricultural loans made for the purchase of equipment are usually payable in five years, but never more than ten, depending upon the useful life of the purchased asset. Minimum borrower equity ranges from 0% to 35% depending on the purpose. Livestock financing criteria depends upon the nature of the operation. Agricultural loans are also made for crop production purposes. Such loans are structured to repay within the production cycle and not carried over into a subsequent year.

Commercial loans are made for the acquisition and improvement of real estate, purchase of equipment, and for working capital purposes on a seasonal or revolving basis. General purpose working capital loans are also available with repayment expected within one year. Equipment loans are generally amortized over three to ten years. Insurance coverage with the Banks as loss payee is required, especially in the case where the equipment is rolling stock. It is also a general policy to collateralize non-real estate loans with the asset purchased and, depending upon loan terms, junior liens are filed on other available assets. Financial information required on all commercial mortgages includes the most current three years balance sheets and income statements and projections on income to be developed through the project. In the case of corporations and partnerships, the principals are often asked to personally guaranty the entity's debt.

Seasonal and revolving lines of credit are offered for working capital purposes. Collateral for such a loan may vary but often includes the pledge of inventory and/or receivables. Drawing availability is usually 50% of inventory and 80% of eligible receivables. Eligible receivables are defined as invoices less than 90 days delinquent. Exclusive reliance is very seldom placed on such collateral; therefore, other lienable assets are also taken into the collateral pool. Where reliance is placed on inventory and accounts receivable, the applicant must provide financial information including agings on a specified basis. In addition, the guaranty of the principals is usually obtained.

Letter of credit availability is usually limited to standby or performance letters of credit where the customer is well known to the Banks. The credit criteria is the same as that utilized in making a direct loan. Collateral is obtained in most cases.

Consumer loan products include residential mortgages, home equity loans and lines, automobile financing, personal loans and lines of credit, overdraft and check lines. Our policy includes standards used in the industry on debt service ratios and terms are consistent with prudent underwriting standards and the use of proceeds. Verifications are made of employment and residency, along with credit history.

Second mortgages are confined to equity borrowing and home improvements. Terms are generally fifteen years or less. Loan to collateral value criteria is 90% or less and verifications are made to determine values. Automobile financing is generally restricted to five years and done on both an indirect and direct basis. The Banks, as a practice, do not floor plan and therefore do not discount dealer paper. Small loan requests are to accommodate personal needs such as debt consolidation or the purchase of small appliances. Overdraft check lines are usually limited to $5,000 or less.

The Banks' investment portfolios are analyzed and priced on a monthly basis. Investments are made in U.S. Treasuries, U.S. Agency issues, bank qualified tax-exempt municipal bonds, taxable municipal bonds, corporate bonds, and corporate stocks which consist of Pennsylvania bank stocks. Bonds with BBB or better ratings are used, unless a local issue is purchased that has a lesser or no rating. Factors taken into consideration when investments are purchased include liquidity, the Corporation's tax position, tax equivalent yield, third party investment ratings, and the policies of the Asset/Liability Committee.

The banking environment in Lycoming, Clinton, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania is highly competitive. The Banks operate twenty-seven full service offices in these markets and compete for loans and deposits with numerous commercial banks, savings and loan associations, and other financial institutions. The economic base of the region is developed around small business, health care, educational facilities (college and public schools), light manufacturing industries, and agriculture.

The Banks have a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors, excluding public entities that account for approximately 8% of total deposits. Although the Banks have regular opportunities to bid on pools of funds of $100,000 or more in the hands of municipalities, hospitals, and others, it does not rely on these monies to fund loans or intermediate or longer-term investments.

The Banks have not experienced any significant seasonal fluctuations in the amount of deposits. The Banks have experienced an outflow of deposits related to municipalities and school districts due to the ongoing Commonwealth of Pennsylvania budget impasse.

Supervision and Regulation

As referenced elsewhere, the banking business is highly regulated, and the Banks are only able to engage in business activities, and to provide products and services, that are permitted by applicable law and regulation. In addition, the earnings of the Banks are affected by the policies of regulatory authorities including the FDIC and the FRB. An important function of the FRB is to regulate the money supply and interest rates. Among the instruments used to implement these objectives are open market operations in U.S. Government Securities, changes in reserve requirements against member bank deposits, and limitations on interest rates that member banks may pay on time and savings deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, and their use may also affect interest rates charged on loans or paid for deposits.

The policies and regulations of the FRB have had and will probably continue to have a significant effect on the Banks' deposits, loans and investment growth, as well as the rate of interest earned and paid, and are expected to affect the Banks' operation in the future. The effect of such policies and regulations upon the future business and earnings of the Banks cannot accurately be predicted.

ITEM 1A RISK FACTORS

The following sets forth several risk factors that may affect the Corporation's financial condition or results of operations.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income and cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, and the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings but will also affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

Uncertainty relating to the expected phase-out of the London Interbank Offered Rate ("LIBOR") in 2021 may adversely affect us.

LIBOR has been used extensively in the United States as a reference rate for various financial contracts, including adjustable-rate loans, asset-backed securities, and interest rate swaps. In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that the FCA will not compel panel banks to submit rates for the calculation of LIBOR after 2021. The announcement means that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR, and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based variable rate loans and other securities or financial arrangements, given LIBOR's current role in determining market interest rates globally. The uncertainty as to the nature and effect of such reforms and actions relating to the discontinuance of LIBOR may adversely affect the value of and return on certain of our financial assets and liabilities that are based on or are linked to LIBOR, which may adversely affect the Company's results of operations or financial condition. In addition, LIBOR-related reforms may also require changes to the agreements that govern these LIBOR-based products, as well as our internal systems and processes.

Economic conditions either nationally or locally in areas in which our operations are concentrated may adversely affect our business.

Deterioration in local, regional, national, or global economic conditions could cause us to experience a reduction in deposits and new loans, an increase in the number of borrowers who default on their loans, and a reduction in the value of the collateral securing their loans, all of which could adversely affect our performance and financial condition. Unlike larger banks that are more geographically diversified, we provide banking and financial services locally. Therefore, we are particularly vulnerable to adverse local economic conditions.

The COVID-19 pandemic, and the measures taken to control its spread, will continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has impacted and is likely to continue to impact the national economy and the regional and local markets in which we operate, lower equity market valuations, create significant volatility and disruption in capital and debt markets, and increase unemployment levels. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We are subject to heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements that we have put in place for our employees. Federal Reserve actions to combat the economic contraction caused by the COVID-19 pandemic, including reductions of the target federal funds rate, could, if prolonged, adversely affect our net interest income and margins, and our profitability. Closures of businesses and the institution of social distancing, shelter in place and stay home orders in the communities we serve, have reduced business activity and financial transactions. While certain of these restrictions have been eased and workplaces in the communities we serve are beginning to reopen, the pace of reopening is measured, and these government policies and directives are subject to change as the effects and spread of the COVID-19 pandemic continue to evolve. Changes in customer behavior due to worsening business and economic conditions or legislative or regulatory initiatives may impact the demand for our products and services, which could adversely

affect our revenue, increase the recognition of credit losses in our loan portfolios and increase our allowance for credit losses. The extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions we may take as may be required by government authorities or that we determine are in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

Many of our loans are secured, in whole or in part, with real estate collateral which is subject to declines in value.

In addition to considering the financial strength and cash flow characteristics of a borrower, we often secure our loans with real estate collateral. Real estate values and the real estate market are generally affected by, among other things, changes in local, regional or national economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature. The real estate collateral provides an alternate source of repayment in the event of default by the borrower. If real estate prices in our markets decline, the value of the real estate collateral securing our loans could be reduced. If we are required to liquidate real estate collateral securing loans during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer-relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability; any of which could have a material adverse effect on our financial condition and results of operations.

We face the risk of cyber-attack to our computer systems.

Our computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to our reputation with our clients and the market, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations (such as the lack of availability of our online banking system), as well as the operations of our clients, customers or other third parties. Although we maintain safeguards to protect against these risks, there can be no assurance that we will not suffer losses in the future that may be material in amount.

Competition may decrease our growth or profits.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, leasing companies, insurance companies, and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Our competitors may have greater resources, higher lending limits, or larger branch systems than we do. Accordingly, they may be able to offer a broader range of products and services as well as better pricing for those products and services than we can.

In addition, some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on federally insured financial institutions. As a result, those non-bank competitors may be able to access funding and provide various services more easily or at less cost than we can, adversely affecting our ability to compete effectively.

The value of certain investment securities is volatile and future declines or other-than-temporary impairments could materially adversely affect our future earnings and regulatory capital.

Continued volatility in the market value for certain of our investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on our accumulated other comprehensive income/loss and shareholders' equity depending on the direction of the fluctuations. Furthermore, future downgrades or defaults in these securities could result in future classifications of investment securities as other than temporarily impaired. This could have a material impact on our future earnings.

We may be adversely affected by government regulation.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting many aspects of our operations, including capital levels, lending and funding practices, and liquidity standards. New laws and regulations may increase our costs of regulatory compliance and of doing business and otherwise affect our operations, and may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

We rely on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our executive management team. In addition, we will continue to depend on our ability to retain and recruit key commercial loan officers. The unexpected loss of services of any key management personnel or commercial loan officers could have an adverse effect on our business and financial condition because of their skills, knowledge of our market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we could be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

Failure to implement new technologies in our operations may adversely affect our growth or profits.

The market for financial services, including banking services and consumer finance services, is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking, and telebanking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able to properly or timely anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition, or operating results.

The Corporation is required to adopt the FASB's accounting standard which requires measurement of certain financial assets (including loans) using the current expected credit losses (CECL) beginning in calendar year 2023.

Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The FASB's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the allowance for loan losses will increase upon the adoption of CECL and that the increased allowance level will have the effect of decreasing shareholders' equity and the Corporation's and Bank's regulatory capital ratios.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is subject to the same market forces that affect the price of common stock in any company.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The Corporation owns or leases its properties. Listed herewith are the locations of properties owned or leased as of December 31, 2020, in which the banking offices are located; all properties are in good condition and adequate for the Corporation's purposes:

Jersey Shore State Bank & Subsidiaries

Office	Address	Ownership
Main Street	115 South Main Street, PO Box 5098 Jersey Shore, PA 17740	Owned
Bridge Street	112 Bridge Street Jersey Shore, PA 17740	Owned
DuBoistown	2675 Euclid Avenue Williamsport, PA 17702	Owned
Williamsport	300 Market Street P.O. Box 967 Williamsport, PA 17703-0967	Owned
Montgomery	9094 Rt. 405 Highway Montgomery, PA 17752	Owned
Lock Haven	4 West Main Street Lock Haven, PA 17745	Owned
Mill Hall	(Inside Wal-Mart), 173 Hogan Boulevard Mill Hall, PA 17751	Under Lease
Spring Mills	3635 Penns Valley Road, P.O. Box 66 Spring Mills, PA 16875	Under Lease
Centre Hall	2842 Earlystown Road Centre Hall, PA 16828	Land Under Lease
Zion	100 Cobblestone Road Bellefonte, PA 16823	Owned
State College	2050 North Atherton Street State College, PA 16803	Land Under Lease
Montoursville	820 Broad Street Montoursville, PA 17754	Owned
Danville	150 Continental Boulevard Danville, PA 17821	Under Lease
Loyalsock	1720 East Third Street Williamsport, PA 17701	Owned
Lewisburg	550 North Derr Drive Lewisburg, PA 17837	Owned
Muncy-Hughesville	3081 Route 405 Highway Muncy, PA 17756	Owned
Snow Shoe	493 East Sycamore Road Snow Shoe, PA 16874	Under Lease
Altoona	503 East Plank Road Altoona, PA 16602	Under Lease
The M Group, Inc. D/B/A The Comprehensive Financial Group	1720 East Third Street Williamsport, PA 17701	Owned

Luzerne Bank		
Office	**Address**	**Ownership**
Dallas	509 Main Road Memorial Highway Dallas, PA 18612	Owned
Lake	Corners of Rt. 118 & 415 Dallas, PA 18612	Owned
Hazle Twp.	10 Dessen Drive Hazle Twp., PA 18202	Owned
Luzerne	118 Main Street Luzerne, PA 18709	Owned
Wilkes-Barre	67 Public Square Wilkes-Barre, PA 18701	Under Lease
Conyngham Valley	669 State Route 93 STE 5 Sugarloaf, PA 18249	Under Lease
Pittston	285 South Main Street Pittston, PA 18640	Under Lease
Forty Fort	1320 Wyoming Avenue Forty Fort, PA 18704	Under Lease

ITEM 3 LEGAL PROCEEDINGS

The Corporation is subject to lawsuits and claims arising out of its business in the ordinary course. In the opinion of management, after review and consultation with counsel, there are no legal proceedings currently pending or threatened that are reasonably likely to have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is listed on the NASDAQ Global Select Market under the symbol "PWOD". The following table sets forth (1) the quarterly high and low closing sale prices for a share of the Corporation's common stock during the periods indicated, and (2) quarterly dividends on a share of the common stock with respect to each quarter since January 1, 2018.

	Price Range		Dividends
	High	Low	Declared
2020			
First quarter	$ 35.36	$ 19.05	$ 0.32
Second quarter	27.75	20.01	0.32
Third quarter	22.83	19.61	0.32
Fourth quarter	27.30	19.61	0.32
2019			
First quarter	$ 29.67	$ 23.23	$ 0.31
Second quarter	30.17	26.03	0.31
Third quarter	30.93	26.87	0.31
Fourth quarter	35.58	29.68	0.32
2018			
First quarter	$ 30.37	$ 26.41	$ 0.31
Second quarter	31.28	27.53	0.31
Third quarter	30.85	28.81	0.31
Fourth quarter	29.45	25.77	0.31

The Corporation has paid dividends since the effective date of its formation as a bank holding company. It is the present intention of the Corporation's board of directors to continue the dividend payment policy; however, further dividends must necessarily depend upon earnings, financial condition, appropriate legal restrictions, and other factors relevant at the time the board of directors of the Corporation considers dividend policy. Cash available for dividend distributions to shareholders of the Corporation primarily comes from dividends paid by Jersey Shore State Bank and Luzerne Bank to the Corporation. Therefore, the restrictions on the Banks' dividend payments are directly applicable to the Corporation. See also the information appearing in Note 19 to "Notes to Consolidated Financial Statements" for additional information related to dividend restrictions.

Under the Pennsylvania Business Corporation Law of 1988 a corporation may not pay a dividend, if after giving effect thereto, the corporation would be unable to pay its debts as they become due in the usual course of business and after giving effect thereto the total assets of the corporation would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of the shareholders whose preferential rights are superior to those receiving the dividend.

As of March 1, 2021, the Corporation had approximately 3,732 shareholders of record.

Following is a schedule of the shares of the Corporation's common stock purchased by the Corporation during the fourth quarter of 2020.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1 - October 31, 2020)	—	$ —	—	513,669
Month #2 (November 1 - November 30, 2020)	—	—	—	513,669
Month #3 (December 1 - December 31, 2020)	—	—	—	513,669

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth certain financial data for each of the years in the five-year period ended December 31, 2020:

(In Thousands, Except Per Share Data Amounts)	2020	2019	2018	2017	2016
Consolidated Statement of Income Data:					
Interest income	$ 62,638	$ 66,774	$ 58,746	$ 49,977	$ 46,813
Interest expense	14,415	15,959	10,936	5,897	5,567
Net interest income	48,223	50,815	47,810	44,080	41,246
Provision for loan losses	2,625	2,735	1,735	730	1,196
Net interest income after provision for loan losses	45,598	48,080	46,075	43,350	40,050
Non-interest income	12,168	10,452	9,461	10,744	12,113
Non-interest expense	39,068	39,708	38,007	36,862	35,091
Income before income tax provision	18,698	18,824	17,529	17,232	17,072
Income tax provision	3,474	3,138	2,819	7,459	4,597
Consolidated net income	15,224	15,686	14,710	9,773	12,475
Earnings attributable to noncontrolling interest	18	14	6	—	—
Net income attributable to Penns Woods Bancorp, Inc.	$ 15,206	$ 15,672	$ 14,704	$ 9,773	$ 12,475
Consolidated Balance Sheet at End of Period:					
Total assets	$1,834,643	$1,665,323	$1,684,771	$1,474,492	$1,348,590
Loans	1,344,327	1,355,544	1,384,757	1,246,614	1,093,681
Allowance for loan losses	(13,803)	(11,894)	(13,837)	(12,858)	(12,896)
Deposits	1,494,443	1,324,005	1,219,903	1,146,320	1,095,214
Long-term debt	153,475	161,920	138,942	70,970	85,998
Shareholders' equity	164,142	154,960	143,536	138,192	138,249
Per Share Data:					
Earnings per share - basic	$ 2.16	$ 2.23	$ 2.09	$ 1.39	$ 1.76
Earnings per share - diluted	2.16	2.20	2.09	1.39	1.76
Cash dividends declared	1.28	1.26	1.25	1.25	1.25
Book value	23.27	22.01	20.39	19.65	19.47
Number of shares outstanding, at end of period	7,052,351	7,040,515	7,037,322	7,033,784	7,101,986
Weighted average number of shares outstanding - basic	7,044,542	7,038,714	7,035,381	7,058,403	7,103,186
Weighted average number of shares outstanding - diluted	7,044,542	7,113,339	7,035,381	7,058,403	7,103,186
Selected Financial Ratios:					
Return on average shareholders' equity	9.66 %	10.54 %	10.72 %	6.91 %	8.96 %
Return on average total assets	0.85 %	0.94 %	0.94 %	0.69 %	0.93 %
Net interest margin	2.94 %	3.31 %	3.31 %	3.47 %	3.44 %
Dividend payout ratio	59.32 %	56.27 %	59.97 %	90.42 %	71.37 %
Average shareholders' equity to average total assets	8.85 %	8.91 %	8.77 %	10.05 %	10.36 %
Loans to deposits, at end of period	89.96 %	102.38 %	113.51 %	108.75 %	99.86 %

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is determined by calculating the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to taxable equivalents based on the marginal corporate federal tax rate of 21%. The tax equivalent adjustments to net interest income for 2020, 2019, and 2018 were $476,000, $489,000, and $700,000, respectively.

2020 vs. 2019

Reported net interest income decreased $2,592,000 to $48,223,000 for the year ended December 31, 2020 compared to the year ended December 31, 2019, as the growth in the earning asset portfolio was offset by a decrease in the yield on earning assets to 3.80% from 4.33%. Total interest income decreased $4,136,000 primarily from a decrease in the tax equivalent yield on the loan portfolio decreasing 16 basis points ("bp") coupled with a decrease in the average balance of the loan portfolio of $26,382,000. Tax equivalent interest income on the investment portfolio decreased $688,000 as the yield on the investment portfolio decreased 65 bp. The decrease in the yield on the earning asset portfolio was driven by the impact of the continued low interest rate environment resulting from the COVID-19 pandemic.

Interest expense decreased $1,544,000 to $14,415,000 for the year ended December 31, 2020 compared to 2019. The decrease in interest expense was driven by a 14 bp decrease in the average rate paid on interest-bearing deposits led by a 29 bp decrease in the average rate paid on money market deposits. The decrease in the average rate paid on interest-bearing deposits was offset by an increase in the balance of the average interest-bearing deposit portfolio of $45,673,000. Interest expense on total borrowings decreased $666,000 as the balance of average total borrowings decreased $15,442,000 due to the growth in the deposit portfolio. The decrease in the overall rate paid on interest-bearing liabilities is the result of the continued low interest rate environment.

2019 vs. 2018

Reported net interest income increased $3,005,000 to $50,815,000 for the year ended December 31, 2019 compared to the year ended December 31, 2018, as growth in the earning asset portfolio was coupled with the yield on earning assets increasing to 4.33% from 4.06%. Total interest income increased $8,028,000 primarily from the growth in the average balance of the loan portfolio along with an increase in the average balance of the investment portfolio as the investment portfolio is actively managed to reduce interest rate and market risk. Interest income on a tax equivalent basis recognized on the loan portfolio increased $6,341,000 due to a $50,797,000 increase in the average balance in the loan portfolio coupled with a 31 basis point ("bp") increase in the loan portfolio yield. Interest and dividend income generated from the investment portfolio on a tax equivalent basis increased $1,224,000 due to a $23,443,000 increase in the average balance in the investment portfolio and a 30 bp increase in the average rate.

Interest expense increased $5,023,000 to $15,959,000 for the year ended December 31, 2019 compared to 2018. The increase in interest expense was driven by growth in interest bearing deposits, primarily time deposits. The average rate paid on interest-bearing liabilities increased 35 bp to 1.34% for 2019. The average rate paid on time deposits increased 55 bp as the time deposit portfolio was lengthened and utilized to reduce total borrowings. Interest expense paid on super now deposits increased $725,000 due to a $5,931,000 increase in the average balance and a 30 bp increase in the average rate. Money market interest expense increased $970,000 due to an increase in average rate paid of 41 bp.

AVERAGE BALANCES AND INTEREST RATES

The following tables set forth certain information relating to the Corporation's average balance sheet and reflect the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	2020			2019			2018		
(Dollars In Thousands)	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
Assets:									
Tax-exempt loans (3)	$ 45,650	$ 1,441	3.16 %	$ 66,435	$ 2,038	3.07 %	$ 74,923	$ 2,242	2.99 %
All other loans (4)	1,304,209	56,079	4.30 %	1,309,806	58,774	4.49 %	1,250,521	52,229	4.18 %
Total loans (2)	1,349,859	57,520	4.26 %	1,376,241	60,812	4.42 %	1,325,444	54,471	4.11 %
Taxable securities	142,714	4,630	3.30 %	134,935	5,306	3.99 %	100,915	3,828	3.79 %
Tax-exempt securities (3)	28,973	823	2.89 %	25,702	835	3.29 %	36,279	1,089	3.00 %
Total securities	171,687	5,453	3.23 %	160,637	6,141	3.88 %	137,194	4,917	3.58 %
Interest-bearing deposits	140,022	141	0.10 %	21,161	310	2.00 %	3,005	58	1.93 %
Total interest-earning assets	1,661,568	63,114	3.80 %	1,558,039	67,263	4.33 %	1,465,643	59,446	4.06 %
Other assets	118,536			111,839			97,577		
Total assets	$ 1,780,104			$ 1,669,878			$ 1,563,220		
Liabilities and shareholders' equity:									
Savings	$ 193,568	256	0.13 %	$ 169,832	216	0.13 %	$ 164,844	75	0.05 %
Super Now deposits	254,177	1,755	0.69 %	231,816	1,758	0.76 %	225,885	1,033	0.46 %
Money market deposits	245,633	1,529	0.62 %	239,317	2,184	0.91 %	240,541	1,214	0.50 %
Time deposits	338,895	7,025	2.07 %	345,635	7,285	2.11 %	259,286	4,048	1.56 %
Total interest-bearing deposits	1,032,273	10,565	1.02 %	986,600	11,443	1.16 %	890,556	6,370	0.72 %
Short-term borrowings	12,660	43	0.34 %	34,897	793	2.27 %	85,086	1,757	2.06 %
Long-term borrowings	162,636	3,807	2.34 %	155,841	3,723	2.25 %	128,127	2,809	2.19 %
Total borrowings	175,296	3,850	2.20 %	190,738	4,516	2.25 %	213,213	4,566	2.14 %
Total interest-bearing liabilities	1,207,569	14,415	1.19 %	1,177,338	15,959	1.34 %	1,103,769	10,936	0.99 %
Demand deposits	394,210			321,443			303,606		
Other liabilities	20,858			22,379			18,742		
Shareholders' equity	157,467			148,718			137,103		
Total liabilities and shareholders' equity	$ 1,780,104			$ 1,669,878			$ 1,563,220		
Interest rate spread			2.61 %			2.99 %			3.07 %
Net interest income/margin		$48,699	2.94 %		$51,304	3.31 %		$48,510	3.31 %

1. Information on this table has been calculated using average daily balance sheets to obtain average balances.
2. Non-accrual loans have been included with loans for the purpose of analyzing net interest earnings.
3. Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard tax rate of 21%.
4. Fees on loans are included with interest on loans as follows: 2020 - $695,000; 2019 - $775,000; 2018 - $578,000.

Reconciliation of Taxable Equivalent Net Interest Income

(In Thousands)	2020	2019	2018
Total interest income	$ 62,638	$ 66,774	$ 58,746
Total interest expense	14,415	15,959	10,936
Net interest income	48,223	50,815	47,810
Tax equivalent adjustment	476	489	700
Net interest income (fully taxable equivalent)	$ 48,699	$ 51,304	$ 48,510

Rate/Volume Analysis

The table below sets forth certain information regarding changes in our interest income and interest expense for the periods indicated. For interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by old rate) and (ii) changes in rates (changes in rate multiplied by old average volume). Increases and decreases due to both interest rate and volume, which cannot be separated, have been allocated proportionally to the change due to volume and the change due to interest rate. Income and interest rates are on a taxable equivalent basis.

	Year Ended December 31,					
	2020 vs. 2019			2019 vs. 2018		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$ (600)	$ 3	$ (597)	$ (213)	$ 9	$ (204)
Loans	(248)	(2,447)	(2,695)	2,553	3,992	6,545
Taxable investment securities	62	(738)	(676)	1,278	200	1,478
Tax-exempt investment securities	46	(58)	(12)	(269)	15	(254)
Interest-bearing deposits	1,259	(1,428)	(169)	175	77	252
Total interest-earning assets	519	(4,668)	(4,149)	3,524	4,293	7,817
Interest expense:						
Savings deposits	40	—	40	2	139	141
Super Now deposits	80	(83)	(3)	27	698	725
Money market deposits	3	(658)	(655)	—	970	970
Time deposits	(132)	(128)	(260)	1,575	1,662	3,237
Short-term borrowings	(321)	(429)	(750)	(973)	9	(964)
Long-term borrowings	44	40	84	812	102	914
Total interest-bearing liabilities	(286)	(1,258)	(1,544)	1,443	3,580	5,023
Change in net interest income	$ 805	$ (3,410)	$ (2,605)	$ 2,081	$ 713	$ 2,794

PROVISION FOR LOAN LOSSES

2020 vs. 2019

The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Corporation. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2020, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review the Banks' loan loss allowance. The banking regulators could require additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

While determining the appropriate allowance level, management has attributed the allowance for loan losses to various portfolio segments; however, the allowance is available for the entire portfolio as needed.

The allowance for loan losses increased from $11,894,000 at December 31, 2019 to $13,803,000 at December 31, 2020. At December 31, 2020, the allowance for loan losses was 1.03% of total loans compared to 0.88% of total loans at December 31, 2019. This increase is due in large part to the economic uncertainty caused by the COVID-19 pandemic.

The provision for loan losses totaled $2,625,000 for the year ended December 31, 2020 compared to $2,735,000 for the year ended December 31, 2019. The decrease in the provision was appropriate when considering the economic uncertainty caused by the COVID-19 pandemic and level of net charge-offs during 2020. Net charge-offs of $716,000 represented 0.05% of average loans for the year ended December 31, 2020 compared to net charge-offs of $4,678,000 or 0.34% of average loans for the year ended December 31, 2019. The decrease in the loan portfolio was driven by the residential real estate segment that declined $33,535,000 as consumers refinanced their mortgage as they took advantage of historically low mortgage rates on the secondary market. Growth occurred in the automobile segment of the portfolio which due to the economic uncertainty and level of unemployment due to the COVID-19 pandemic required an increased allowance for loan losses. Nonperforming loans decreased $2,087,000 as a nonperforming loan was paid-off during the fourth quarter of 2020. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses. Internal loan review and analysis, level of net charge-offs, decreased level of nonperforming loans noted previously, and the economic uncertainty caused by the COVID-19 pandemic, dictated an decrease in the provision for loan losses. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

2019 vs. 2018

The allowance for loan losses declined from $13,837,000 at December 31, 2018 to $11,894,000 at December 31, 2019. At December 31, 2019, the allowance for loan losses was 0.88% of total loans compared to 1.00% of total loans at December 31, 2018. This decline is due to a partial charge off of a commercial relationship of $3,700,000 that was incurred during 2019.

The provision for loan losses totaled $2,735,000 for the year ended December 31, 2019 compared to $1,735,000 for the year ended December 31, 2018. The increase in the provision was appropriate when considering the gross loan growth and level of net charge-offs during 2019. Net charge-offs of $4,678,000 represented 0.34% of average loans for the year ended December 31, 2019 compared to net charge-offs of $756,000 or 0.06% of average loans for the year ended December 31, 2018. The growth in the loan portfolio was driven by the indirect auto loan portfolio that has experienced minimal charge-offs. In addition, growth occurred in the home equity segment of the loan portfolio which historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. Nonperforming loans decreased $4,151,000 as a large nonperforming loan was partially charged-off during the fourth quarter of 2019. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/ or a specific allowance within the allowance for loan losses. Internal loan review and analysis, level of net charge-offs, and decreased level of nonperforming loans noted previously, dictated an increase in the provision for loan losses. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

NON-INTEREST INCOME

2020 vs. 2019

Total non-interest income increased $1,716,000 from the year ended December 31, 2019 to December 31, 2020. Excluding net security gains, non-interest income increased $856,000 year over year. Service charges decreased primarily due to overdraft income declining as a result of the government actions taken to contain the spread of COVID-19 and economic stimulus provided by the government. Insurance commissions along with brokerage commissions decreased primarily from the impact of the uncertainty surrounding the economy. Debit card income decreased $98,000 primarily due to a decline in debit card usage resulting from the stay at home government actions taken to contain the spread of COVID-19. Gain on sale of loans increased significantly as the low interest rate environment caused an increase in the number of homeowners who refinanced their mortgage to take advantage of historically low interest rates.

	2020		2019		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$ 1,690	13.89 %	$ 2,411	23.07 %	$ (721)	(29.90)%
Net securities gains, available for sale	1,592	13.08	640	6.12	952	148.75
Net equity securities gains	27	0.22	89	0.85	(62)	(69.66)
Net securities (losses) gains, trading	(11)	(0.09)	19	0.18	(30)	(157.89)
Bank owned life insurance	653	5.37	574	5.49	79	13.76
Gain on sale of loans	4,148	34.09	1,754	16.78	2,394	136.49
Insurance commissions	416	3.42	433	4.14	(17)	(3.93)
Brokerage commissions	970	7.97	1,358	12.99	(388)	(28.57)
Debit card income	1,280	10.52	1,378	13.18	(98)	(7.11)
Other	1,403	11.53	1,796	17.20	(393)	(21.88)
Total non-interest income	$ 12,168	100.00 %	$ 10,452	100.00 %	$ 1,716	16.42 %

2019 vs. 2018

Total non-interest income increased $991,000 from the year ended December 31, 2018 to December 31, 2019. Excluding net security gains, non-interest income increased $29,000 year over year. Bank owned life insurance income decreased due to a decrease in the earnings rate. Insurance commissions along with brokerage commissions increased due to a shift in product mix. Gain on sale of loans increased due to increased volume. Debit card income decreased to $1,378,000 for 2019, a decrease of $156,000 or 10.17%, from 2018, primarily due to a decline in debit card usage.

	2019		2018		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$ 2,411	23.07 %	$ 2,460	26.00 %	$ (49)	(1.99)%
Net securities gains (losses), available for sale	640	6.12	(47)	(0.50)	687	(1,461.70)
Net equity securities losses	89	0.85	(170)	(1.80)	259	152.35
Net securities gains (losses), trading	19	0.18	3	0.03	16	(533.33)
Bank owned life insurance	574	5.49	662	7.00	(88)	(13.29)
Gain on sale of loans	1,754	16.78	1,518	16.04	236	15.55
Insurance commissions	433	4.14	365	3.86	68	18.63
Brokerage commissions	1,358	12.99	1,336	14.12	22	1.65
Debit card income	1,378	13.18	1,534	16.21	(156)	(10.17)
Other	1,796	17.20	1,800	19.04	(4)	(0.22)
Total non-interest income	$ 10,452	100.00 %	$ 9,461	100.00 %	$ 991	10.47 %

NON-INTEREST EXPENSE

2020 vs. 2019

Total non-interest expenses decreased $640,000 from the year ended December 31, 2019 to December 31, 2020. The decrease in salaries and employee benefits was attributable to staff layoffs resulting from branch lobbies being temporarily closed during a period of 2020 due to the COVID-19 pandemic. Furniture and equipment expense and software amortization increased due to continued enhancement of systems, in particular those related to electronic banking channels. Marketing expenses decreased as advertising was reduced during 2020 due to the pandemic. The increase in deposit insurance reflects the increase in deposit balances and the FDIC assessment credit that was recorded during 2019.

	2020		2019		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$ 21,632	55.37 %	$ 21,829	54.97 %	$ (197)	(0.90)%
Occupancy	2,650	6.78	2,712	6.83	(62)	(2.29)
Furniture and equipment	3,411	8.73	3,248	8.18	163	5.02
Software amortization	978	2.50	871	2.19	107	12.28
Pennsylvania shares tax	1,289	3.30	1,148	2.89	141	12.28
Professional fees	2,362	6.05	2,474	6.23	(112)	(4.53)
Federal Deposit Insurance Corporation deposit insurance	939	2.40	578	1.46	361	62.46
Write down of assets held for sale	—	—	475	1.20	(475)	n/a
Loss on sale of premises and equipment	—	—	474	1.19	(474)	n/a
Marketing	261	0.67	425	1.07	(164)	(38.59)
Intangible amortization	227	0.58	264	0.66	(37)	(14.02)
Other	5,319	13.62	5,210	13.13	109	2.09
Total non-interest expense	$ 39,068	100.00 %	$ 39,708	100.00 %	$ (640)	(1.61)%

2019 vs. 2018

Total non-interest expenses increased $1,701,000 from the year ended December 31, 2018 to December 31, 2019. The increase in salaries and employee benefits was attributable primarily to normal annual wage increases. Furniture and equipment expense and software amortization increased due to the new branch locations opened in 2018 and continued enhancement of systems. Market expenses decreased as targeted marketing has decreased in the localities where branches opened during 2018. The increase in professional fees of $368,000 is primarily due to increases in legal fees. The decrease in deposit insurance reflects the FDIC assessment credit that was recorded during 2019. Other expenses increased from the year ended December 31, 2018 to December 31, 2019 by $912,000; the main driver of this increase was an increase in data processing expenses.

(In Thousands)	2019 Amount	2019 % Total	2018 Amount	2018 % Total	Change Amount	Change %
Salaries and employee benefits	$ 21,829	54.97 %	$ 21,083	55.47 %	$ 746	3.54 %
Occupancy	2,712	6.83	2,702	7.11	10	0.37
Furniture and equipment	3,248	8.18	3,092	8.14	156	5.05
Software amortization	871	2.19	712	1.87	159	22.33
Pennsylvania shares tax	1,148	2.89	1,108	2.92	40	3.61
Professional fees	2,474	6.23	2,106	5.54	368	17.47
Federal Deposit Insurance Corporation deposit insurance	578	1.46	890	2.34	(312)	(35.06)
Write down of assets held for sale	475	1.20	—	—	475	n/a
Loss on sale of premises and equipment	474	1.19	—	—	474	n/a
Marketing	425	1.07	767	2.02	(342)	(44.59)
Intangible amortization	264	0.66	300	0.79	(36)	(12.00)
Other	5,210	13.13	5,247	13.80	(37)	(0.71)
Total non-interest expense	$ 39,708	100.00 %	$ 38,007	100.00 %	$ 1,701	4.48 %

INCOME TAXES

2020 vs. 2019

The provision for income taxes for the year ended December 31, 2020 resulted in an effective income tax rate of 18.58% compared to 16.67% for 2019.

2019 vs. 2018

The provision for income taxes for the year ended December 31, 2019 resulted in an effective income tax rate of 16.67% compared to 16.08% for 2018.

FINANCIAL CONDITION

INVESTMENTS

2020

The fair value of the investment portfolio increased $13,658,000 from December 31, 2019 to December 31, 2020. The increase in value is the result of growth in the municipal segment of the portfolio as the investment portfolio continues to be actively managed in order to reduce interest rate and market risk. This strategy is being deployed through selective purchasing of bonds that mature within ten years. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 83% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody's.

2019

The fair value of the investment portfolio increased $13,834,000 from December 31, 2018 to December 31, 2019. The increase in value is the result of growth in the corporate segment of the portfolio as the investment portfolio continues to be actively managed in order to reduce interest rate and market risk. This strategy is being deployed through selective purchasing of bonds that mature within ten years. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 79% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody's.

The carrying amounts of investment securities are summarized as follows for the years ended December 31, 2020, 2019, and 2018:

	2020		2019		2018	
(In Thousands)	Balance	% Portfolio	Balance	% Portfolio	Balance	% Portfolio
Available for sale (AFS):						
Mortgage-backed securities	$ 2,141	1.31 %	$ 4,966	3.31 %	$ 6,153	4.52 %
State and political securities (tax-exempt)	34,736	21.23 %	22,575	15.06 %	27,363	20.12 %
State and political securities (taxable)	73,277	44.79 %	59,711	39.83 %	52,178	38.34 %
Other bonds, notes and debentures	52,107	31.85 %	61,367	40.93 %	48,591	35.70 %
Total debt securities	162,261	99.19 %	148,619	99.12 %	134,285	98.67 %
Equity securities:						
Other investment equity securities	1,288	0.79 %	1,261	0.84 %	1,776	1.30 %
Trading securities	40	0.02 %	51	0.03 %	36	0.03 %
Total equity securities	1,328	0.81 %	1,312	0.88 %	1,812	1.33 %
Total	$ 163,589	100.00 %	$ 149,931	100.00 %	$ 136,097	100.00 %

The following table shows the maturities and repricing of investment securities, at amortized cost and the weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 21% tax rate) at December 31, 2020:

(In Thousands)	Three Months or Less	Over Three Months Through One Year	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Amortized Cost Total
Mortgage-backed securities:						
AFS Amount	$ —	$ —	$ —	$ —	$ 2,118	$ 2,118
Yield	— %	— %	— %	— %	1.88 %	1.88 %
State and political securities (tax-exempt):						
AFS Amount	—	759	16,341	14,015	2,478	33,593
Yield	— %	0.39 %	1.57 %	2.47 %	3.01 %	2.03 %
State and political securities (taxable):						
AFS Amount	845	2,342	20,425	40,388	5,097	69,097
Yield	4.00 %	2.16 %	1.98 %	3.04 %	2.48 %	2.67 %
Other bonds, notes, and debentures:						
AFS Amount	2,000	7,572	33,421	6,493	2,000	51,486
Yield	2.00 %	2.83 %	2.45 %	3.47 %	3.00 %	2.58 %
Total Amount	$ 2,845	$ 10,673	$ 70,187	$ 60,896	$ 11,693	156,294
Total Yield	2.59 %	2.50 %	2.11 %	2.95 %	2.57 %	2.50 %
Equity Securities						
Investment Equity Amount						1,300
Trading Amount						50
Total Investment Portfolio Value						$157,644
Total Investment Portfolio Yield						2.48 %

All yields represent weighted average yields expressed on a tax equivalent basis. They are calculated on the basis of the cost, adjusted for amortization of premium and accretion of discount, and effective yields weighted for the scheduled maturity of each security. The taxable equivalent adjustment represents the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 21% tax rate (derived by dividing tax-exempt interest by 79%).

The distribution of credit ratings by amortized cost and estimated fair value for the debt security portfolio at December 31, 2020 follows:

(In Thousands)	A- to AAA		B- to BBB+		C to CCC+		Not Rated		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale										
Mortgage-backed securities	$ 2,118	$ 2,141	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,118	$ 2,141
State and political securities	100,675	105,876	1,328	1,445	—	—	687	692	102,690	108,013
Other debt securities	26,943	27,255	13,334	13,575	—	—	11,209	11,277	51,486	52,107
Total debt securities	$ 129,736	$ 135,272	$ 14,662	$ 15,020	$ —	$ —	$ 11,896	$11,969	$ 156,294	$162,261

LOAN PORTFOLIO

2020

Gross loans of $1,344,327,000 at December 31, 2020 represented a decrease of $11,217,000 from December 31, 2019. The residential real estate segment of the loan portfolio had the largest decrease from the previous year as the historically low interest rate environment caused homeowners to refinance their mortgage in the secondary market. Indirect auto lending continued to grow within the portfolio as the product continued to expand in northeast and central Pennsylvania. Indirect auto lending and home equity lines are part of the overall strategy to shorten the duration of the earning asset portfolio in preparation for a rising interest rate environment. Commercial real estate mortgages increased $9,927,000 but remained at approximately 28% of the total loan portfolio.

2019

Gross loans of $1,355,544,000 at December 31, 2019 represented a decrease of $29,213,000 from December 31, 2018. The Commercial, Financial, and Agricultural loan portfolio had the largest decrease from the previous year as emphasis was shifted to other segments of the loan portfolio. Indirect auto lending continued to grow within the portfolio as the product continued to expand in northeast Pennsylvania. Indirect auto lending and home equity lines are part of the overall strategy to shorten the duration of the earning asset portfolio in preparation for a rising interest rate environment. Commercial real estate mortgages decreased $8,434,000 but remained at approximately 27% of the total loan portfolio.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan at December 31, 2020, 2019, 2018, 2017, and 2016:

(In Thousands)	2020		2019		2018		2017		2016	
	Amount	% Total	Amount	% Total	Amount	% Total	Amount	% Total	Amount	% Total
Commercial, financial, and agricultural	$ 164,743	12.25 %	$ 156,213	11.52 %	$ 188,561	13.62 %	$ 178,885	14.35 %	$ 146,110	13.36 %
Real estate mortgage:										
Residential	589,721	43.87	623,256	45.98	622,379	44.94	597,077	47.90	564,740	51.63
Commercial	373,188	27.76	363,261	26.80	371,695	26.84	332,019	26.63	306,182	28.00
Construction	39,309	2.92	38,067	2.81	43,523	3.14	31,683	2.54	34,650	3.17
Consumer Automobile	156,403	11.64	150,517	11.10	133,183	9.63	79,714	6.40	14,826	1.36
Other consumer installment loans	19,940	1.48	23,043	1.70	24,552	1.77	26,964	2.16	28,430	2.60
Net deferred loan fees and discounts	1,023	0.08	1,187	0.09	864	0.06	272	0.02	(1,257)	(0.12)
Gross loans	$1,344,327	100.00 %	$1,355,544	100.00 %	$1,384,757	100.00 %	$1,246,614	100.00 %	$1,093,681	100.00 %

The amounts of domestic loans at December 31, 2020 are presented below by category and maturity:

(In Thousands)	Commercial, financial, and agricultural	Real Estate			Consumer automobile	Other consumer installment	Total
		Residential	Commercial	Construction			
Loans with variable interest rates:							
1 year or less	$ 631	$ 492	$ 282	$ 317	$ —	$ 683	$ 2,405
1 through 5 years	22,339	4,572	8,896	572	—	—	36,379
5 through 10 years	45,903	20,625	33,773	2,676	—	—	102,977
After 10 years	42,323	532,217	298,228	28,360	—	2,775	903,903
Total floating interest rate loans	111,196	557,906	341,179	31,925	—	3,458	1,045,664
Loans with fixed interest rates:							
1 year or less	2,552	353	1,292	208	454	628	5,487
1 through 5 years	33,677	3,714	5,835	1,374	83,268	12,100	139,968
5 through 10 years	13,215	10,621	17,262	1,084	72,681	2,477	117,340
After 10 years	4,103	17,127	7,620	4,718	—	1,277	34,845
Total fixed interest rate loans	53,547	31,815	32,009	7,384	156,403	16,482	297,640
Total	$ 164,743	$ 589,721	$ 373,188	$ 39,309	$ 156,403	$ 19,940	1,343,304
Net deferred loan fees and discounts							1,023
							$ 1,344,327

- The loan maturity information is based upon original loan terms and is not adjusted for "rollovers." In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, at interest rates prevailing at the date of renewal.
- Scheduled repayments are reported in maturity categories in which the payment is due.

The Banks do not make loans that provide for negative amortization, nor do any loans contain conversion features. The Banks did not have any foreign loans outstanding at December 31, 2020.

The following table shows the amount of accrual and nonaccrual TDRs at December 31, 2020, 2019, and 2018:

(In Thousands)	2020			2019			2018		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial, financial, and agricultural	$ 988	$ 862	$ 1,850	$ —	$ 2,190	$ 2,190	$ —	$ 1,127	$ 1,127
Real estate mortgage:									
Residential	3,889	90	3,979	4,089	144	4,233	2,225	159	2,384
Commercial	2,107	4,423	6,530	2,127	4,732	6,859	3,959	2,129	6,088
Construction	—	—	—	—	—	—	—	—	—
Other consumer installment loans	—	—	—	—	—	—	—	—	—
	$ 6,984	$ 5,375	$12,359	$ 6,216	$ 7,066	$13,282	$ 6,184	$ 3,415	$ 9,599

ALLOWANCE FOR LOAN LOSSES

2020

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the consolidated balance sheet date. All loan losses are charged to the allowance and all recoveries are credited to it per the allowance method of providing for loan losses. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies,

ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Banks. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

The allowance for loan losses increased from $11,894,000 at December 31, 2019 to $13,803,000 at December 31, 2020. At December 31, 2020 and 2019, the allowance for loan losses to total loans was 1.03% and 0.88%, respectively. Net loan charge-offs of $716,000 or 0.05% of average loans for the year ended December 31, 2020 countered the impact of the provision for loan losses of $2,625,000. Driving the increase in the allowance for loan losses was the economic uncertainty that has resulted from the COVID-19 pandemic. The COVID-19 pandemic has resulted in various businesses operating at less than 100% capacity, an increase in the unemployment rate, and an increase in the number of loans that have been granted payment deferrals. In response to the uncertainty in both the business and consumer sectors caused by the COVID-19 pandemic and as well as the level of precision in estimating the effects of a pandemic, a higher than normal unallocated reserve is considered necessary. Management concluded that the allowance for loan losses is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date as noted in the provision for loan losses discussion.

Based on management's loan-by-loan review, the past performance of the borrowers, and current economic conditions, including recent business closures and bankruptcy levels, management does not anticipate any current losses related to nonaccrual, nonperforming, or classified loans above those that have already been considered in its overall judgment of the adequacy of the allowance for loan losses.

2019

The allowance for loan losses decreased from $13,837,000 at December 31, 2018 to $11,894,000 at December 31, 2019. At December 31, 2019 and 2018, the allowance for loan losses to total loans was 0.88% and 1.00%, respectively. The growth in the loan portfolio of home equity product historically is a lower risk product than commercial loans and requires a lower allowance for loan losses. In addition, the growth in the indirect auto portfolio has incurred minimal losses. Net loan charge-offs of $4,678,000 or 0.34% of average loans for the year ended December 31, 2019 negated the impact of the provision for loan losses of $2,735,000. The increase in net loan charge-offs is a result of one large charge-off in the commercial, financial, and agricultural portfolio during the fourth quarter of 2019.

Allocation of the Allowance For Loan Losses

	December 31, 2020		December 31, 2019		December 31, 2018		December 31, 2017		December 31, 2016	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**
Balance at end of period applicable to:										
Commercial, financial, and agricultural	$ 1,936	12.26 %	$ 1,779	11.53 %	$ 1,680	13.63 %	$ 1,177	14.35 %	$ 1,554	13.34 %
Real estate mortgage:										
Residential	4,460	43.90	4,306	46.02	5,616	44.97	5,679	47.91	5,383	51.58
Commercial	3,635	27.78	3,210	26.82	4,047	26.86	4,277	26.64	4,975	27.96
Construction	134	2.93	118	2.81	143	3.14	155	2.54	178	3.17
Consumer automobiles	1,984	11.65	1,780	11.11	1,328	9.62	804	6.40	143	1.35
Other consumer installment loans	183	1.48	278	1.71	259	1.78	271	2.16	273	2.60
Unallocated	1,471	—	423	—	764	—	495	—	390	—
	$ 13,803	100.00 %	$11,894	100.00 %	$13,837	100.00 %	$12,858	100.00 %	$12,896	100.00 %

NONPERFORMING LOANS

The decrease in nonperforming loans during 2020 is primarily due to a non-accrual commercial loan that was paid-off during the fourth quarter of 2020. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses.

The following table presents information concerning nonperforming loans. The accrual of interest will be discontinued when the principal or interest of a loan is in default for 90 days or more, or as soon as payment is questionable, unless the loan is well secured and in the process of collection. Consumer loans and residential real estate loans secured by 1 to 4 family dwellings are not ordinarily subject to those guidelines. The reversal of previously accrued but uncollected interest applicable to any loan placed in a nonaccrual status and the treatment of subsequent payments of either principal or interest is handled in accordance with GAAP. These principles do not require a write-off of previously accrued interest if principal and interest are ultimately protected by sound collateral values. A nonperforming loan may be restored to accruing status when:

1. Principal and interest is no longer due and unpaid;
2. It becomes well secured and in the process of collection; and
3. Prospects for future contractual payments are no longer in doubt.

	Total Nonperforming Loans		
(In Thousands)	**90 Days Past Due**	**Nonaccrual**	**Total**
2020	$ 1,212	$ 9,122	$ 10,334
2019	2,047	10,374	12,421
2018	1,274	15,298	16,572
2017	509	6,759	7,268
2016	870	10,756	11,626

The level of non-accruing loans continues to fluctuate annually and is attributed to the various economic factors experienced both regionally and nationally. Overall, the portfolio is well secured with a majority of the balance making regular payments or scheduled to be satisfied in the near future. Presently, there are no significant loans where serious doubts exist as to the ability of the borrower to comply with the current loan payment terms which are not included in the nonperforming categories as indicated above.

Management's judgment in determining the amount of the additions to the allowance charged to operating expense considers the following factors with no single factor being determinative:

1. Economic conditions and the impact on the loan portfolio;
2. Analysis of past loan charge-offs experienced by category and comparison to outstanding loans;
3. Effect of problem loans on overall portfolio quality; and
4. Reports of examination of the loan portfolio by the Department and the FDIC.

DEPOSITS

2020 vs. 2019

Total average deposits increased $118,440,000 or 9.05% from 2019 to 2020. Noninterest-bearing deposits average balance increased $72,767,000 as customers received funding from various government programs that were designed to combat the effects of the COVID-19 pandemic.

2019 vs. 2018

Total average deposits increased $113,881,000 or 9.54% from 2019 to 2020. The time deposit portfolio average balance for 2019 increased $86,349,000 to $345,635,000 as time deposits were utilized as an attraction tool and to lengthen the average maturity of the interest bearing liability portfolio.

The average amount and the average rate paid on deposits are summarized below for the years ended December 31, 2020, 2019, and 2018:

	2020		2019		2018	
(In Thousands)	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate
Noninterest-bearing	$ 394,210	0.00 %	$ 321,443	0.00 %	$ 303,606	0.00 %
Savings	193,568	0.13	169,832	0.13	164,844	0.05
Super Now	254,177	0.69	231,816	0.76	225,885	0.46
Money Market	245,633	0.62	239,317	0.91	240,541	0.50
Time	338,895	2.07	345,635	2.11	259,286	1.56
Total average deposits	$1,426,483	0.74 %	$1,308,043	0.88 %	$1,194,162	0.53 %

SHAREHOLDERS' EQUITY

2020

Shareholders' equity increased $9.2 million to $164.1 million at December 31, 2020 compared to December 31, 2019. The change in accumulated other comprehensive loss from $2.8 million at December 31, 2019 to $882,000 at December 31, 2020 is a result of an increase in unrealized gains on available for sale securities (from an unrealized gain of $2.5 million at December 31, 2019 to an unrealized gain of $4.7 million at December 31, 2020). The amount of accumulated other comprehensive loss at December 31, 2020 was also impacted by the change in net excess of the projected benefit obligation over the fair value of the plan assets of the defined benefit pension plan, resulting in an increase in the net loss of $364,000. The current level of shareholders' equity equates to a book value per share of $23.27 at December 31, 2020 compared to $22.01 at December 31, 2019, and an equity to asset ratio of 8.95% at December 31, 2020 compared to 9.31% at December 31, 2019. Dividends declared for the twelve months ended December 31, 2020 and 2019 were $1.28 per share and $1.26 per share, respectively.

2019

Shareholders' equity increased $11,400,000 to $155.0 million at December 31, 2019 compared to December 31, 2018. The change in accumulated other comprehensive loss from $6.6 million at December 31, 2018 to $2.8 million at December 31, 2019 is a result of an increase in unrealized gains on available for sale securities (from an unrealized loss of $1.4 million at December 31, 2018 to an unrealized gain of $2.5 million at December 31, 2019). The amount of accumulated other comprehensive loss at December 31, 2019 was also impacted by the change in net excess of the projected benefit obligation over the fair value of the plan assets of the defined benefit pension plan, resulting in a decrease in the net loss of $44,000. The current level of shareholders' equity equates to a book value per share of $22.01 at December 31, 2019 compared to $20.39 at December 31, 2018, and an equity to asset ratio of 9.31% at December 31, 2019 compared to 8.52% at December 31, 2018. Dividends declared for the twelve months ended December 31, 2019 and 2018 were $1.26 per share and $1.25 per share, respectively..

Bank regulators have risk based capital guidelines. Under these guidelines the Corporation and each Bank are required to maintain minimum ratios of core capital and total qualifying capital as a percentage of risk weighted assets and certain off-balance sheet items. At December 31, 2020, both the Corporation's and each Bank's required ratios were well above the minimum ratios (and including the current capital conservation buffer where applicable) as follows:

	Corporation	Jersey Shore State Bank	Luzerne Bank	Minimum Standards
Common equity tier 1 capital to risk-weighted assets	11.267 %	10.906 %	11.156 %	7.000 %
Tier 1 capital to risk-weighted assets	11.267 %	10.906 %	11.156 %	8.500 %
Total capital to risk-weighted assets	12.151 %	11.857 %	11.865 %	10.500 %
Tier 1 capital to average assets	8.436 %	8.062 %	7.860 %	4.000 %

For a more comprehensive discussion of these requirements, see "Regulation and Supervision" in Item 1 of the Annual Report on Form 10-K. Management believes that the Corporation and the Banks will continue to exceed regulatory capital requirements.

RETURN ON EQUITY AND ASSETS

The ratio of net income to average total assets and average shareholders' equity, and other certain equity ratios are presented as follows:

	2020	2019	2018
Percentage of net income to:			
Average total assets	0.85 %	0.94 %	0.94 %
Average shareholders' equity	9.66 %	10.54 %	10.72 %
Percentage of dividends declared to net income	59.32 %	56.27 %	59.97 %
Percentage of average shareholders' equity to average total assets	8.85 %	8.91 %	8.77 %

LIQUIDITY, INTEREST RATE SENSITIVITY, AND MARKET RISK

The Asset/Liability Committee addresses the liquidity needs of the Corporation to ensure that sufficient funds are available to meet credit demands and deposit withdrawals as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

The following liquidity measures are monitored for compliance and were within the limits cited at December 31, 2020.

1. Net Loans to Total Assets, 85% maximum
2. Net Loans to Total Deposits, 100% maximum
3. Cumulative 90 day Maturity GAP %, +/- 20% maximum
4. Cumulative 1 Year Maturity GAP %, +/- 25% maximum

Fundamental objectives of the Corporation's asset/liability management process are to maintain adequate liquidity while minimizing interest rate risk. The maintenance of adequate liquidity provides the Corporation with the ability to meet its financial obligations to depositors, loan customers, and shareholders. Additionally, it provides funds for normal operating expenditures and business opportunities as they arise. The objective of interest rate sensitivity management is to increase net interest income by managing interest sensitive assets and liabilities in such a way that they can be repriced in response to changes in market interest rates.

The Corporation, like other financial institutions, must have sufficient funds available to meet its liquidity needs for deposit withdrawals, loan commitments, and expenses. In order to control cash flow, the Corporation estimates future flows of cash from deposits and loan payments. The primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, as well as FHLB borrowings. Funds generated are used principally to fund loans and purchase investment securities. Management believes the Corporation has adequate resources to meet its normal funding requirements.

Management monitors the Corporation's liquidity on both a short and long-term basis, thereby providing management necessary information to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies consider both customer needs and economical cost. Both short and long term funding needs are addressed by maturities and sales of available for sale investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit, provides core ingredients to satisfy depositor, borrower, and creditor needs.

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Corporation has a current borrowing capacity at the FHLB of $588,457,000 with $148,000,000 utilized, leaving $440,457,000 available. In addition to this credit arrangement, the Corporation has additional lines of credit with correspondent banks of $100,000,000. The Corporation's management believes that it has sufficient liquidity to satisfy estimated short-term and long-term funding needs.

Interest rate sensitivity, which is closely related to liquidity management, is a function of the repricing characteristics of the Corporation's portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and investment security assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet structure which can cope effectively with market rate fluctuations. The matching process is affected

by segmenting both assets and liabilities into future time periods (usually 12 months or less) based upon when repricing can be effected. Repriceable assets are subtracted from repriceable liabilities for a specific time period to determine the "gap" or difference. Once known, the gap is managed based on predictions about future market interest rates. Intentional mismatching, or gapping, can enhance net interest income if market rates move as predicted. However, if market rates behave in a manner contrary to predictions, net interest income will suffer. Gaps, therefore, contain an element of risk and must be prudently managed. In addition to gap management, the Corporation has an asset liability management policy which incorporates a market value at risk calculation which is used to determine the effects of interest rate movements on shareholders' equity and a simulation analysis to monitor the effects of interest rate changes on the Corporation's balance sheet.

The Corporation currently maintains a gap position of being asset sensitive. The Corporation has strategically taken this position as it has decreased the duration of the earning asset portfolio by adding quality short and intermediate term loans such as home equity loans and the selling of long-term municipal bonds. Lengthening of the liability portfolio is being undertaken to build protection in a rising rate environment.

A market value at risk calculation is utilized to monitor the effects of interest rate changes on the Corporation's balance sheet and more specifically shareholders' equity. The Corporation does not manage the balance sheet structure in order to maintain compliance with this calculation. The calculation serves as a guideline with greater emphasis placed on interest rate sensitivity. Changes to calculation results from period to period are reviewed as changes in results could be a signal of future events.

INTEREST RATE SENSITIVITY

In this analysis the Corporation examines the result of various changes in market interest rates in 100 basis point increments and their effect on net interest income. It is assumed that the change is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on mortgage loans and mortgage securities.

The following is a rate shock forecast for the twelve month period ending December 31, 2021 assuming a static balance sheet as of December 31, 2020.

	Parallel Rate Shock in Basis Points						
(In Thousands)	(200)	(100)	Static	100	200	300	400
Net interest income	$ 43,716	$ 46,617	$ 49,941	$ 53,806	$ 57,623	$ 61,218	$ 64,865
Change from static	(6,225)	(3,324)	—	3,865	7,682	11,277	14,924
Percent change from static	-12.46%	-6.66%	—	7.74%	15.38%	22.58%	29.88%

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flow from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. Generally, management believes the Corporation is well positioned to respond expeditiously when the market interest rate outlook changes.

INFLATION

The asset and liability structure of a financial institution is primarily monetary in nature; therefore, interest rates rather than inflation have a more significant impact on the Corporation's performance. Interest rates are not always affected in the same direction or magnitude as prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors that are not measured by a price index.

CRITICAL ACCOUNTING POLICIES

The Corporation's accounting policies are integral to understanding the results reported. The accounting policies are described in detail in Note 1 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments, and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Other Than Temporary Impairment of Debt Securities

Debt securities are evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reason underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. For a full discussion of the Corporation's methodology of assessing impairment, refer to Note 4 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Corporation's allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio.

Management uses historical information to assess the adequacy of the allowance for loan losses as well as the prevailing business environment; as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and reduced by loans charged-off. For a full discussion of the Corporation's methodology of assessing the adequacy of the reserve for allowance for loan losses, refer to Note 1 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Goodwill and Other Intangible Assets

As discussed in Note 8 of the "Notes to Consolidated Financial Statements," the Corporation must assess goodwill and other intangible assets each year for impairment. This assessment involves estimating cash flows for future periods. If the future cash flows were less than the recorded goodwill and other intangible assets balances, we would be required to take a charge against earnings to write down the assets to the lower value.

Deferred Tax Assets

Management uses an estimate of future earnings to support their position that the benefit of their deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and the Corporation's net income will be reduced. The Corporation's deferred tax assets are described further in Note 12 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Pension Benefits

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Corporation's pension obligations and future expense. Our pension benefits are described further in Note 13 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

The Corporation has various financial obligations, including contractual obligations which may require future cash payments. The following table presents, as of December 31, 2020, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

	Payments Due In				
(In Thousands)	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity	$ 1,230,798	$ —	$ —	$ —	$ 1,230,798
Time deposits	147,976	102,887	11,479	1,303	263,645
Repurchase agreements	5,244	—	—	—	5,244
Short-term borrowings	—	—	—	—	—
Long-term borrowings	30,075	48,164	70,200	5,036	153,475
Operating leases	291	571	527	2,911	4,300

The Corporation's operating lease obligations represent short and long-term lease and rental payments for branch facilities and equipment. The Bank leases certain facilities under operating leases which expire on various dates through 2049. Renewal options are available on the majority of these leases.

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Report contains certain "forward-looking statements" including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. The Corporation cautions readers that the following important factors, among others in addition to the factors discussed in Item 1 - "Business" and in Item 1A - "Risk Factors", may have affected and could in the future affect the Corporation's actual results and could cause the Corporation's actual results for subsequent periods to differ materially from those expressed in any forward-looking statement made by or on behalf of the Corporation herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Corporation must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board; (iii) the effect on the Corporation's competitive position within its market area of the increasing consolidation within the banking and financial services industries, including the increased competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of changes in interest rates; (v) the effect of changes in the business cycle and downturns in the local, regional or national economies; and (vi) the effects of health emergencies, including the spread of infectious diseases or pandemics.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk for the Corporation is comprised primarily from interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at the Banks' level as well as the Corporation level. The Corporation's interest rate sensitivity is monitored by management through selected interest rate risk measures produced internally. Additional information and details are provided in the Interest Sensitivity section of Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Generally, management believes the Corporation is well positioned to respond expeditiously when the market interest rate outlook changes.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31, 2020	December 31, 2019
ASSETS:		
Noninterest-bearing balances	$ 31,821	$ 24,725
Interest-bearing deposits in other financial institutions	181,537	23,864
Total cash and cash equivalents	213,358	48,589
Investment debt securities, available for sale, at fair value	162,261	148,619
Investment equity securities, at fair value	1,288	1,261
Investment securities, trading	40	51
Restricted investment in bank stock, at fair value	15,377	13,528
Loans held for sale	5,239	4,232
Loans	1,344,327	1,355,544
Allowance for loan losses	(13,803)	(11,894)
Loans, net	1,330,524	1,343,650
Premises and equipment, net	32,702	32,929
Accrued interest receivable	8,394	5,246
Bank-owned life insurance	33,638	29,253
Goodwill	17,104	17,104
Intangibles	671	898
Operating lease right of use asset	3,136	4,154
Deferred tax asset	2,526	3,338
Other assets	8,385	12,471
TOTAL ASSETS	$ 1,834,643	$ 1,665,323
LIABILITIES:		
Interest-bearing deposits	$ 1,045,086	$ 989,259
Noninterest-bearing deposits	449,357	334,746
Total deposits	1,494,443	1,324,005
Short-term borrowings	5,244	4,920
Long-term borrowings	153,475	161,920
Accrued interest payable	1,112	1,671
Operating lease liability	3,175	4,170
Other liabilities	13,048	13,655
TOTAL LIABILITIES	1,670,497	1,510,341
SHAREHOLDERS' EQUITY:		
Preferred stock, 0 par value, 3,000,000 shares authorized; 0 shares issued	—	—
Common stock, par value $5.55, 22,500,000 shares authorized; 7,532,576 and 7,520,740 shares issued; 7,052,351 and 7,040,515 shares outstanding	41,847	41,782
Additional paid-in capital	52,523	51,487
Retained earnings	82,769	76,583
Accumulated other comprehensive (loss) gain:		
Net unrealized gain on available for sale securities	4,714	2,455
Defined benefit plan	(5,596)	(5,232)
Treasury stock at cost, 480,225 shares	(12,115)	(12,115)
TOTAL PENNS WOODS BANCORP, INC. SHAREHOLDERS' EQUITY	164,142	154,960
Non controlling interest	4	22
TOTAL SHAREHOLDERS' EQUITY	164,146	154,982
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,834,643	$ 1,665,323

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

(In Thousands, Except Per Share Data)	Year Ended December 31, 2020	2019	2018
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$ 57,217	$ 60,384	$ 54,000
Investment securities:			
Taxable	3,778	3,997	2,784
Tax-exempt	650	660	860
Dividend and other interest income	993	1,733	1,102
TOTAL INTEREST AND DIVIDEND INCOME	62,638	66,774	58,746
INTEREST EXPENSE:			
Deposits	10,565	11,443	6,370
Short-term borrowings	43	793	1,757
Long-term borrowings	3,807	3,723	2,809
TOTAL INTEREST EXPENSE	14,415	15,959	10,936
NET INTEREST INCOME	48,223	50,815	47,810
PROVISION FOR LOAN LOSSES	2,625	2,735	1,735
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	45,598	48,080	46,075
NON-INTEREST INCOME:			
Service charges	1,690	2,411	2,460
Net debt securities gains (losses), available for sale	1,592	640	(47)
Net equity securities gains (losses)	27	89	(170)
Net securities (losses) gains, trading	(11)	19	3
Bank-owned life insurance	653	574	662
Gain on sale of loans	4,148	1,754	1,518
Insurance commissions	416	433	365
Brokerage commissions	970	1,358	1,336
Debit card income	1,280	1,378	1,534
Other	1,403	1,796	1,800
TOTAL NON-INTEREST INCOME	12,168	10,452	9,461
NON-INTEREST EXPENSE:			
Salaries and employee benefits	21,632	21,829	21,083
Occupancy	2,650	2,712	2,702
Furniture and equipment	3,411	3,248	3,092
Software amortization	978	871	712
Pennsylvania shares tax	1,289	1,148	1,108
Professional fees	2,362	2,474	2,106
Federal Deposit Insurance Corporation deposit insurance	939	578	890
Write down of assets held for sale	—	475	—
Loss on sale of premises and equipment	—	474	—
Marketing	261	425	767
Intangible amortization	227	264	300
Other	5,319	5,210	5,247
TOTAL NON-INTEREST EXPENSE	39,068	39,708	38,007
INCOME BEFORE INCOME TAX PROVISION	18,698	18,824	17,529
INCOME TAX PROVISION	3,474	3,138	2,819
CONSOLIDATED NET INCOME	$ 15,224	$ 15,686	$ 14,710
Earnings attributable to noncontrolling interest	18	14	6
NET INCOME ATTRIBUTABLE TO PENNS WOODS BANCORP, INC.	$ 15,206	$ 15,672	$ 14,704
EARNINGS PER SHARE - BASIC	$ 2.16	$ 2.23	$ 2.09
EARNINGS PER SHARE - DILUTED	$ 2.16	$ 2.20	$ 2.09
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	7,044,542	7,038,714	7,035,381
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	7,044,542	7,113,339	7,035,381
DIVIDENDS PER SHARE	$ 1.28	$ 1.26	$ 1.25

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2020	2019	2018
Net Income	$ 15,206	$ 15,672	$ 14,704
Other comprehensive income (loss):			
Change in unrealized gain (loss) on available for sale securities	4,452	5,469	(1,022)
Tax effect	(935)	(1,148)	216
Net realized (gain) loss included in net income	(1,592)	(640)	47
Tax effect	334	134	(10)
(Accretion) amortization of unrecognized pension and post-retirement items	(461)	56	(451)
Tax effect	97	(12)	95
Total other comprehensive income (loss)	1,895	3,859	(1,125)
Comprehensive income	$ 17,101	$ 19,531	$ 13,579

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT						
Balance, December 31, 2017	7,514,008	$ 41,744	$ 50,173	$ 63,364	$ (4,974)	$ (12,115)	$ 2	$ 138,194
Net income				14,704			6	14,710
Adoption of ASU 2016-01				537	(537)			—
Other comprehensive loss					(1,125)			(1,125)
Stock-based compensation recognized in earnings			486					486
Dividends declared, ($1.25 per share)				(8,818)				(8,818)
Common shares issued for employee stock purchase plan	3,538	19	78					97
Balance, December 31, 2018	7,517,546	41,763	50,737	69,787	(6,636)	(12,115)	8	143,544
Net income				15,672			14	15,686
Other comprehensive income					3,859			3,859
Stock-based compensation recognized in earnings			680					680
Dividends declared, ($1.26 per share)				(8,876)				(8,876)
Common shares issued for employee stock purchase plan	3,414	19	70					89
Stock split fractional shares	(220)							—
Balance, December 31, 2019	7,520,740	41,782	51,487	76,583	(2,777)	(12,115)	22	154,982
Net income				15,206			18	15,224
Other comprehensive income					1,895			1,895
Stock-based compensation recognized in earnings			854					854
Dividends declared, ($1.28 per share)				(9,020)				(9,020)
Common shares issued for employee stock purchase plan	3,972	21	65					86
Common shares issued for director compensation plan	7,864	44	117					161
Distributions to noncontrolling interest							(36)	(36)
Balance, December 31, 2020	7,532,576	$ 41,847	$ 52,523	$ 82,769	$ (882)	$ (12,115)	$ 4	$ 164,146

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2020	2019	2018
OPERATING ACTIVITIES:			
Net Income	$ 15,224	$ 15,686	$ 14,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,076	2,951	2,515
Write down of assets held for sale	—	475	—
(Gain) loss on sale of premises and equipment	(14)	474	—
Amortization of intangible assets	227	264	300
Provision for loan losses	2,625	2,735	1,735
Stock based compensation	854	680	486
Amortization of investment security discounts and premiums, net	793	671	776
Securities (gains) losses, available for sale	(1,592)	(640)	47
Originations of loans held for sale	(131,775)	(61,723)	(55,283)
Proceeds of loans held for sale	134,916	62,174	55,068
Gain on sale of loans	(4,148)	(1,754)	(1,518)
Net equity securities (gains) losses	(27)	(89)	170
Net securities losses (gains), trading	11	(19)	(3)
Proceeds from sales of trading securities	—	78	466
Purchases of trading securities	—	(74)	(309)
Security trades receivable	—	(6,626)	—
Earnings on bank-owned life insurance	(653)	(574)	(662)
Decrease (increase) in deferred tax asset	309	814	(324)
Other, net	2,174	(1,453)	(904)
Net cash provided by operating activities	22,000	14,050	17,270
INVESTING ACTIVITIES:			
Investment debt securities available for sale:			
Proceeds from sales	20,767	23,799	19,296
Proceeds from calls, maturities and repayments	23,292	6,845	8,033
Purchases	(54,043)	(40,180)	(58,725)
Proceeds from sales of equity securities	—	604	570
Net decrease (increase) in loans	10,269	24,010	(139,776)
Acquisition of premises and equipment	(2,668)	(2,706)	(2,005)
Proceeds from sale of premises and equipment	336	297	—
Proceeds from the sale of foreclosed assets	226	502	445
Purchase of bank-owned life insurance	(3,970)	(30)	(30)
Proceeds from bank-owned life insurance death benefit	248	—	—
Investment in limited partnership	(3,347)	—	—
Proceeds from redemption of regulatory stock	3,561	13,934	15,352
Purchases of regulatory stock	(5,410)	(8,600)	(20,882)
Net cash (used for) provided by investing activities	(10,739)	18,475	(177,722)
FINANCING ACTIVITIES:			
Net increase in interest-bearing deposits	55,827	90,170	56,085
Net increase in noninterest-bearing deposits	114,611	13,932	17,498
Proceeds from long-term borrowings	35,000	50,000	80,000
Repayment of long-term borrowings	(43,333)	(32,608)	(12,028)
Net increase (decrease) in short-term borrowings	324	(162,945)	67,117
Finance lease principal payments	(112)	(440)	—
Dividends paid	(9,020)	(8,876)	(8,818)
Distributions to non-controlling interest	(36)	—	—
Issuance of common stock	247	89	97
Net cash provided by (used for) financing activities	153,508	(50,678)	199,951
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164,769	(18,153)	39,499
CASH AND CASH EQUIVALENTS, BEGINNING	48,589	66,742	27,243
CASH AND CASH EQUIVALENTS, ENDING	$ 213,358	$ 48,589	$ 66,742

See accompanying notes to the consolidated financial statements.

(In Thousands)	Year Ended December 31, 2020	2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 14,974	$ 15,438	$ 10,288
Income taxes paid	2,945	3,567	2,350
Transfer of loans to foreclosed real estate	232	525	877
Transfer due to adoption of ASU 2016-01, equity securities fair value adjust, reclassification from AOCI to Retained Earnings, net of tax	—	—	537
Right of use lease assets obtained in exchange for lessee finance lease liabilities	—	6,026	—
Right of use lease assets obtained in exchange for lessee operations lease liabilities	—	4,298	—

See accompanying notes to the consolidated financial statements.

NOTE 1 — OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. and its wholly owned subsidiaries, Jersey Shore State Bank ("JSSB"), Luzerne Bank ("Luzerne" and collectively with JSSB , the "Banks"), Woods Real Estate Development Co., Inc., Woods Investment Company, Inc., The M Group Inc. D/B/A The Comprehensive Financial Group ("The M Group"), a wholly owned subsidiary of JSSB and an eighty percent owned subsidiary, United Insurance Solutions, LLC, (collectively, the "Corporation"). All significant intercompany balances and transactions have been eliminated.

Nature of Business

The Banks engage in a full-service commercial banking business, making available to the community a wide range of financial services including, but not limited to, installment loans, credit cards, mortgage and home equity loans, lines of credit, construction financing, farm loans, community development loans, loans to non-profit entities and local government, and various types of demand and time deposits including, but not limited to, checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and IRAs. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The financial services are provided by the Banks to individuals, partnerships, non-profit organizations, and corporations through their twenty-seven offices located in Clinton, Lycoming, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania.

Woods Real Estate Development Co., Inc. engages in real estate transactions on behalf of Penns Woods Bancorp, Inc. and the Banks.

Woods Investment Company, Inc., a Delaware holding company, is engaged in investing activities.

The M Group engages in securities brokerage and financial planning services, which include the sale of life insurance products, annuities, and estate planning services.

United Insurance Solutions, LLC offers property and casualty and auto insurance products within the Corporation's market footprint.

Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial service operations are considered by management to be aggregated in one reportable operating segment.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of net deferred tax assets, impairment of goodwill, other than temporary impairment of debt and equity securities, fair value of financial instruments, and the valuation of real estate acquired through, or in lieu of, foreclosure on settlement of debt.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and federal funds sold. Interest-earning deposits mature within 90 days and are carried at cost. Net cash flows are reported for loan, deposit, and short-term borrowing transactions.

Restrictions on Cash and Cash Equivalents

Based on deposit levels, the Banks must maintain cash and other reserves with the Federal Reserve Bank of Philadelphia ("FRB").

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity, securities available for sale, or securities held for trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of shareholders' equity, net of tax, until realized. Equity securities are carried at fair value. Unrealized holding gains and losses for equity securities are recognized as a separate component within the income statement. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its fair value, whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in fair value, and a review of the Corporation's capital adequacy, interest rate risk position, and liquidity. The assessment of a security's ability to recover any decline in fair value, the ability of the issuer to meet contractual obligations, and management's intent and ability requires considerable judgment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statement of Income.

Fair values of investment securities are based on observed market prices. Certain investment securities do not have observed bid prices and their fair value is based on instruments with similar risk elements. Since regulatory stock is redeemable at par, the Corporation carries it at cost.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at the principal amount outstanding, net of deferred fees and discounts, unamortized loan fees and costs, and the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. The Corporation's general policy has been to stop accruing interest on loans when it is determined a reasonable doubt exists as to the collectability of additional interest. Income is subsequently recognized only to the extent that cash payments are received provided the loan is not delinquent in payment and, in management's judgment, the borrower has the ability and intent to make future principal payments. Otherwise, payments are applied to the unpaid principal balance of the loan. Loans are restored to accrual status if certain conditions are met, including but not limited to, the repayment of all unpaid interest and scheduled principal due, ongoing performance consistent with the contractual agreement, and the future expectation of continued, timely payments.

Loan origination and commitment fees as well as certain direct loan origination costs are being deferred and amortized as an adjustment to the related loan's yield over the contractual lives of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Bank. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, historical loan loss experience, and general economic conditions. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2020, future adjustments could be necessary if circumstances or economic

conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, rising unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increased levels of nonperforming assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of the periodic regulatory examination process is the review of the adequacy of the Banks' loan loss allowance. The regulatory agencies could require the Banks, based on their evaluation of information available at the time of their examination, to provide additional loan loss provisions to further supplement the allowance.

Impaired loans are commercial and commercial real estate loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Banks may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Loan Charge-off Policies

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the internal loan review process or external examiners;
- the borrower has filed bankruptcy and the loss becomes evident due to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Loans Held for Sale

In general, fixed rate residential mortgage loans originated by the Banks are held for sale and are carried at cost due to their short holding period, which can range from less than two weeks to a maximum of thirty days. Sold loans are not serviced by the Banks. Proceeds from the sale of loans in excess of the carrying value are accounted for as a gain. Total gains on the sale of loans are shown as a component of non-interest income within the Consolidated Statement of Income.

Foreclosed Assets

Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Net operating expenses and gains and losses realized from disposition are included in non-interest expense and income, respectively, within the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the related assets, which range from five to ten years for furniture, fixtures, and equipment and fifteen to forty years for buildings and improvements. Costs incurred for routine maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

The Corporation has purchased life insurance policies on certain officers and directors. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Increases in the cash surrender value are recognized as a component of non-interest income within the Consolidated Statement of Income.

Goodwill

The Corporation performs an annual impairment analysis of goodwill for its purchased subsidiaries, Luzerne and The M Group. Based on the fair value of these reporting units, estimated using the expected present value of future cash flows, no impairment of goodwill was recognized in 2020, 2019, or 2018.

Intangible Assets

At December 31, 2020, the Corporation had intangible assets of $156,000 as a result of the acquisition of Luzerne National Bank Corporation, which is net of accumulated amortization of $1,859,000. These intangible assets will continue to be amortized using the sum-of-the-years digits method of amortization over ten years. The Corporation also had intangible assets of $515,000, which is net of accumulated amortization of $505,000, as a result of the purchase of two books of business related to investment product sales. The book of business intangible is being amortized using the straight-line method over a period of ten years.

Investments in Limited Partnerships

The Corporation was a limited partner in one partnership at December 31, 2020 that will provide low income elderly housing in the Corporation's geographic market area once construction is complete. The carrying value of the Corporation's investment in the limited partnership was $3,944,000 at December 31, 2020 and $597,000 at December 31, 2019. The investment will be amortized over the ten-year tax credit receipt period. The partnership will be amortized once the project reaches the level of occupancy needed to begin the ten year tax credit recognition period. During 2020 the Corporation exited a partnership that provides low income elderly housing. This limited partnership had a carrying value of $33,000 at December 31, 2019 and had amortization of $33,000, $184,000, and $184,000 for 2020, 2019, and 2018, respectively.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation enters into off-balance sheet financial instruments. Those instruments consist of commitments to extend credit and standby letters of credit. When those instruments are funded or become payable, the Corporation reports the amounts in its financial statements.

Marketing Cost

Marketing costs are generally expensed as incurred.

Income Taxes

The Corporation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Deferred tax assets and liabilities result from temporary differences in financial and income tax methods of accounting, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation analyzed its deferred tax asset position and determined that there was not a need for a valuation allowance due to the Corporation's ability to generate future ordinary and capital taxable income.

The Corporation when applicable recognizes interest and penalties on income taxes as a component of income tax provision.

Earnings Per Share

The Corporation provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated utilizing net income as reported in the numerator and weighted average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options are adjusted in the denominator.

Employee Benefits

Pension and employee benefits include contributions, determined actuarially, to a defined benefit retirement plan covering the eligible employees of JSSB. The plan is funded on a current basis to the extent that it is deductible under existing federal tax regulations. Pension and other employee benefits also include contributions to a defined contribution Section 401(k) plan covering eligible employees. Contributions matching those made by eligible employees are funded throughout the year. In addition, an elective contribution may be made annually at the discretion of the board of directors for the employees of JSSB with no contributions made since 2015.

The M Group Products and Income Recognition

The M Group product line is comprised primarily of annuities, life insurance, and mutual funds. The revenues generated from life insurance sales are commission only, as The M Group does not underwrite the policies. Life insurance sales include permanent and term policies with the majority of the policies written being permanent. Term life insurance policies are written for 10, 15, 20, and 30 year terms with the majority of the policies being written for 20 years. None of these products are offered as an integral part of lending activities.

Commissions from the sale of annuities are recognized at the time notice is received from the third party broker/dealer or an insurance company that the transaction has been accepted and approved, which is also the time when commission income is received.

Life insurance commissions are recognized at varying points based on the payment option chosen by the customer. Commissions from monthly and annual payment plans are recognized at the start of each annual period for the life insurance, while quarterly and semi-annual premium payments are recognized quarterly and semi-annually when the earnings process is complete. For example, semi-annual payments on the first of January and July would result in commission income recognition on the first of January and July, while payments on the first of January, April, July, and October would result in commission income recognition on those dates. The potential for chargebacks only exists for those policies on a monthly payment plan since income is recognized at the beginning of the annual coverage period versus at the time of each monthly payment. No liability is maintained for chargebacks as these are removed from income at the time of the occurrence.

Accumulated Other Comprehensive Income (Loss)

The Corporation is required to present accumulated other comprehensive income (loss) in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income (loss) is comprised of unrealized holding gains (losses) on the available for sale securities portfolio and the unrecognized components of net periodic benefit costs of the defined benefit pension plan.

Segment Reporting

The Corporation has determined that its only reportable segment is Community Banking.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect net income or shareholders' equity.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. With certain exceptions, transition to the new requirements will be through a cumulative-effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This Update is effective for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies, to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We expect to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The Update is effective for smaller reporting companies and all other entities for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits (Topic 715-20).* This Update amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The Update eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The Update also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits. This Update is effective for public business entities for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. For all other entities, this Update is effective for fiscal years ending after December 15, 2021. This Update did not have a significant impact on the Company's financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Derivatives, and Hedging (Topic 815); and Financial Instruments (Topic 825),* which affects a variety of topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. ASU 2019-04 makes clarifying amendments to certain financial instrument standards. For entities that have not yet adopted ASU 2016-13, the

effective dates for the amendments related to ASU 2016-13 are the same as the effective dates in ASU 2016-13. For entities that have adopted ASU 2016-13, the amendments related to ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2017-12 as of April 25, 2019, the effective dates for the amendments to Topic 815 are the same as the effective dates in ASU 2017-12. For entities that have adopted ASU 2017-12 as of April 25, 2019, the effective date is as of the beginning of the first annual period beginning after April 25, 2019. The amendments related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company qualifies as a smaller reporting company and does not expect to early adopt these ASUs.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326)*, which allows entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost upon adoption of the new credit losses standard. To be eligible for the transition election, the existing financial asset must otherwise be both within the scope of the new credit losses standard and eligible for applying the fair value option in ASC 825-10.3. The election must be applied on an instrument-by-instrument basis and is not available for either available-for-sale or held-to-maturity debt securities. For entities that elect the fair value option, the difference between the carrying amount and the fair value of the financial asset would be recognized through a cumulative-effect adjustment to opening retained earnings as of the date an entity adopted ASU 2016-13. Changes in fair value of that financial asset would subsequently be reported in current earnings. For entities that have not yet adopted the credit losses standard, the ASU is effective when they implement the credit losses standard. For entities that already have adopted the credit losses standard, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company qualifies as a smaller reporting company and does not expect to early adopt ASU 2016-13.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, to clarify its new credit impairment guidance in ASC 326, based on implementation issues raised by stakeholders. This Update clarified, among other things, that expected recoveries are to be included in the allowance for credit losses for these financial assets; an accounting policy election can be made to adjust the effective interest rate for existing troubled debt restructurings based on the prepayment assumptions instead of the prepayment assumptions applicable immediately prior to the restructuring event; and extends the practical expedient to exclude accrued interest receivable from all additional relevant disclosures involving amortized cost basis. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted ASU 2016-13, ASU 2019-11 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company qualifies as a smaller reporting company and does not expect to early adopt these ASUs.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, to simplify the accounting for income taxes, change the accounting for certain tax transactions, and make minor improvements to the codification. This Update provides a policy election to not allocate consolidated income taxes when a member of a consolidated tax return is not subject to income tax and provides guidance to evaluate whether a step-up in tax basis of goodwill relates to a business combination in which book goodwill was recognized or was a separate transaction. The Update also changes current guidance for making an intraperiod allocation if there is a loss in continuing operations and gains outside of continuing operations, determining when a deferred tax liability is recognized after an investor in a foreign entity transitions to or from the equity method of accounting, accounting for tax law changes and year-to-date losses in interim periods, and determining how to apply the income tax guidance to franchise taxes that are partially based on income. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, to clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting, for the purposes of applying the measurement alternative, in accordance with Topic 321, immediately before applying or upon discontinuing the equity method. The amendments also clarify that, for the purpose of applying paragraph 815-10-15-141 (a), an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option, in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2020, the FASB issued ASU 2020-03*, Codification Improvements to Financial Instruments.* This ASU was issued to improve and clarify various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven issues that describe the areas of improvement and the related amendments to GAAP; they are intended to make the standards easier to understand and apply and to eliminate inconsistencies, and they are narrow in scope and are not expected to significantly change practice for most entities. Among its provisions, the ASU clarifies that all entities, other than public business entities that elected the fair value option, are required to provide certain fair value disclosures under ASC 825, *Financial Instruments*, in both interim and annual financial statements. It also clarifies that the contractual term of a net investment in a lease under Topic 842 should be the contractual term used to measure expected credit losses under Topic 326. Amendments related to ASU 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is not permitted before an entity's adoption of ASU 2016-01. Amendments related to ASU 2016-13 for entities that have not yet adopted that guidance are effective upon adoption of the amendments in ASU 2016-13. Early adoption is not permitted before an entity's adoption of ASU 2016-13. Amendments related to ASU 2016-13 for entities that have adopted that guidance are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Other amendments are effective upon issuance of this ASU. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls "reference rate reform" if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. It is too early to predict whether a new rate index replacement and the adoption of the ASU will have a material impact on the Company's financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40),* which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This ASU removes from U.S. GAAP the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument was issued at a substantial premium. This ASU requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The amendments in this ASU are effective for public business entities that are not smaller reporting companies, for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, this ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The guidance may be early adopted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs,* which clarifies that, for each reporting period, an entity should reevaluate whether a callable debt security is within the scope of ASC 310-20-35-33. For public business entities, ASU 2020-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted. For all other entities, ASU 2020-08 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. This Update is not expected to have a significant impact on the Company's financial statements.

In October 2020, the FASB issued ASU 2020-09, *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*, which codifies, as appropriate, the amended financial statement disclosure requirements in Regulation S-X Rules 13-01 and 13-02. The amendments are effective January 4, 2021. This Update did not have a significant impact on the Company's financial statements.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements*, which makes minor technical corrections and clarifications to the ASC. The amendments in Sections B and C of the ASU are effective for annual periods beginning after December 15, 2020, for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. This Update is not expected to have a significant impact on the Company's financial statements.

In November 2020, the FASB issued ASU 2020-11, *Financial Services – Insurance (Topic 944),* which was made in consideration of the implications of the Coronavirus Disease 2019 (COVID-19) pandemic on an insurance entity's ability to effectively implement the amendments in Accounting Standards Update No. 2018-12, *Financial Services— Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts* (LDTI). The amendments in this Update defer the effective date of LDTI for all entities by one year, as (1) for public business entities that meet the definition of an SEC filer and are not SRCs, LDTI is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years; and (2) for all other entities, LDTI is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which provides optional temporary guidance for entities transitioning away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) to new references rates so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions within Topic 848. ASU 2021-01 clarifies that the derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. ASU 2021-01 is effective immediately for all entities. Entities may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. The amendments in this update do not apply to contract modifications made, as well as new hedging relationships entered into, after December 31, 2022, and to existing hedging relationships evaluated for effectiveness for periods after December 31, 2022, except for certain hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

Stock Split

On September 30, 2019, the Company completed a three-for-two stock split (the "Stock Split") of the Company's common stock. As a result of the Stock Split, on September 30, 2019, each share of the Company's common stock issued at that time was changed into one and one-half shares of the Company's common stock with a stated par value of $5.55 per share. All share and per share amounts in this release, including in the accompanying financial statements and information, have been restated for all periods presented to give retroactive effect to the Stock Split.

NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component shown, net of tax and parenthesis indicating debits to net income, as of December 31, 2020, 2019, and 2018 were as follows:

(In Thousands)	Twelve Months Ended December 31, 2020			Twelve Months Ended December 31, 2019			Twelve Months Ended December 31, 2018		
	Net Unrealized Gain (Loss) on Available for Sale Securities*	Defined Benefit Plan*	Total*	Net Unrealized Gain (Loss) on Available for Sale Securities*	Defined Benefit Plan*	Total*	Net Unrealized Gain (Loss) on Available for Sale Securities*	Defined Benefit Plan*	Total*
Beginning balance	$ 2,455	$ (5,232)	$ (2,777)	$ (1,360)	$ (5,276)	$ (6,636)	$ (54)	$ (4,920)	$ (4,974)
Other comprehensive income (loss) before reclassifications	3,517	(510)	3,007	4,321	(104)	4,217	(806)	(486)	(1,292)
Amounts reclassified from accumulated other comprehensive (loss) income	(1,258)	146	(1,112)	(506)	148	(358)	37	130	167
Net current-period other comprehensive income (loss)	2,259	(364)	1,895	3,815	44	3,859	(769)	(356)	(1,125)
Reclassification from adoption of 2016-01	—	—	—	—	—	—	(537)	—	(537)
Ending balance	$ 4,714	$ (5,596)	$ (882)	$ 2,455	$ (5,232)	$ (2,777)	$ (1,360)	$ (5,276)	$ (6,636)

The adoption of ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* requires equity securities to run through the income statement and therefore the reclassification of prior accumulated losses are reflected above.

The reclassifications out of accumulated other comprehensive income shown, net of tax and parenthesis indicating debits to net income, as of December 31, 2020, 2019, and 2018 were as follows:

(In Thousands)	Amount Reclassified from Accumulated Other Comprehensive Income			
	Twelve Months Ended			
Details about Accumulated Other Comprehensive Income Components	December 31, 2020	December 31, 2019	December 31, 2018	Affected Line Item in the Consolidated Statement of Income
Net realized gain (loss) on available for sale securities	$ 1,592	$ 640	$ (47)	Net debt securities gains (losses), net available for sale
Income tax effect	(334)	(134)	10	Income tax provision
	$ 1,258	$ 506	$ (37)	
Net unrecognized pension expense	$ (185)	$ (187)	$ (165)	Other non-interest expense
Income tax effect	39	39	35	Income tax provision
	$ (146)	$ (148)	$ (130)	

NOTE 3 - PER SHARE DATA

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share; therefore, net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive per share computation.

	Year Ended December 31,		
	2020	2019	2018
Weighted average common shares issued	7,524,767	7,518,939	7,515,606
Average treasury stock shares	(480,225)	(480,225)	(480,225)
Weighted average common shares outstanding - basic	7,044,542	7,038,714	7,035,381
Dilutive effect of outstanding stock options	—	74,625	—
Weighted average common shares outstanding - diluted	7,044,542	7,113,339	7,035,381

There were a total of 841,275 non-qualified employee stock options (Note 14) outstanding on December 31, 2020 that had a weighted average strike price of $28.17. Options on December 31, 2019 had an average strike price of $29.29 with a total of 625,800 options outstanding. Grants outstanding at year-end 2018 totaled to 395,550 options with an average strike price of $30.08. Grants were included, on a weighted average basis, in the computation of diluted earnings per share for the 2019 period for grants where the average market price of common shares exceeded the strike price of the options. These options were excluded, on a weighted average basis, in the computation of diluted earnings per share for the 2020 and 2018 periods presented due to the average market price of common shares being less than the strike price of the options.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost, gross gains and losses, and fair values of investment securities at December 31, 2020 and 2019 are as follows:

	2020			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale (AFS):				
Mortgage-backed securities	$ 2,118	$ 23	$ —	$ 2,141
State and political securities	102,690	5,382	(59)	108,013
Other debt securities	51,486	828	(207)	52,107
Total debt securities	$ 156,294	$ 6,233	$ (266)	$ 162,261
Investment equity securities:				
Other equity securities	$ 1,300	$ 10	$ (22)	$ 1,288
Total equity securities	$ 1,300	$ 10	$ (22)	$ 1,288
Trading:				
Other equity securities	$ 50	$ —	$ (10)	$ 40
Trading investment equity securities	$ 50	$ —	$ (10)	$ 40

	2019			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale (AFS):				
Mortgage-backed securities	$ 4,956	$ 56	$ (46)	$ 4,966
State and political securities	79,064	3,299	(77)	82,286
Other debt securities	61,492	401	(526)	61,367
Total debt securities	$ 145,512	$ 3,756	$ (649)	$ 148,619
Investment equity securities:				
Other equity securities	$ 1,300	$ —	$ (39)	$ 1,261
Total equity securities	$ 1,300	$ —	$ (39)	$ 1,261
Trading:				
Other equity securities	$ 50	$ 3	$ (2)	$ 51
Trading investment equity securities	$ 50	$ 3	$ (2)	$ 51

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019.

	2020					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS)						
State and political securities	$ 12,311	$ (51)	$ 900	$ (8)	$ 13,211	$ (59)
Other debt securities	5,964	(74)	4,429	(133)	10,393	(207)
Total Debt Securities AFS	$ 18,275	$ (125)	$ 5,329	$ (141)	$ 23,604	$ (266)

	2019					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS)						
Mortgage-backed securities	$ —	$ —	$ 2,115	$ (46)	$ 2,115	$ (46)
State and political securities	7,958	(40)	224	(37)	8,182	(77)
Other debt securities	13,373	(216)	14,258	(310)	27,631	(526)
Total Debt Securities AFS	$ 21,331	$ (256)	$ 16,597	$ (393)	$ 37,928	$ (649)

At December 31, 2020 there were 28 individual securities in a continuous unrealized loss position for less than twelve months and 6 individual securities in a continuous unrealized loss position for greater than twelve months.

The Corporation reviews its position quarterly and has asserted that at December 31, 2020 and 2019, the declines outlined in the above table represent temporary declines and the Corporation does not intend to sell and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Corporation has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 13,518	$ 13,490
Due after one year to five years	70,187	71,674
Due after five years to ten years	60,896	65,102
Due after ten years	11,693	11,995
Total	$ 156,294	$ 162,261

Total gross proceeds from sales of securities available for sale were $20,767,000, $23,799,000, and $19,296,000 for 2020, 2019, and 2018, respectively. The following table represents gross realized gains and losses on those transactions:

	Year Ended December 31,		
(In Thousands)	**2020**	**2019**	**2018**
Gross realized gains:			
U.S. Government and agency securities	$ —	$ —	$ —
Mortgage-backed securities	83	—	27
State and political securities	978	544	19
Other debt securities	554	113	3
Total gross realized gains	$ 1,615	$ 657	$ 49
Gross realized losses:			
U.S. Government and agency securities	$ —	$ —	$ —
Mortgage-backed securities	—	1	—
State and political securities	23	11	86
Other debt securities	—	5	10
Total gross realized losses	$ 23	$ 17	$ 96
Gross realized gains:			
Financial institution equity securities	$ —	$ 52	$ —
Other equity securities	—	—	—
Total gross realized gains	$ —	$ 52	$ —
Gross realized losses:			
Financial institution equity securities	$ —	$ —	$ —
Other equity securities	—	—	—
Total gross realized losses	$ —	$ —	$ —

There were no impairment charges included in gross realized losses for the years ended December 31, 2020, 2019, and 2018.

Investment securities with a carrying value of approximately $111,247,000 and $74,163,000 at December 31, 2020 and 2019, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

Equity securities consist of Community Reinvestment Act funds along with other smaller investments in other financial institutions. At December 31, 2020 and December 31, 2019, we had $1,288,000 and $1,261,000, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the years ended December 31, 2020 and 2019:

(In Thousands)	**2020**	**2019**
Net gain recognized in equity securities during the period	$ 27	$ 89
Less: Net gains realized on the sale of equity securities during the period	—	52
Unrealized gain recognized in equity securities held at reporting date	$ 27	$ 37

Net gains and losses on trading account securities are as follows for the for the years ended December 31, 2020, 2019, and 2018.

(In Thousands)	**2020**	**2019**	**2018**
Net gain (losses) on sales transaction	$ —	$ 5	$ (6)
Net mark-to-market (losses) gains	(11)	14	9
Net (loss) gain on trading account securities	$ (11)	$ 19	$ 3

There is no concentration of investments that exceed ten percent of shareholders' equity for any individual issuer, excluding those guaranteed by the U.S. Government.

NOTE 5 - FEDERAL HOME LOAN BANK STOCK

The Banks are members of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such, are required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, new shares of FHLB stock continue to change hands at the $100 par value, and the payment of dividends.

NOTE 6 - LOAN CREDIT QUALITY AND RELATED ALLOWANCE FOR LOAN LOSSES

Management segments the Banks' loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial, financial, and agricultural, real estate, consumer automobile, and other consumer installment loans. Real estate loans are further segmented into three categories: residential, commercial, and construction.

The following table presents the related aging categories of loans, by segment, as of December 31, 2020 and 2019:

	2020				
(In Thousands)	**Current**	**Past Due 30 To 89 Days**	**Past Due 90 Days Or More & Still Accruing**	**Non-Accrual**	**Total**
Commercial, financial, and agricultural	$ 163,583	$ 247	$ 48	$ 865	$ 164,743
Real estate mortgage:					
Residential	580,292	6,386	983	2,060	589,721
Commercial	366,363	533	150	6,142	373,188
Construction	38,587	667	—	55	39,309
Consumer automobile loans	155,472	900	31	—	156,403
Other consumer installment loans	19,485	455	—	—	19,940
	1,323,782	$ 9,188	$ 1,212	$ 9,122	1,343,304
Net deferred loan fees and discounts	1,023				1,023
Allowance for loan losses	(13,803)				(13,803)
Loans, net	$ 1,311,002				$ 1,330,524

(In Thousands)	2019 Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$ 153,737	$ 249	$ 30	$ 2,197	$ 156,213
Real estate mortgage:					
Residential	615,580	4,881	1,529	1,266	623,256
Commercial	355,597	775	164	6,725	363,261
Construction	37,871	131	—	65	38,067
Consumer automobile loans	149,703	709	—	105	150,517
Other consumer installment loans	22,124	579	324	16	23,043
	1,334,612	$ 7,324	$ 2,047	$ 10,374	1,354,357
Net deferred loan fees and discounts	1,187				1,187
Allowance for loan losses	(11,894)				(11,894)
Loans, net	$ 1,323,905				$ 1,343,650

The following table presents the interest income if interest had been recorded based on the original loan agreement terms and rate of interest for non-accrual loans and interest income recognized on a cash basis for non-accrual loans as of December 31, 2020, 2019, and 2018:

	Year Ended December 31,					
	2020		2019		2018	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$ 29	$ —	$ 166	$ 2	$ 289	$ 235
Real estate mortgage:						
Residential	21	28	158	33	123	88
Commercial	60	—	333	8	405	212
Construction	1	—	4	—	5	4
Consumer automobile loans	—	—	16	10	7	5
Other consumer installment loans	—	—	2	1	1	1
	$ 111	$ 28	$ 679	$ 54	$ 830	$ 545

Impaired Loans

Impaired loans are loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "non-accrual loans," although the two categories overlap. The Banks may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard or worse. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case by case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively with the exception of loans identified as troubled debt restructurings. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent to the Banks' policy.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of December 31, 2020 and 2019:

	2020		
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial, financial, and agricultural	$ 865	$ 3,652	$ —
Real estate mortgage:			
Residential	5,023	5,023	—
Commercial	6,354	6,354	—
Construction	124	124	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	12,366	15,153	—
With an allowance recorded:			
Commercial, financial, and agricultural	—	—	—
Real estate mortgage:			
Residential	1,294	1,294	224
Commercial	3,023	3,023	811
Construction	—	—	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	4,317	4,317	1,035
Total:			
Commercial, financial, and agricultural	865	3,652	—
Real estate mortgage:			
Residential	6,317	6,317	224
Commercial	9,377	9,377	811
Construction	124	124	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	$ 16,683	$ 19,470	$ 1,035

(In Thousands)	2019 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$ 2,285	$ 5,072	$ —
Real estate mortgage:			
Residential	5,008	5,008	—
Commercial	5,035	5,035	—
Construction	65	65	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	12,393	15,180	—
With an allowance recorded:			
Commercial, financial, and agricultural	—	—	—
Real estate mortgage:			
Residential	1,168	1,200	211
Commercial	3,540	3,590	1,104
Construction	—	—	—
Consumer automobile loans	130	130	62
Other consumer installment loans	16	16	16
	4,854	4,936	1,393
Total:			
Commercial, financial, and agricultural	2,285	5,072	—
Real estate mortgage:			
Residential	6,176	6,208	211
Commercial	8,575	8,625	1,104
Construction	65	65	—
Consumer automobile loans	130	130	62
Other consumer installment loans	16	16	16
	$ 17,247	$ 20,116	$ 1,393

The following table presents the average recorded investment in impaired loans and related interest income recognized for December 31, 2020, 2019, and 2018:

(In Thousands)	2020 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 1,653	$ 34	$ —
Real estate mortgage:			
Residential	5,692	234	15
Commercial	7,937	158	—
Construction	72	1	4
Consumer automobile loans	89	—	—
Other consumer installment loans	3	1	—
	$ 15,446	$ 428	$ 19

(In Thousands)	2019 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 4,673	$ 5	$ —
Real estate mortgage:			
Residential	4,902	141	28
Commercial	9,757	117	3
Construction	71	—	—
Consumer automobile loans	62	—	4
Other consumer installment loans	12	—	—
	$ 19,477	$ 263	$ 35

(In Thousands)	2018 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 2,018	$ 71	$ 168
Real estate mortgage:			
Residential	3,962	134	87
Commercial	9,524	235	194
Construction	15	—	4
Consumer automobile loans	14	—	1
Other consumer installment loans	1	—	1
	$ 15,534	$ 440	$ 455

At December 31, 2020, additional funds totaling $5,000 are committed to be advanced in connection with impaired loans.

Modifications

The loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Loan modifications that are considered TDRs completed during the twelve months ended December 31, 2020 and 2019 were as follows:

	Year Ended December 31,					
	2020			2019		
(In Thousands, Except Number of Contracts)	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
Commercial, financial, and agricultural	2	$ 1,028	$ 1,028	2	$ 1,221	$ 1,221
Real estate mortgage:						
Residential	—	—	—	1	2,166	2,166
Commercial	3	1,263	1,263	2	2,842	2,842
Construction	—	—	—	—	—	—
Other consumer installment loans	—	—	—	—	—	—
Total	5	$ 2,291	$ 2,291	5	$ 6,229	$ 6,229

Of the five new troubled debt restructurings that were granted for the year ended December 31, 2020, four loans totaling $1,231,000 were granted payment concessions and one loan totaling $1,060,000 was granted a rate concession.

Of the five new troubled debt restructurings that were granted for the year ended December 31, 2019, four loans totaling $4,062,000 were granted rate concessions and one loan totaling $2,167,000 was granted a payment concession.

No loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2020 defaulted. Loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2019, that have defaulted during the corresponding twelve month period were as follows:

(In Thousands, Except Number of Contracts)	Year Ended December 31, 2019	
	Number of Contracts	Recorded Investment
Commercial, financial, and agricultural	2	$ 1,218
Real estate mortgage:		
Residential	—	—
Commercial	1	1,082
Total	3	$ 2,300

Internal Risk Ratings

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are evaluated for Substandard classification. Loans in the Doubtful category exhibit the same weaknesses found in the Substandard loans, however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Loans classified Loss are considered uncollectible and charge-off is imminent.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Banks have a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. An external semi-annual loan review of large commercial relationships is performed, as well as a sample of smaller transactions. The 2020 loan review has an aggregate commercial relationship threshold of $1,750,000 which can consist of outstanding loans, commercial real estate mortgages and outstanding commitments. Detailed reviews, including plans for resolution, are performed on loans classified as substandard, doubtful, or loss on a quarterly basis.

The following table presents the credit quality categories identified above as of December 31, 2020 and 2019:

(In Thousands)	2020						
	Commercial, Finance, and Agricultural	Real Estate Mortgages			Consumer automobile	Other consumer installment	Totals
		Residential	Commercial	Construction			
Pass	$ 162,694	$ 584,599	$ 355,616	$ 39,192	$ 156,403	$ 19,938	$ 1,318,442
Special Mention	180	556	7,973	—	—	—	8,709
Substandard	1,869	4,566	9,599	117	—	2	16,153
Total	$ 164,743	$ 589,721	$ 373,188	$ 39,309	$ 156,403	$ 19,940	$ 1,343,304

(In Thousands)	2019 Commercial, Finance, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Consumer automobile	Other consumer installment	Totals
Pass	$ 149,349	$ 618,350	$ 348,864	$ 37,931	$ 150,517	$ 23,039	$ 1,328,050
Special Mention	3,174	2,436	5,080	—	—	—	10,690
Substandard	3,690	2,470	9,317	136	—	4	15,617
Total	$ 156,213	$ 623,256	$ 363,261	$ 38,067	$ 150,517	$ 23,043	$ 1,354,357

Allowance for Loan Losses

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

The Banks' methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (previously discussed) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Banks' ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances are segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for "Pass" rated credits, while a separate pool allowance is provided for "Criticized" rated credits that are not individually evaluated for impairment.

For the general allowances historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. However, management may adjust the moving average time frame by up to four quarters to adjust for variances in the economic cycle. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; national and economic trends and conditions; concentrations of credit from a loan type, industry, and/or geographic standpoint; value of underlying collateral on collateral depended loans; effect of other external factors; and the quality of the loan review system. During 2020, certain qualitative factors were increased to account for the economic changes, continued economic uncertainty, and level of loan payment deferrals caused by the COVID-19 pandemic.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan segment for applicable adjustments to actual loss experience.

Management reviews the loan portfolio on a quarterly basis in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Over the last three years, various quantitative and qualitative factors indicate changes in our provision for loan losses. The provision for commercial and agricultural loans decreased during 2020 due to levels and trends of nonaccrual loans in our portfolio and a decline in charge-offs. The change in the provision for residential real estate loans vary based on our observations of industry trends during 2020 in national and market area foreclosure rates and the impact of the COVID-19 pandemic. The provision for this loan type is adjusted by national indices as well as our historical losses. The provision for commercial and construction real estate loans increased as the economic environment has softened as the impact of the COVID-19 pandemic is felt within the markets we serve. The provision for consumer automobiles decreased slightly due to the leveling off of indirect loan volume. The provision for other consumer installment loans has decreased as the level of charge-offs has declined. The COVID-19 pandemic has resulted in various businesses operating at less than 100% capacity, an increase in the unemployment rate, and an increase in the number of loans that have been granted payment deferrals. In response to the

uncertainty in both the business and consumer sectors caused by the COVID-19 pandemic and as well as the level of precision in estimating the effects of a pandemic, a higher than normal unallocated reserve is considered necessary.

Activity in the allowance is presented for the twelve months ended December 31, 2020, 2019, and 2018:

2020								
(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages			Consumer automobile	Other consumer installment	Unallocated	Totals
		Residential	Commercial	Construction				
Beginning Balance	$ 1,779	$ 4,306	$ 3,210	$ 118	$ 1,780	$ 278	$ 423	$ 11,894
Charge-offs	(64)	(254)	(64)	—	(396)	(193)	—	(971)
Recoveries	36	49	—	11	75	84	—	255
Provision	185	359	489	5	447	92	1,048	2,625
Ending Balance	$ 1,936	$ 4,460	$ 3,635	$ 134	$ 1,906	$ 261	$ 1,471	$ 13,803

2019								
(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages			Consumer automobile	Other consumer installment	Unallocated	Totals
		Residential	Commercial	Construction				
Beginning Balance	$ 1,680	$ 5,616	$ 4,047	$ 143	$ 1,328	$ 259	$ 764	$ 13,837
Charge-offs	(2,903)	(347)	(150)	—	(329)	(1,228)	—	(4,957)
Recoveries	90	6	1	10	79	93	—	279
Provision	2,912	(969)	(688)	(35)	702	1,154	(341)	2,735
Ending Balance	$ 1,779	$ 4,306	$ 3,210	$ 118	$ 1,780	$ 278	$ 423	$ 11,894

2018								
(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages			Consumer automobile	Other consumer installment	Unallocated	Totals
		Residential	Commercial	Construction				
Beginning Balance	$ 1,177	$ 5,679	$ 4,277	$ 155	$ 804	$ 271	$ 495	$ 12,858
Charge-offs	(82)	(276)	(56)	—	(246)	(303)	—	(963)
Recoveries	36	74	—	7	16	74	—	207
Provision	549	139	(174)	(19)	754	217	269	1,735
Ending Balance	$ 1,680	$ 5,616	$ 4,047	$ 143	$ 1,328	$ 259	$ 764	$ 13,837

The Corporation grants commercial, industrial, residential, and installment loans to customers throughout north-central and north-eastern Pennsylvania. Although the Corporation has a diversified loan portfolio at December 31, 2020 and 2019, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions within this region.

The amount of foreclosed residential real estate held at December 31, 2020 and December 31, 2019, totaled $614,000 and $493,000, respectively. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at December 31, 2020 and December 31, 2019, totaled $51,000 and $32,000, respectively.

The Corporation has a concentration of loans at December 31, 2020 and 2019 as follows:

	2020	2019
Owners of residential rental properties	16.57 %	15.87 %
Owners of commercial rental properties	13.57 %	12.39 %

Modifications to date have included 1,336 loans with principal balances of $173,200,000; however, as of December 31, 2020, only 37 loans totaling $7,089,000 remained in deferment.

The Company has processed over 226 loan applications with a value of $14,211,000 in loans under the Payroll Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These loans are guaranteed by the Small Business Administration (SBA), carry an interest rate of 1 percent, and are for a term of two years if not forgiven under the SBA rules.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

2020								
	Commercial, Finance, and	Real Estate Mortgages				Other		
(In Thousands)	Agricultural	Residential	Commercial	Construction	Consumer automobile	consumer installment	Unallocated	Totals
Allowance for Loan Losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ —	$ 224	$ 811	$ —	$ —	$ —	$ —	$ 1,035
Collectively evaluated for impairment	1,936	4,236	2,824	134	1,906	261	1,471	12,768
Total ending allowance balance	$ 1,936	$ 4,460	$ 3,635	$ 134	$ 1,906	$ 261	$ 1,471	$ 13,803
Loans:								
Individually evaluated for impairment	$ 865	$ 6,317	$ 9,377	$ 124	$ —	$ —		$ 16,683
Collectively evaluated for impairment	163,878	583,404	363,811	39,185	156,403	19,940		1,326,621
Total ending loans balance	$ 164,743	$ 589,721	$ 373,188	$ 39,309	$ 156,403	$ 19,940		$ 1,343,304

2019								
	Commercial, Finance, and	Real Estate Mortgages				Other		
(In Thousands)	Agricultural	Residential	Commercial	Construction	Consumer automobile	consumer installment	Unallocated	Totals
Allowance for Loan Losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ —	$ 211	$ 1,104	$ —	$ 62	$ 16	$ —	$ 1,393
Collectively evaluated for impairment	1,779	4,095	2,106	118	1,718	262	423	10,501
Total ending allowance balance	$ 1,779	$ 4,306	$ 3,210	$ 118	$ 1,780	$ 278	$ 423	$ 11,894
Loans:								
Individually evaluated for impairment	$ 2,285	$ 6,176	$ 8,575	$ 65	$ 130	$ 16		$ 17,247
Collectively evaluated for impairment	153,928	617,080	354,686	38,002	150,387	23,027		1,337,110
Total ending loans balance	$ 156,213	$ 623,256	$ 363,261	$ 38,067	$ 150,517	$ 23,043		$ 1,354,357

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31, 2020 and 2019:

(In Thousands)	2020	2019
Land	$ 6,747	$ 6,772
Premises	22,334	21,566
Furniture and equipment	12,443	12,043
Leasehold improvements	3,698	3,077
Finance lease right-of-use assets	5,257	5,456
Total	50,479	48,914
Less accumulated depreciation and amortization	17,777	15,985
Net premises and equipment	$ 32,702	$ 32,929

Depreciation and amortization related to premises and equipment for the years ended 2020, 2019, and 2018 was $2,098,000, $2,053,000, and $1,789,000, respectively.

NOTE 8 - GOODWILL AND OTHER INTANGIBLES

As of December 31, 2020 and 2019, goodwill had a gross carrying value of $17,380,000 and accumulated amortization of $276,000 resulting in a net carrying amount of $17,104,000.

The gross carrying amount of goodwill is tested for impairment annually. Based on the fair value of the reporting unit, estimated using the expected present value of future cash flows, there was no evidence of impairment of the carrying amount at December 31, 2020 or 2019.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. Since the acquisition, no such adjustments were recorded. The identifiable intangible assets consist of a core deposit intangible and a trade name intangible which are being amortized on an accelerated basis, and also book of business intangible that is being amortized on a straight-line basis over the useful life of such assets. The net carrying amount of the core deposit intangible, the trade name intangible, and the book of business intangible at December 31, 2020 was $145,000, $11,000, and $515,000 respectively, with $1,736,000, $122,000, and $505,000 accumulated amortization as of that date.

As of December 31, 2020, the estimated future amortization expense for the core deposit and trade name intangible was:

(In Thousands)	Core Deposit Intangible	Trade Name Intangible	Book of Business Intangible	Total
2021	$ 83	$ 6	$ 102	$ 191
2022	48	4	102	154
2023	14	1	102	117
2024	—	—	102	102
2025	—	—	102	102
2026	—	—	5	5
	$ 145	$ 11	$ 515	$ 671

NOTE 9 - DEPOSITS

Time deposits of $250,000 or more totaled approximately $40,241,000 on December 31, 2020 and $70,962,000 on December 31, 2019. Interest expense on time deposits of $100,000 or more was approximately $4,138,000, $4,159,000, and $2,238,000, for the years ended December 31, 2020, 2019, and 2018, respectively.

At December 31, 2020, the scheduled maturities on time deposits of $100,000 or more are as follows:

(In Thousands)	2020
Three months or less	$ 16,189
Three months to six months	16,540
Six months to twelve months	48,101
Over twelve months	67,458
Total	$ 148,288

Total time deposit maturities are as follows at December 31, 2020:

(In Thousands)	2020
2021	$ 147,976
2022	82,279
2023	20,608
2024	9,771
2025	1,708
Thereafter	1,303
Total	$ 263,645

Total deposits at for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
(In Thousands)	Amount	Amount
Noninterest-bearing	$ 449,357	$ 334,746
Savings	209,924	176,732
Super Now	287,775	218,605
Money Market	283,742	216,038
Time	263,645	377,884
Total deposits	$1,494,443	$1,324,005

NOTE 10 - SHORT-TERM BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase and primarily FHLB advances, which generally represent overnight or less than six month borrowings. In addition to the outstanding balances noted below, the Banks also have additional lines of credit totaling $100,000,000 available from correspondent banks other than the FHLB. The outstanding balances and related information for short-term borrowings are summarized as follows at December 31, 2020, 2019, and 2018:

(In Thousands)	2020	2019	2018
Repurchase Agreements:			
Balance at year end	$ 5,244	$ 4,920	$ 5,662
Maximum amount outstanding at any month end	18,468	10,097	8,431
Average balance outstanding during the year	10,669	5,971	7,043
Weighted-average interest rate:			
At year end	0.14 %	0.22 %	0.20 %
Paid during the year	0.20 %	0.18 %	0.13 %
Overnight:			
Balance at year end	$ —	$ —	$ 162,203
Maximum amount outstanding at any month end	13,778	120,540	162,203
Average balance outstanding during the year	1,991	28,926	78,043
Weighted-average interest rate:			
At year end	— %	— %	2.62 %
Paid during the year	1.09 %	2.70 %	2.24 %

We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.The remaining contractual maturity of repurchase agreements in the consolidated balance sheets as of December 31, 2020 and December 31, 2019 is presented in the following tables.

	2020	2019
	Remaining Contractual Maturity of the Agreements	
(In Thousands)	Overnight and Continuous	Overnight and Continuous
Repurchase Agreements:		
Mortgage-backed securities	$ —	$ —
State and political securities	10,672	4,984
Other debt securities	1,000	1,768
Total carrying value of collateral pledged	$ 11,672	$ 6,752
Total liability recognized for repurchase agreements	$ 5,244	$ 4,920

NOTE 11 - LONG-TERM BORROWINGS

The following represents outstanding long-term borrowings with the FHLB by contractual maturities at December 31, 2020 and 2019:

(In Thousands)		**Weighted Average Interest Rate**		**Stated Interest Rate Range**			
Description	**Maturity**	**2020**	**2019**	**From**	**To**	**2020**	**2019**
Fixed	2020	— %	1.91 %	1.62 %	2.29 %	$ —	$ 43,333
Fixed	2021	2.73 %	2.73 %	2.46 %	3.00 %	30,000	30,000
Fixed	2022	2.24 %	2.24 %	1.98 %	2.56 %	23,000	23,000
Fixed	2023	2.60 %	2.60 %	1.84 %	3.10 %	25,000	25,000
Fixed	2024	2.24 %	2.35 %	1.50 %	2.96 %	40,000	35,000
Fixed	2025	1.62 %	— %	1.14 %	1.88 %	30,000	—
Total Fixed		2.27 %	2.32 %			148,000	156,333
Total		2.27 %	2.32 %			$ 148,000	$ 156,333

(In Thousands) **Year Ending December 31,**	**Amount**	**Weighted Average Rate**
2021	$ 30,000	2.73 %
2022	23,000	2.24 %
2023	25,000	2.60 %
2024	40,000	2.24 %
Thereafter	30,000	1.62 %
	$ 148,000	2.27 %

The Banks maintain a credit arrangement which includes a revolving line of credit with the FHLB. Under this credit arrangement, at December 31, 2020, JSSB has a remaining borrowing capacity of $236,685,000 and Luzerne has a remaining capacity of $178,077,000, which are subject to annual renewal and typically incur no service charges. Under terms of a blanket agreement, collateral for the FHLB borrowings must be secured by certain qualifying assets of each Bank which consist principally of first mortgage loans and state and political securities, along with other securities. Total outstanding letters of credit at December 31, 2020 with the FHLB for JSSB are $13,000,000 while Luzerne has $582,000 outstanding.

NOTE 12 - INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset position at December 31, 2020 and 2019:

(In Thousands)	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,910	$ 2,503
Deferred compensation	1,554	1,451
Lease liability	1,844	2,100
Defined pension	74	327
Investment securities allowance	54	18
Other	566	1,014
Total	7,002	7,413
Deferred tax liabilities:		
Lease right of use asset	1,790	2,069
Unrealized gain on available for sale securities	1,253	653
Investment security accretion	119	117
Deferred loan fees and discounts	215	256
Depreciation	511	385
Amortization	588	595
Total	4,476	4,075
Deferred tax asset, net	$ 2,526	$ 3,338

No valuation allowance was established at December 31, 2020 and 2019, because of the Corporation's ability to carry back capital losses to recover taxes paid in previous years and certain tax strategies, together with the anticipated future taxable income as evidenced by the Corporation's earning potential. The Corporation is no longer subject to federal, state, and local examinations by tax authorities for years before 2017.

The provision or benefit for income taxes is comprised of the following for the year ended December 31, 2020, 2019, and 2018:

(In Thousands)	2020	2019	2018
Currently payable	$ 3,165	$ 2,324	$ 3,143
Deferred expense (benefit)	309	814	(324)
Total provision	$ 3,474	$ 3,138	$ 2,819

A reconciliation between the expected income tax or benefit and the effective income tax rate on income before income tax provision or benefit follows for the year ended December 31, 2020, 2019, and 2018:

	2020		2019		2018	
(In Thousands)	Amount	%	Amount	%	Amount	%
Provision at expected rate	$ 3,927	21.00 %	$ 3,953	21.00 %	$ 3,681	21.00 %
(Decrease) increase in tax resulting from:						
Tax-exempt income	(475)	(2.54)	(547)	(2.91)	(633)	(3.61)
Tax credits	—	—	(184)	(0.98)	(177)	(1.01)
Other, net	22	0.12	(84)	(0.44)	(52)	(0.30)
Effective income tax provision and rate	$ 3,474	18.58 %	$ 3,138	16.67 %	$ 2,819	16.08 %

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

The Corporation has a noncontributory defined benefit pension plan (the "Plan") for all employees meeting certain age and length of service requirements that were hired prior to January 1, 2004, at which time entrance into the Plan was frozen. The benefit accrual for the Plan was subsequently frozen at December 31, 2014. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years within the final ten years of employment, until December 31, 2014 when the benefit accrual was frozen.

The following table sets forth the obligation and funded status as of December 31, 2020 and 2019:

(In Thousands)	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 21,456	$ 19,022
Interest cost	641	763
Actuarial loss	160	92
Benefits paid	(887)	(840)
Change in actuarial assumptions	2,183	2,419
Benefit obligation at end of year	$ 23,553	$ 21,456
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 19,901	$ 16,366
Actual return on plan assets	2,967	3,369
Employer contribution	1,500	1,000
Benefits paid	(887)	(841)
Adjustment to fair value of plan assets	3	7
Fair value of plan assets at end of year	23,484	19,901
Funded status	$ (69)	$ (1,555)
Accounts recognized on balance sheet as:		
Total liabilities	$ (69)	$ (1,555)
Amounts not yet recognized as a component of net periodic pension cost:		
Amounts recognized in accumulated other comprehensive income (loss) consist of:		
Net loss	$ 7,084	$ 6,622

The accumulated benefit obligation for the Plan was $23,553,000 and $21,456,000 at December 31, 2020 and 2019, respectively.

Components of Net Periodic Cost and Other Amounts Recognized in Other Comprehensive Income (Loss) as of December 31, 2020, 2019, and 2018 are as follows:

(In Thousands)	2020	2019	2018
Net periodic pension cost:			
Service cost	$ —	$ —	$ —
Interest cost	641	763	706
Expected return on plan assets	(1,274)	(995)	(1,098)
Amortization of unrecognized net loss	185	187	165
Net periodic (benefit) cost	$ (448)	$ (45)	$ (227)

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31, 2020, 2019, and 2018:

	2020	2019	2018
Discount rate	2.24 %	3.04 %	4.10 %
Rate of compensation increase	N/A	N/A	N/A

Weighted-average assumptions used to determine net periodic cost for years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Discount rate	3.04 %	4.10 %	3.47 %
Expected long-term return on plan assets	7.00 %	7.00 %	7.00 %

The expected long-term rate of return was estimated using market benchmarks by which the plan assets would outperform the market value in the future, based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on similar investments compared to past periods.

Plan Assets

The Plan's weighted-average asset allocations at December 31, 2020 and 2019 by asset category are as follows:

Asset Category	2020	2019
Cash	3.62 %	5.32 %
Fixed income securities	12.99 %	11.25 %
Equity	69.06 %	67.14 %
Inflation Hedges/Real Assets	5.16 %	5.75 %
Hedged Strategies	9.17 %	10.54 %
Total	100.00 %	100.00 %

The investment objective for the Plan is to maximize total return with tolerance for slightly above average risk, meaning the fund is able to tolerate short-term volatility to achieve above-average returns over the long term.

Asset allocation favors equities, with target allocation of approximately 62% equity securities, 15.0% fixed income securities, 10% inflation hedges/real assets, 10% hedged strategies, and 3% cash. Due to volatility in the market, the target allocation is not always desirable and asset allocations will fluctuate between the acceptable ranges. The equity portfolio's exposure is primarily in mid and large capitalization domestic equities with limited exposure to small capitalization and international stocks.

It is management's intent to give the investment managers flexibility, within the overall guidelines, with respect to investment decisions and their timing. However, certain investments require specific review and approval by management. Management is also informed of anticipated, significant modifications of any previously approved investment, or anticipated use of derivatives to execute investment strategies.

The following table sets forth by level, within the fair value hierarchy detailed in Note 21 - Fair Value Measurements, the Plan's assets at fair value as of December 31, 2020 and 2019:

	2020			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets:				
Cash and cash equivalents	$ 850	$ —	$ —	$ 850
Mutual funds - taxable fixed income	3,051	—	—	3,051
Mutual funds - domestic equity	11,325	—	—	11,325
Mutual funds - international equity	4,889	—	—	4,889
Inflation Hedges/Real Assets	1,214	—	—	1,214
Hedged Strategies	2,155	—	—	2,155
Total assets at fair value	$ 23,484	$ —	$ —	$ 23,484

	2019			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets:				
Cash and cash equivalents	$ 1,058	$ —	$ —	$ 1,058
Mutual funds - taxable fixed income	2,240	—	—	2,240
Mutual funds - domestic equity	10,797	—	—	10,797
Mutual funds - international equity	2,565	—	—	2,565
Inflation Hedges/Real Assets	1,145	—	—	1,145
Hedged Strategies	2,096	—	—	2,096
Total assets at fair value	$ 19,901	$ —	$ —	$ 19,901

The following future benefit payments are expected to be paid:

(In Thousands)	
2021	$ 960
2022	978
2023	1,049
2024	1,051
2025	1,102
2026-2030	5,940
	$ 11,080

The Corporation expects to contribute a minimum of $250,000 to its Pension Plan in 2021.

401(k) Savings Plan

The Corporation also offers a 401(k) savings plan in which eligible participating employees may elect to contribute up to a maximum percentage allowable not to exceed the limits of Code Sections 401(k), 404, and 415. The Corporation may make matching contributions equal to a discretionary percentage that is determined by the Board of Directors. Participants are at all times fully vested in their contributions and vest over a period of five years regarding the employer contribution. Contribution expense was approximately $502,000, $490,000, and $428,000 for the years ended December 31, 2020, 2019, and 2018, respectively.

Deferred Compensation Plan

The Corporation has a deferred compensation plan whereby participating directors elect to forego directors' fees paid in cash. Under this plan, the Corporation will make payments for a ten-year period beginning at the later of age 65 or ceasing to be a director in most cases or at death, if earlier, at which time payments would be made to their designated beneficiaries.

To fund benefits under the deferred compensation plan, the Corporation has acquired bank-owned life insurance policies on the lives of the participating directors for which insurance benefits are payable to the Corporation. The Corporation incurred expenses related to the plan of $431,000, $408,000, and $370,000 for the years ended December 31, 2020, 2019, and 2018, respectively. Benefits paid under the plan were approximately $57,000, $57,000, and $59,000 in 2020, 2019, and 2018, respectively.

NOTE 14 - STOCK OPTIONS

In 2020, the Corporation adopted the 2020 Equity Incentive Plan which replaced the 2014 Equity Incentive Plan. The Equity Incentive Plans are designed to help the Corporation attract, retain, and motivate employees and non-employee directors. Incentive stock options, non-qualified stock options, and restricted stock may be granted as part of the plan.

On January 5, 2018 a total of 37,500 options were issued with an additional 224,550 options issued on August 24, 2018. Of the 262,050 options issued during 2018, 94,050 have a vesting period of three years and the remaining 168,000 options vest in five years. On March 15, 2019, the Corporation issued 240,000 stock options with a strike price of $28.01. Of the options issued during 2019, 120,900 have a three year vesting period while the remaining 119,100 have a five year vesting period and all options expire ten years after issuance. On March 11, 2020 a total of 238,500 options were issued by the Corporation with a strike price of $25.34. Of the 238,500 options granted, 119,300 of the options have a three year vesting period with the remaining 119,200 options vesting in five years.

A summary of stock option activity for the year ended December 31, 2020 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	140,250	29.06	8.79	279,365
Granted	262,050	30.58	9.56	
Exercised	—	—		
Forfeited	(6,750)	28.51		
Expired	—	—		
Outstanding at December 31, 2018	395,550	30.08	8.97	4,019,522
Granted	240,000	28.01	9.21	
Exercised	—	—		
Forfeited	(9,750)	29.64		
Expired	—	—		
Outstanding at December 31, 2019	625,800	29.29	8.43	3,923,463
Granted	238,500	25.34	9.20	
Exercised	—	—		
Forfeited	(23,025)	29.44		
Expired	—	—		
Outstanding at December 31, 2020	841,275	$ 28.17	7.93	$ 159,795
Options exercisable at December 31, 2020	94,500	$ 28.95	5.66	$ —

On December 31, 2020, a total of 841,275 options were outstanding. Outstanding options at December 31, 2020 and the related vesting schedules are summarized below:

Stock Options Granted						
Date	Shares	Forfeited	Outstanding	Strike Price	Vesting Period	Expiration
March 11, 2020	119,300	—	119,300	$ 25.31	3 years	10 years
March 11, 2020	119,200	—	119,200	25.31	5 years	10 years
March 15, 2019	120,900	(5,700)	115,200	28.01	3 years	10 years
March 15, 2019	119,100	(5,550)	113,550	28.01	5 years	10 years
August 24, 2018	75,300	(5,250)	70,050	30.67	3 years	10 years
August 24, 2018	149,250	(10,650)	138,600	30.67	5 years	10 years
January 5, 2018	18,750	—	18,750	30.07	3 years	10 years
January 5, 2018	18,750	—	18,750	30.07	5 years	10 years
March 24, 2017	69,375	(9,000)	60,375	29.47	3 years	10 years
March 24, 2017	35,625	(2,250)	33,375	29.47	5 years	10 years
August 27, 2015	58,125	(24,000)	34,125	28.02	5 years	10 years

The fair value of stock options is estimated using the Black-Scholes option pricing model. The following is a summary of the assumptions used in this model for the stock options granted during 2020, 2019, and 2018:

	2020	2019	2018
Risk-free interest rate	1.32 %	2.49 %	2.68 %
Expected volatility	28.29 %	23.61 %	24.78 %
Expected dividend yield	5.77 %	4.16 %	4.38 %
Expected life	7.00 years	7.00 years	7.15 years
Weighted average grant date fair value per option	$ 3.80	$ 4.05	$ 5.15

The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on a straightline basis over the options' vesting periods while ensuring that the cumulative amount of compensation cost recognized at least equals the value of the vested portion of the award at that date. The Corporation determines the fair value of options granted using the Black-Scholes option-pricing model. The risk-free interest rate is based on the United States Treasury bond with a similar term to the expected life of the options at the grant date. Expected volatility was estimated based on the adjusted historic volatility of the Corporation's shares. The expected life was estimated to equal the contractual life of the options. The dividend yield rate was based upon recent historical dividends paid on shares.

For the years ended December 31, 2020, 2019, and 2018 there was $854,000, $680,000, and $486,000 in total share-based compensation expense, respectively. The compensation expense is recorded as part of the non-interest expenses in the Consolidated Statement of Income.

As of December 31, 2020, total unrecognized compensation costs related to non-vested options was $1,891,000 which is expected to be recognized over a period of 2.68 years. Exercisable stock awards at December 31, 2020 were 94,500 with a weighted average remaining exercisable contractual life of 5.66 years

NOTE 15 - EMPLOYEE STOCK PURCHASE PLAN

The Corporation maintains the Penns Woods Bancorp, Inc. Employee Stock Purchase Plan ("Plan"). The Plan is intended to encourage employee participation in the ownership and economic progress of the Corporation. The Plan allows for up to 1,500,000 shares to be purchased by employees. The purchase price of the shares is 95% of fair value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in fair value annually. There were 3,972 and 3,414 shares issued under the plan for the years ended December 31, 2020 and 2019, respectively.

NOTE 16 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Banks, including their immediate families and companies in which they are principal owners (more than ten percent), are indebted to the Corporation. Such indebtedness was incurred in the ordinary course of business on the same terms and at those rates prevailing at the time for comparable transactions with others.

A summary of loan activity with executive officers, directors, principal shareholders, and associates of such persons is listed below for the years ended December 31, 2020 and 2019:

(In Thousands)	Beginning Balance	New Loans	Repayments	Ending Balance
2019	$ 17,791	$ 5,125	$ (8,542)	$ 14,374
2020	14,374	12,956	(11,084)	16,246

Deposits from related parties held by the Banks amounted to $25,520,000 at December 31, 2020 and $18,121,000 at December 31, 2019.

NOTE 17 - 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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract amounts of these instruments express the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk.

Financial instruments whose contract amounts represent credit risk are as follows at December 31, 2020 and 2019:

(In Thousands)	2020	2019
Commitments to extend credit	$ 198,512	$ 187,778
Standby letters of credit	10,120	9,638
Credit exposure from the sale of assets with recourse	9,182	6,826

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation, on an extension of credit is based on management's credit assessment of the counterparty.

Standby letters of credit represent conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance related contracts. The coverage period for these instruments is typically a one year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

NOTE 18 - CAPITAL REQUIREMENTS

Federal regulations require the Corporation and the Banks to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Common Equity Tier 1, Total, and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2020 and 2019, the FDIC categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, common equity tier I risk-based, tier I risked-based, total risk-based, and tier I leverage capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Corporation's and the Banks' actual capital ratios (using the definitions from the prompt corrective action rules) are presented in the following tables, which shows that the Corporation and both Banks met all regulatory capital requirements.

Consolidated Corporation

	2020		2019	
(In Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 147,887	11.267 %	$ 140,372	10.674 %
For Capital Adequacy Purposes	59,066	4.500 %	59,179	4.500 %
Minimum To Maintain Capital Conservation Buffer	91,880	7.000 %	92,056	7.000 %
To Be Well Capitalized	85,317	6.500 %	85,480	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$ 159,490	12.151 %	$ 149,748	11.387 %
For Capital Adequacy Purposes	105,005	8.000 %	105,206	8.000 %
Minimum To Maintain Capital Conservation Buffer	137,820	10.500 %	138,083	10.500 %
To Be Well Capitalized	131,257	10.000 %	131,508	10.000 %
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 147,887	11.267 %	$ 140,372	10.674 %
For Capital Adequacy Purposes	78,754	6.000 %	78,905	6.000 %
Minimum To Maintain Capital Conservation Buffer	111,568	8.500 %	111,782	8.500 %
To Be Well Capitalized	105,005	8.000 %	105,207	8.000 %
Tier I Capital (to Average Assets)				
Actual	$ 147,887	8.436 %	$ 140,372	8.514 %
For Capital Adequacy Purposes	70,122	4.000 %	65,949	4.000 %
To Be Well Capitalized	87,652	5.000 %	82,436	5.000 %

Jersey Shore State Bank

(In Thousands)	2020 Amount	2020 Ratio	2019 Amount	2019 Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 103,812	10.906 %	$ 99,317	10.381 %
For Capital Adequacy Purposes	42,835	4.500 %	43,052	4.500 %
Minimum To Maintain Capital Conservation Buffer	66,632	7.000 %	66,970	7.000 %
To Be Well Capitalized	61,872	6.500 %	62,187	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$ 112,862	11.857 %	$ 106,093	11.089 %
For Capital Adequacy Purposes	76,149	8.000 %	76,539	8.000 %
Minimum To Maintain Capital Conservation Buffer	99,945	10.500 %	100,458	10.500 %
To Be Well Capitalized	95,186	10.000 %	95,674	10.000 %
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 103,812	10.906 %	$ 99,317	10.381 %
For Capital Adequacy Purposes	57,113	6.000 %	57,403	6.000 %
Minimum To Maintain Capital Conservation Buffer	80,910	8.500 %	81,321	8.500 %
To Be Well Capitalized	76,150	8.000 %	76,538	8.000 %
Tier I Capital (to Average Assets)				
Actual	$ 103,812	8.062 %	$ 99,317	8.191 %
For Capital Adequacy Purposes	51,507	4.000 %	48,501	4.000 %
To Be Well Capitalized	64,384	5.000 %	60,626	5.000 %

Luzerne Bank

(In Thousands)	2020 Amount	2020 Ratio	2019 Amount	2019 Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 40,206	11.156 %	$ 38,340	10.577 %
For Capital Adequacy Purposes	16,218	4.500 %	16,312	4.500 %
Minimum To Maintain Capital Conservation Buffer	25,228	7.000 %	25,374	7.000 %
To Be Well Capitalized	23,426	6.500 %	23,562	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$ 42,759	11.865 %	$ 40,940	11.295 %
For Capital Adequacy Purposes	28,830	8.000 %	28,997	8.000 %
Minimum To Maintain Capital Conservation Buffer	37,840	10.500 %	38,058	10.500 %
To Be Well Capitalized	36,038	10.000 %	36,246	10.000 %
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 40,206	11.156 %	$ 38,340	10.577 %
For Capital Adequacy Purposes	21,624	6.000 %	21,749	6.000 %
Minimum To Maintain Capital Conservation Buffer	30,634	8.500 %	30,811	8.500 %
To Be Well Capitalized	28,832	8.000 %	28,999	8.000 %
Tier I Capital (to Average Assets)				
Actual	$ 40,206	7.860 %	$ 38,340	8.653 %
For Capital Adequacy Purposes	20,461	4.000 %	17,723	4.000 %
To Be Well Capitalized	25,576	5.000 %	22,154	5.000 %

NOTE 19 - REGULATORY RESTRICTIONS

The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by all state-chartered banks. Accordingly, at December 31, 2020, the balance in the additional paid in capital account totaling $11,657,000 for JSSB and $42,214,000 for Luzerne is unavailable for dividends.

The Banks are subject to regulatory restrictions, which limit the ability to loan funds to Penns Woods Bancorp, Inc. At December 31, 2020, the regulatory lending limit amounted to approximately $23,343,000.

Cash and Due from Banks

JSSB and Luzerne had no reserve requirements by the district Federal Reserve Bank at December 31, 2020 or 2019; however, if they did they would be reported with cash and due from banks. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of cash on hand and a balance maintained directly with the Federal Reserve Bank.

NOTE 20 - FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I:	Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
Level II:	Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
Level III:	Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the balance sheet at their fair value on a recurring basis as of December 31, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	2020			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets measured on a recurring basis:				
Investment securities, available for sale:				
Mortgage-backed securities	$ —	$ 2,141	$ —	$ 2,141
State and political securities	—	108,013	—	108,013
Other debt securities	—	52,107	—	52,107
Investment equity securities:				
Other equity securities	1,288	—	—	1,288
Investment securities, trading:				
Other equity securities	40	—	—	40

(In Thousands)	2019 Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
Mortgage-backed securities	$ —	$ 4,966	$ —	$ 4,966
State and political securities	—	82,286	—	82,286
Other debt securities	—	61,367	—	61,367
Investment equity securities:				
Other equity securities	1,261	—	—	1,261
Investment securities, trading:				
Other equity securities	51	—	—	51

The following table presents the assets reported on the balance sheet at their fair value on a non-recurring basis as of December 31, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	2020 Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 15,648	$ 15,648
Other real estate owned	—	—	401	401

(In Thousands)	2019 Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 15,854	$ 15,854
Other real estate owned	—	—	413	413

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing level III techniques as of December 31, 2020 and 2019:

	2020				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 8,624	Discounted cash flow	Temporary reduction in payment amount	17% to (63)%	(18)%
			Probability of default	—%	
	7,024	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (30)%	(8)%
Other real estate owned	$ 401	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

	2019				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 6,950	Discounted cash flow	Temporary reduction in payment amount	17% to (59)%	(24)%
			Probability of default	—%	
	8,904	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (30)%	(9)%
Other real estate owned	$ 413	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

The significant unobservable inputs used in the fair value measurement of the Corporation's impaired loans using the discounted cash flow valuation technique include temporary changes in payment amounts and the probability of default.

Significant increases (decreases) in payment amounts would result in significantly higher (lower) fair value measurements. The probability of default is 0% for impaired loans using the discounted cash flow valuation technique because all defaulted impaired loans are valued using the appraisal of collateral valuation technique.

The significant unobservable input used in the fair value measurement of the Corporation's impaired loans using the appraisal of collateral valuation technique include appraisal adjustments, which are adjustments to appraisals by management for qualitative factors such as economic conditions and estimated liquidation expenses. The significant unobservable input used in the fair value measurement of the Corporation's other real estate owned are the same inputs used to value impaired loans using the appraisal of collateral valuation technique.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation is required to disclose fair values for its financial instruments. Fair values are made at a specific point in time, based on relevant market information and information about the financial instrument. These fair values do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular financial instrument. Also, it is the Corporation's general practice and intention to hold most of its financial instruments to maturity and not to engage in trading or sales activities. Because no market exists for a significant portion of the Corporation's financial instruments, fair values are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions can significantly affect the fair values.

Fair values have been determined by the Corporation using historical data and an estimation methodology suitable for each category of financial instruments. The Corporation's fair values, methods, and assumptions are set forth below for the Corporation's other financial instruments.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Corporation, are not considered financial instruments but have value, the fair value of financial instruments would not represent the full fair value of the Corporation.

The fair values of the Corporation's financial instruments not required to be measured or reported at fair value are as follows at December 31, 2020 and 2019:

			Fair Value Measurements at December 31, 2020		
(In Thousands)	**Carrying Value**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level I)**	**Significant Other Observable Inputs (Level II)**	**Significant Unobservable Inputs (Level III)**
Financial assets:					
Cash and cash equivalents (1)	$ 213,358	$ 213,358	$ 213,358	$ —	$ —
Restricted investment in bank stock (1)	15,377	15,377	15,377	—	—
Loans held for sale (1)	5,239	5,239	5,239	—	—
Loans, net	1,330,524	1,339,993	—	—	1,339,993
Bank-owned life insurance (1)	33,638	33,638	33,638	—	—
Accrued interest receivable (1)	8,394	8,394	8,394	—	—
Financial liabilities:					
Interest-bearing deposits	$1,045,086	$1,048,281	$ 781,441	$ —	$ 266,840
Noninterest-bearing deposits (1)	449,357	449,357	449,357	—	—
Short-term borrowings (1)	5,244	5,244	5,244	—	—
Long-term borrowings	153,475	159,575	—	—	159,575
Accrued interest payable (1)	1,112	1,112	1,112	—	—

1) The financial instrument is carried at cost at December 31, 2020, which approximate the fair value of the instruments

(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at December 31, 2019 Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents (1)	$ 48,589	$ 48,589	$ 48,589	$ —	$ —
Restricted investment in bank stock (1)	13,528	13,528	13,528	—	—
Loans held for sale (1)	4,232	4,232	4,232	—	—
Loans, net	1,343,650	1,346,395	—	—	1,346,395
Bank-owned life insurance (1)	29,253	29,253	29,253	—	—
Accrued interest receivable (1)	5,246	5,246	5,246	—	—
Financial liabilities:					
Interest-bearing deposits	$ 989,259	$ 990,747	$ 611,374	$ —	$ 379,373
Noninterest-bearing deposits (1)	334,746	334,746	334,746	—	—
Short-term borrowings (1)	4,920	4,920	4,920	—	—
Long-term borrowings	161,920	163,931	—	—	163,931
Accrued interest payable (1)	1,671	1,671	1,671	—	—

(1) The financial instrument is carried at cost at December 31, 2019, which approximate the fair value of the instruments

NOTE 22 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

Condensed financial information for Penns Woods Bancorp, Inc. follows:

CONDENSED BALANCE SHEET, DECEMBER 31,

(In Thousands)	2020	2019
ASSETS:		
Cash	$ 1,397	$ 287
Investment in subsidiaries:		
Bank	160,273	152,244
Non-bank	1,558	2,027
Other assets	1,030	574
Total Assets	$ 164,258	$ 155,132
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Other liabilities	$ 116	$ 172
Shareholders' equity	164,142	154,960
Total liability and shareholders' equity	$ 164,258	$ 155,132

CONDENSED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	2020	2019	2018
Operating income:			
Dividends from subsidiaries	$ 11,276	$ 10,326	$ 9,091
Equity in undistributed earnings of subsidiaries	5,684	6,906	6,973
Operating expenses	(1,754)	(1,560)	(1,360)
Net income	$ 15,206	$ 15,672	$ 14,704
Comprehensive income	$ 17,101	$ 19,531	$ 13,579

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	2020	2019	2018
OPERATING ACTIVITIES:			
Net income	$ 15,206	$ 15,672	$ 14,704
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(5,684)	(6,906)	(6,973)
Other, net	(494)	(269)	619
Net cash provided by operating activities	9,028	8,497	8,350
INVESTING ACTIVITIES:			
Investments in subsidiaries	—	(350)	—
FINANCING ACTIVITIES:			
Dividends paid	(9,020)	(8,876)	(8,818)
Issuance of common stock	1,102	769	583
Net cash used for financing activities	(7,918)	(8,107)	(8,235)
NET INCREASE IN CASH	1,110	40	115
CASH, BEGINNING OF YEAR	287	247	132
CASH, END OF YEAR	$ 1,397	$ 287	$ 247

NOTE 23 - CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2020	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$ 16,161	$ 16,044	$ 15,387	$ 15,046
Interest expense	4,000	3,794	3,542	3,079
Net interest income	12,161	12,250	11,845	11,967
Provision for loan losses	750	645	645	585
Non-interest income, excluding securities gains	2,409	2,423	3,024	2,701
Securities gains, net	28	198	1,011	374
Non-interest expense	10,110	9,611	9,707	9,640
Income before income tax provision	3,738	4,615	5,528	4,817
Income tax provision	661	851	1,051	911
Consolidated net income	$ 3,077	$ 3,764	$ 4,477	$ 3,906
Earnings per share - basic	$ 0.44	$ 0.53	$ 0.63	$ 0.56
Earnings per share - diluted	$ 0.44	$ 0.53	$ 0.63	$ 0.56

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2019	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$ 16,434	$ 16,841	$ 17,084	$ 16,415
Interest expense	3,756	3,928	4,181	4,094
Net interest income	12,678	12,913	12,903	12,321
Provision for loan losses	360	315	360	1,700
Non-interest income, excluding securities gains	2,188	2,492	2,652	2,418
Securities gains (losses), net	66	(23)	170	489
Non-interest expense	9,814	10,059	9,541	10,294
Income before income tax provision	4,758	5,008	5,824	3,234
Income tax provision	812	759	1,170	397
Consolidated net income	$ 3,946	$ 4,249	$ 4,654	$ 2,837
Earnings per share - basic	$ 0.56	$ 0.61	$ 0.66	$ 0.40
Earnings per share - diluted	$ 0.56	$ 0.60	$ 0.65	$ 0.39

NOTE 24 - REVENUE RECOGNITION

On January 1, 2018, the Corporation adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606 using the modified retrospective method, and applied the guidance to all contracts in scope that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The core principle of Topic 606, *Revenue from Contracts with Customers*, is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise more judgment when considering the terms of a contract than under Topic 605, *Revenue Recognition*. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope.

Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams such as certain credit and debit card fees, income from bank owned life insurance, and gain and losses on sales of investment securities are out of scope of Topic 606.

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts, merchant income, wire transfer income, check cashing fees, check printing fees, safe deposit box rental fees, life insurance and brokerage commissions. These revenue streams are largely transactional based and revenue is recognized upon completion of transaction.

Principal versus Agent Considerations

When more than one party is involved in providing goods or services to a customer, Topic 606 requires the Corporation to determine whether it is the principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal and therefore records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The Corporation most commonly acts as a principal and records revenue on a gross basis, except in certain circumstances. As an example, revenues earned from interchange fees, in which the Corporation acts as an agent, are recorded as non-interest income, net of the related expenses paid to the principal. Brokerage and insurance commissions are recognized when The M Group's services to the broker dealer and investment representative are complete.

Debit Card Fees

Interchange fees are one source of debit and credit card income that is comprised of an amount merchants pay card-issuing banks for the processing of their electronic transactions as a form of payment. ATM service charges, check card usage, and POS debit card transactions generate interchange and debit card income. Per Topic 606 interchange and debit card transaction fees are reported net of related network costs. See Note 1 - Recent Accounting Pronouncements. Prior to the adoption of Topic

606, non-interest expense included network costs. Interchange and debit card transaction fees at December 31, 2020, 2019, and 2018 are reported on a net basis of $1,280,000, $1,378,000 and $1,534,000, respectively. The below table compares gross interchange and debit card transaction fees net network costs for 2020, 2019, and 2018:

(In Thousands)	2020	2019	2018
Debit card transaction fees	$ 1,775	$ 1,876	$ 2,117
Other processing service fees	306	282	275
Gross interchange and card based transaction fees	2,081	2,158	2,392
Network costs	801	780	858
Net interchange and card based transaction fees	$ 1,280	$ 1,378	$ 1,534

NOTE 25 - LEASES

The following table shows finance lease right of use assets and finance lease liabilities as of December 31, 2020:

(In Thousands)	Statement of Financial Condition classification	December 31, 2020	December 31, 2019
Finance lease right of use assets	Premises and equipment, net	$ 5,257	$ 5,456
Finance lease liabilities	Long-term borrowings	5,475	5,587

The following table shows the components of finance and operating lease expense for the year ended December 31, 2020.

(In Thousands)	2020	2019
Finance Lease Cost:		
Amortization of right-of-use asset	$ 199	$ 254
Interest expense	212	224
Operating lease cost	318	393
Total Lease Cost	$ 729	$ 871

Gross rental expense for the twelve months ended December 31, 2018 was $541,000.

A maturity analysis of operating and finance lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

(In Thousands)	Operating	Finance
2021	$ 291	$ 282
2022	298	283
2023	273	284
2024	262	290
2025	265	300
2026 and thereafter	2,911	7,704
Total undiscounted cash flows	4,300	9,143
Discount on cash flows	(1,125)	(3,668)
Total lease liability	$ 3,175	$ 5,475

The following table shows the weighted average remaining lease term and weighted average discount rate for both operating and finance leases outstanding as of December 31, 2020.

	Operating	Finance
Weighted-average term (years)	17.5	27.2
Weighted-average discount rate	3.47 %	3.76 %

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

The Corporation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer along with the Corporation's President and Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2020 of the design and operation of the Corporation's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Corporation's Chief Executive Officer along with the Corporation's President and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2020.

There have been no changes in the Corporation's internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020. Management's assessment did not identify any material weaknesses in the Corporation's internal control over financial reporting.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework" issued by COSO in May 2013. Because there were no material weaknesses discovered, management believes that, as of December 31, 2020, the Corporation's internal control over financial reporting was effective.

S.R. Snodgrass, P.C. an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K.

Date: March 10, 2021	/s/ Richard A. Grafmyre	/s/ Brian L. Knepp
	Chief Executive Officer	President and Chief Financial Officer (Principal Financial Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Penns Woods Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses (ALL)

Description of the Matter
The Company's loan portfolio totaled $1.3 billion as of December 31, 2020, and the associated ALL was $13.8 million. As discussed in Notes 1 and 6 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and practices, depth of lending staff, economic conditions, changes in the loan portfolio mix, trends in loan delinquencies and nonaccrual loans, collateral values, and concentrations of credit risk for the commercial loan portfolios.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

How We Addressed the Matter in Our Audit
We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments, including the potential effect of COVID-19 on the adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's system reports and other internal sources and considered the existence of new or contrary information. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports on loan customers affected by the COVID-19 pandemic and the supporting documentation for substantiating revisions to qualitative factors.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes, to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

We have served as the Company's auditor since 1999.

Cranberry Township, Pennsylvania
March 10, 2021

ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information appearing under the captions "The Board of Directors and its Committees," "Election of Directors," "Information as to Nominees and Directors," "Delinquent Section 16(a) Reports," "Principal Officers of the Corporation," and "Certain Transactions" in the Corporation's Proxy Statement for the Corporation's 2021 annual meeting of shareholders (the "Proxy Statement") is incorporated herein by reference.

ITEM 11 EXECUTIVE COMPENSATION

Information appearing under the captions "Compensation of Directors," "Compensation Discussion and Analysis," "Compensation Committee Report," "Executive Compensation," "Grants of Plan-Based Awards," "Outstanding Equity Awards," "Option Exercises and Stock Vested," "Nonqualified Deferred Compensation," "Retirement Plan," "Potential Post-Employment Payments," and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the caption "Beneficial Ownership and Other Information Regarding Directors, Executive Officers, and Certain Beneficial Owners" in the Proxy Statement is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following tables provide certain information regarding securities issued or issuable under the Corporation's equity compensation plan as of December 31, 2020:

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity plans (excluding securities reflected in first column)
Equity compensation plan approved by security holders	841,275	$ 28.17	750,000
Equity compensation plan not approved by security holders	—	—	—
Total	841,275	$ 28.17	750,000

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the captions "Election of Directors" and "Certain Transactions" in the Proxy Statement is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing in the Proxy Statement under the captions, "Audit Fees," "Audit-Related Fees," "Tax Fees," "Other Fees," and "Pre-Approval of Audit and Permissible Non-Audit Services" is incorporated herein by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements

The following consolidated financial statements and reports are set forth in Item 8:

Report of Independent Auditors
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Comprehensive Income
Consolidated Statement of Changes in Shareholders' Equity
Consolidated Statement of Cash Flows
Notes to the Consolidated Financial Statements

2. Financial Statement Schedules

Financial statement schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits:

(3)(i)	Articles of Incorporation of the Registrant, as presently in effect (incorporated by reference to Exhibit 3(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).
(3)(ii)	Bylaws of the Registrant.
(4)(i)	Description of Capital Securities
(10)(i)	Form of First Amendment to the Jersey Shore State Bank Amendment and Restatement of the Director Fee Agreement, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K filed on June 29, 2006).
(10)(ii)	Employment Agreement, dated December 31, 2018, among Penns Woods Bancorp, Inc. and Brian L. Knepp (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 31, 2018).*
(10)(iii)	Amended and Restated Employment Agreement, dated March 9, 2021, between Penns Woods Bancorp, Inc. and Richard A. Grafmyre (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on March 10, 2021).*
(10)(iv)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Aron M. Carter (incorporated by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).*
(10)(v)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Michelle M. Karas (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).*
(10)(vi)	Supplemental Executive Retirement Plan dated as of September 25, 2020, effective September 1, 2020, between Jersey Shore State Bank and Brian Knepp (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 1, 2020).
(10)(vii)	Supplemental Executive Retirement Plan dated as of September 25, 2020, effective September 1, 2020, between Jersey Shore State Bank and Aron Carter (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on October 1, 2020).
(10)(viii)	Penns Woods Bancorp, Inc. 2020 Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's definitive proxy statement filed on March 23, 2020).
(10)(ix)	Penns Woods Bancorp, Inc. 2020 Non-Employee Director Compensation Plan (incorporated by reference to Appendix B to the Registrant's definitive proxy statement filed on March 23, 2020).
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
(31)(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
(31)(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer.
(32)(i)	Section 1350 Certification of Chief Executive Officer.
(32)(ii)	Section 1350 Certification of Principal Financial Officer.
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at December 31, 2020 and December 31, 2019; (ii) the Consolidated Statement of Income for the years ended December 31, 2020, 2019, and 2018; (iii) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2020, 2019, and 2018; (iv) the Consolidated Statement of Comprehensive Income for the years ended December 31, 2020, 2019, and 2018; (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2020, 2019, and 2018; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

* Denotes compensatory plan or arrangement.

EXHIBIT INDEX

(3)(ii)	Bylaws of the Registrant
(4) (i)	Description of Capital Securities
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
(31) (i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 10, 2021	PENNS WOODS BANCORP, INC.
	/s/ Richard A. Grafmyre
	Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Date
/s/ Richard A. Grafmyre Richard A. Grafmyre, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2021
/s/ Brian L. Knepp Brian L. Knepp, President and Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 10, 2021
/s/ R. Edward Nestlerode, Jr. R. Edward Nestlerode, Jr., Chairman of the Board	March 10, 2021
/s/ Daniel K. Brewer Daniel K. Brewer, Director	March 10, 2021
/s/ Michael J. Casale, Jr. Michael J. Casale, Jr., Director	March 10, 2021
/s/ William J. Edwards William J. Edwards, Director	March 10, 2021
/s/ James M. Furey, II James M. Furey, II, Director	March 10, 2021
/s/ D. Michael Hawbaker D. Michael Hawbaker, Director	March 10, 2021
/s/ Cameron W. Kephart Cameron W. Kephart, Director	March 10, 2021
/s/ Leroy H. Keiler, III Leroy H. Keiler, III, Director	March 10, 2021
/s/ Joseph E. Kluger Joseph E. Kluger, Director	March 10, 2021
/s/ Charles E. Kranich, II Charles E. Kranich, III, Director	March 10, 2021
/s/ Robert Q. Miller Robert Q. Miller, Director	March 10, 2021
/s/ John G. Nackley John G. Nackley, Director	March 10, 2021
/s/ Jill F. Schwartz Jill F. Schwartz, Director	March 10, 2021
/s/ William H. Rockey William H. Rockey, Director	March 10, 2021
/s/ Ronald A. Walko Ronald A. Walko, Director	March 10, 2021

Exhibit 3 (i)

BYLAWS

OF

PENNS WOODS BANCORP, INC.

ARTICLE I. MEETINGS OF SHAREHOLDERS.

Section 101. Place of Meetings. All meetings of the shareholders shall be held at such place or places, within or without the Commonwealth of Pennsylvania, as shall be determined by the Board of Directors from time to time. Notwithstanding the preceding sentence, if a meeting of the shareholders is held by means of the internet or other electronic communications technology in a fashion pursuant to which the shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders, pose questions to the directors, make appropriate motions and comment on the business of the meeting, the meeting need not be held at a particular geographic location.

Section 102. Annual Meetings. The annual meeting of the shareholders for the election of Directors and the transaction of such other business as may properly come before the meeting shall be held on such a day, at such hour, and at such place, consistent with applicable law, as the Board shall from time to time designate or as may be designated in any notice from the Secretary calling the meeting.

Section 103. Special Meetings. Special meetings of the shareholders may be called at any time by the Board of Directors, the Chairman of the Board, or the President. Business transacted at all special meetings shall be confined to the objects stated in the notice and matters germane thereto, unless all shareholders entitled to vote are present and shall have otherwise consented thereto.

Section 104. Conduct of Shareholders' Meetings. The President shall preside at all shareholders' meetings. In the absence of the President, the Secretary shall preside or, in his/her absence, any officer designated by the Board of Directors. The officer presiding over the shareholders' meeting shall have any and all powers and authority necessary, and may establish such rules and regulations, as he/she may deem to be reasonably necessary or desirable to conduct an orderly and expeditious meeting, preserve order and determine any and all procedural matters, including the proper means of obtaining the floor, who shall have the right to address the meeting, the manner in which shareholders will be recognized to speak, imposing reasonable limits on the amount of time at the meeting taken up in remarks by any one shareholder or group of shareholders, the number of times a shareholder may address the meeting, and the person to whom questions should be addressed. Unless the officer presiding over the shareholders' meeting otherwise requires, shareholders need not vote by ballot on any question.

Section 105. Quorum of Shareholders. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purpose of consideration and action on the matter. The presence or participation, including voting and taking other action, at a meeting of shareholders or the expression of consent or dissent to corporate action by a shareholder by conference telephone or other electronic means, including, without limitation, the internet, shall constitute the presence of, or vote or action by, or consent or dissent of the shareholder for purposes of these bylaws. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum. If a meeting cannot be organized because a quorum has not attended, those present may, except as otherwise provided by law, adjourn the meeting to such time and place as they may determine.

Section 106. Agenda for Annual Meeting. Matters to be placed on the agenda for consideration at annual meetings of shareholders may be proposed by the Board of Directors or by any shareholder entitled to vote for the election of Directors. Matters proposed for the agenda by shareholders entitled to vote for the election of Directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than ninety (90) days nor more than one hundred and fifty (150) days

prior to any annual meeting of shareholders. Each such notification notice given by a shareholder shall set forth: (a) the name, business address and residence address of the notifying shareholder; (b) the number of shares of capital stock of the Corporation owned by the notifying shareholder; (c) a brief description of the business desired to be brought before the annual meeting; and (d) any interest (other than an interest solely as a shareholder) which the notifying shareholder (or any affiliates or associates of the notifying shareholder) has in the business being proposed by the notifying shareholder. The officer presiding over the meeting of shareholders may determine and declare to the meeting that a matter proposed for the agenda was not made in accordance with the foregoing procedure, and if he/she should so determine, he/she shall so declare to the meeting and the matter shall be disregarded.

Section 107. Notice of Meetings of Shareholders.

(a) Notice of all meetings of shareholders shall be delivered, personally, by courier service, charges prepaid, by first class, express or bulk mail, postage prepaid, facsimile transmission, e-mail or other electronic communication addressed to the shareholder at his or her postal address, facsimile number, e-mail address or other electronic communication location as it appears on the books of the Company or as supplied by such shareholder to the Company for the purpose of notice, by or at the direction of the Chief Executive Officer, the Secretary or the officer or persons calling the meeting.

(b) Notice of any meeting of shareholders shall be delivered not less than ten (10) days, or in the case of bulk mail not less than twenty (20) days, before the date of the meeting. If the notice is sent by mail or courier, such notice shall be deemed to be delivered when deposited in the United States mail or with a courier service for delivery to the shareholder. If the notice is sent by facsimile, e-mail or other electronic communication, such notice shall be deemed to be delivered when sent to the shareholder.

Section 108. Proxies and Revocation of Proxies. Every shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed or authenticated by the shareholder, or by his duly authorized attorney in fact, and filed or transmitted to with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any agreement or any provision to the contrary, but the revocation of a proxy shall not be effective until an executed or authenticated notice thereof shall have been given to the Secretary of the Corporation or its designated agent in writing or by electronic transmission. A telegram, telex, cablegram, datagram, e-mail, Internet communication or other means of electronic transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact: (1) may, at the discretion of the Secretary, be treated as properly executed or authenticated for purposes of this subsection; and (2) shall be so treated if it sets forth or utilizes a confidential and unique identification number or other mark furnished by the Corporation to the shareholder for the purposes of a particular meeting or transaction. No unrevoked proxy shall be valid after three (3) years from the date of its execution, authentication or transmission, unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation or its designated agent.

ARTICLE II. DIRECTORS AND BOARD MEETINGS.

Section 201. Management by Board of Directors. The business and affairs of the Corporation shall be managed by its Board of Directors. The Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, regulation, the Articles of Incorporation or these Bylaws directed or required to be exercised or done by the shareholders.

Section 202. Nominations for Directors. Nominations for the election of Directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of directors. Nominations made by the shareholders entitled to vote for the election of directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company not less than ninety (90) days nor more than one hundred and fifty (150) days prior to any meeting of shareholders called for election of directors. Notice of nominations which are proposed by the Board of Directors shall be given by the Chairman of the Board or any other appropriate officer. Such notification required from shareholders shall contain the following information

to the extent known to the notifying shareholder: (a) name, age and business address, and, if known, residence address, of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his/her discretion, be disregarded by the presiding officer of the meeting, and upon his/her instruction, the vote tellers may disregard all votes cast for each such nominee. In the event the same person is nominated by more than one shareholder, the nomination shall be honored, and all shares of capital stock of the Corporation shall be counted, if at least one nomination for that person complies herewith.

Section 203. Directors Must be Shareholders. Every Director must be a shareholder of the Corporation and shall own in his/her own right the number of shares (if any) required by law in order to qualify as such Director. Any Director shall forthwith cease to be a Director when he/she no longer holds such shares, which fact shall be reported to the Board of Directors by the Secretary, whereupon the Board of Directors shall declare the seat of such Directors vacated.

Section 204. Eligibility and Mandatory Retirement. No person shall be eligible to be newly elected or appointed as a Director if such person shall have attained age sixty (60) on or prior to the date of election or appointment. No person shall be eligible to continue to serve as a Director beyond the date that the Director attains age seventy-six (76), and any director attaining age seventy-six (76) shall resign effective as of the date the Director turns seventy-six (76). Notwithstanding the foregoing, the provisions of this section shall not apply (i) to Directors elected as interim Directors at the first meeting of the Board of Directors of the Corporation, nor thereafter, should they desire to stand for re-election or (ii) to the appointment or election of a former senior officer of the Corporation or any of its affiliates upon his or her retirement from employment in such position..

Section 205. Number of Directors. The Board of Directors shall consist of not less than five (5) nor more than twenty-five (25) shareholders, the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors.

Section 206. Classification of Directors. The Directors shall be divided into three (3) classes, as nearly equal in number as possible, known as Class 1, consisting of not more than eight (8) Directors; Class 2, consisting of not more than eight (8) Directors; and Class 3, consisting of not more than nine (9) Directors. The initial Directors of Class 1 shall serve until the third (3rd) annual meeting of shareholders. At the third (3rd) annual meeting of the shareholders, the Directors of Class 1 shall be elected for a term of three (3) years and, after expiration of such term, shall thereafter be elected every three (3) years for three (3) year terms. The initial Directors of Class 2 shall serve until the second (2nd) annual meeting of shareholders. At the second (2nd) annual meeting of the shareholders, the Directors of Class 2 shall be elected for a term of three (3) years and, after the expiration of such term, shall thereafter be elected every three (3) years for three (3) year terms. The initial Directors of Class 3 shall serve until the first (1st) annual meeting of shareholders. At the first (1st) annual meeting of shareholders, the Directors of Class 3 shall be elected for a term of three (3) years and, after the expiration of such term, shall thereafter be elected every three (3) years for three (3) year terms. Each Director shall serve until his/her successor shall have been elected and shall qualify, even though his/her term of office as herein provided has otherwise expired, except in the event of his/her earlier resignation, removal or disqualification.

Section 207. Vacancies. Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of Directors, may be filled by the remaining members of the Board, even though less than a quorum. Any Director elected to fill a vacancy in the Board of Directors shall become a member of the same Class of Directors in which the vacancy existed; but if the vacancy is due to an increase in the number of Directors a majority of the members of the Board of Directors shall designate such directorship as belonging to Class 1, Class 2 or Class 3 so as to maintain the three (3) classes of Directors as nearly equal in number as possible. Each director so elected shall be a Director until the class to which he/she was appointed stands for election and until his or her successor is elected and qualified.

Section 208. Resignations. Any Director may resign at any time. Such resignation shall be in writing, but the acceptance thereof shall not be necessary to make it effective.

Section 209. Compensation of Directors. No Director shall be entitled to any salary as such; but the Board of Directors may fix, from time to time, a reasonable annual fee for acting as a Director and a reasonable fee to be paid each Director for his/her services in attending meetings of the Board and meetings of committees appointed by the Board. The Corporation may reimburse Directors for expenses related to their duties as a member of the Board.

Section 210. Regular Meetings. Regular meetings of the Board of Directors shall be held on such day, at such hour, and at such place, consistent with applicable law, as the Board shall from time to time designate or as may be designated in any notice from the Secretary calling the meeting. The Board of Directors shall meet for reorganization at the first regular meeting following the annual meeting of shareholders at which the Directors are elected. Notice need not be given of regular meetings of the Board of Directors which are held at the time and place designated by the Board of Directors. If a regular meeting is not to be held at the time and place designated by the Board of Directors, notice of such meeting, which need not specify the business to be transacted thereat and which may be either verbal or in writing, shall be given by the Secretary to each member of the Board at least twenty-four (24) hours before the time of the meeting.

A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business. If at the time fixed for the meeting, including the meeting to organize the new Board following the annual meeting of shareholders, a quorum is not present, the directors in attendance may adjourn the meeting from time to time until a quorum is obtained.

Except as otherwise provided herein, a majority of those directors present and voting at any meeting of the Board of Directors, shall decide each matter considered. A director cannot vote by proxy, or otherwise act by proxy at a meeting of the Board of Directors.

Section 211. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President or at the request of three (3) or more members of the Board of Directors. A special meeting of the Board of Directors shall be deemed to be any meeting other than the regular meeting of the Board of Directors. Notice of the time and place of every special meeting, which need not specify the business to be transacted thereat and which may be either verbal or in writing, shall be given by the Secretary to each member of the Board at least twenty-four (24) hours before the time of such meeting excepting the organization meeting following the election of Directors.

Section 212. Reports and Records. The reports of officers and Committees and the records of the proceedings of all Committees shall be filed with the Secretary of the Corporation and presented to the Board of Directors, if practicable, at its next regular meeting. The Board of Directors shall keep complete records of its proceedings in a minute book kept for that purpose. When a Director shall request it, the vote of each Director upon a particular question shall be recorded in the minutes.

ARTICLE III. COMMITTEES.

Section 301. Committees. The following two (2) Committees of the Board of Directors shall be established by the Board of Directors in addition to any other committee the Board of Directors may in its discretion establish: Executive Committee and Audit Committee.

Section 302. Executive Committee. The Executive Committee shall consist of any three (3) or more Directors. A majority of the members of the Executive Committee shall constitute a quorum, and actions of a majority of those present at a meeting at which a quorum is present shall be actions of the Committee. Meetings of the Committee may be called at any time by the Chairman or Secretary of the Committee, and shall be called whenever two (2) or more members of the Committee so request in writing. The Executive Committee shall have and may exercise all of the powers and authority of the Board of Directors in the management of the business of the Corporation between the dates of regular meetings of the Board, except as otherwise restricted by law.

Section 303. Audit Committee. The Audit Committee shall consist if at least three (3) Directors, none of whom shall be officers of the Corporation and all of whom shall meet such other requirements as may be imposed

by applicable law or regulation. Meetings of the Committee may be called at any time by the Chairman or Secretary of the Committee, and shall be called whenever two (2) or more members of the Committee so request in writing. A majority of the members of the Committee shall constitute a quorum, and actions of a majority of those present at a meeting at which a quorum is present shall be actions of the Committee. The Committee shall operate under a written charter, which shall set forth the Committee's duties and responsibilities, including supervising the audit of the books of the Corporation and recommending for approval by the Board the services of a reputable Certified Public Accounting firm to examine the affairs of the Corporation.

Section 304. Appointment of Committee Members. The Board of Directors shall elect the members of the Executive and Audit Committees to serve until the next annual meeting of shareholders. The President shall appoint or shall establish a method of appointing, subject to the approval of the Board of Directors, the members of any other Committees established by the Board of Directors to serve until the next annual meeting of shareholders. The Board of Directors may appoint, from time to time, other committees, for such purposes and with such powers as the Board may determine.

Section 305. Organization and Proceedings. Each Committee of the Board of directors shall effect its own organization by the appointment of a Secretary and such other Officers, except the Chairman and Vice Chairman, as it may deem necessary. A record of proceedings of all Committees shall be kept by the Secretary of such Committee and filed and presented as provided in Section 212 of these Bylaws.

ARTICLE IV. OFFICERS.

Section 401. Officers. The officers of the Corporation shall be a President, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time deem advisable. Except for the President, Secretary, and Treasurer, the Board may refrain from filling any of the said offices at any time and from time to time. The same individual may hold any two (2) or more offices except both the offices of President and Treasurer. The following officers shall be elected by the Board of Directors at the time, in the manner and for such terms as the Board of Directors from time to time shall determine: President, Executive Vice President, Senior Vice President, Administrative Vice President, Secretary, and Treasurer. The President may, subject to change by the Board of Directors, appoint such officers and Assistant Officers as he/she may deem advisable provided such Officers or Assistant Officers have a title not higher than Vice President, who shall hold office for such periods as the President shall determine. Any officer may be removed at any time, with or without cause, and regardless of the term for which such officer was elected, but without prejudice to any contract right of such officer. Each officer shall hold his office for the current year for which he was elected or appointed by the Board unless he shall resign, become disqualified, or be removed at the pleasure of the Board of Directors. An officer may resign at any time upon written notice to the Corporation. The resignation shall be effective upon receipt by the Corporation or at such subsequent time as may be specified in the notice of resignation.

Section 402. President. The President shall have general supervision of all of the departments and business of the Corporation and shall prescribe the duties of the other Officers and Employees and see to the proper performance thereof. The President shall be responsible for having all orders and resolutions of the Board of Directors carried into effect. The President shall execute on behalf of the Corporation and may affix or cause to be affixed a seal to all authorized documents and instruments requiring such execution, except to the extent that signing and execution thereof shall have been delegated to some other officer or agent of the Corporation by the Board of Directors or by the President. The President shall be a member of the. Board of Directors. In general, the President shall have such duties and powers as may be assigned to him from time to time by the Board of Directors or the Chairman of the Board. Without limiting the foregoing, the President shall be specifically authorized to represent the Corporation at any meetings of stockholders, partners or members, as the case may be, with respect to equity interests owned by the Corporation in other business entities and to vote, or execute a proxy or written consent in lieu of meeting, with respect to any shares or interests of such entity registered for standing in the name of the corporation.

Section 403. Vice Presidents. The Vice Presidents shall perform such duties, do such acts and be subject to such supervision as may be prescribed by the Board of Directors or the President. In the event of the absence or disability of the President or his/her refusal to act, the Vice Presidents, in the order of their rank, and

within the same rank in the order of their authority, shall perform the duties and have the powers and authorities of the President, except to the extent inconsistent with applicable law.

Section 404. Secretary. The Secretary shall act under the supervision of the President or such other Officers as the President may designate. Unless a designation to the contrary is made at a meeting, the Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all of the proceedings of such meetings in a book to be kept for that purpose, and shall perform like duties for the standing Committees when required by these Bylaws or otherwise. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Directors. The Secretary shall keep a seal of the Corporation, and, when authorized by the Board of Directors or the President, cause it to be affixed to any documents and instruments requiring it. The Secretary shall perform such other duties as may be prescribed by the Board of Directors, President, or such other Supervising Officer as the President may designate.

Section 405. Treasurer. The Treasurer shall act under the supervision of the President or such other Officer as the President may designate. The Treasurer shall have custody of the Corporation's funds and such other duties as may be prescribed by the Board of Directors, President or such other Supervising Officer as the President may designate.

Section 406. Assistant Officers. Unless otherwise provided by the Board of Directors, each Assistant Officer shall perform such duties as shall be prescribed by the Board of Directors, the President or the Officer to whom he/she is an Assistant. In the event of the absence or disability of an Officer or his/her refusal to act, his/her Assistant Officer shall, in the order of their rank, and within the same rank in the order of their seniority, have the powers and authorities of such Officer.

Section 407. Compensation. Unless otherwise provided by the Board of Directors, the salaries and compensation of all Officers and Assistant Officers, except the President shall be fixed by or in the manner designated by the President.

ARTICLE V. INDEMNIFICATION.

A. INDEMNIFICATION OF OFFICERS AND EMPLOYEES

Section 501. Mandatory Indemnification. The Corporation shall indemnify any officer and/or employee or any former officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was an officer and/or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust of other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful.

Section 502. The Corporation shall indemnify any officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called as a witness in connection with, any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, and/or employee or agent of another corporation, partnership, joint venture, trust of other enterprise against amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of, or serving as a witness in, such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and except that no indemnification shall be made in respect of any such claim, issue or

matter as to which such person shall have been adjudged to be liable for misconduct in the performance of his duty to the Corporation.

Section 503. Except as may be otherwise ordered by a court, there shall be a presumption that any officer and/or employee is entitled to indemnification as provided in Sections 501 and 502 of this Article unless either a majority of the directors who are not involved in such proceedings ("disinterested directors") or, if there are less than three (3) disinterested directors, then the holders of one-third of the outstanding shares of the Corporation determine that the person is not entitled to such presumption by certifying such determination in writing to the Secretary of the Corporation. In such event, the disinterested director(s) or, in the event of certification by shareholders, the Secretary of the Corporation, shall request of independent counsel, who may be the outside general counsel of the Corporation, a written opinion as to whether or not the parties involved, are entitled to indemnification under Sections 501 and 502 of this Article.

Section 504. Expenses (including attorneys' fees) incurred by an officer and/or employee in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided under Section 503 of this Article upon receipt of an undertaking by or on behalf of the officer and/or employee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation.

Section 505. The indemnification provided by Section 501 or 502 of this Article and the advancement of expenses provided by Section 504 of this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any agreement, vote or shareholders or disinterested directors, or otherwise both as to action in his official capacity while serving as an officer and/or employee and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be an officer and/or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 506. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification and expense advancement obligations arising under Sections 501, 502 and 504 of this Article.

Section 507. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was an officer and/or employee of the Corporation, or is or was serving at the request of the Corporation as an officer and/or employee of another corporation, partnership, joint venture, trust of other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

Section 508. Indemnification under Section 501 or 502 of this Article shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

B. INDEMNIFICATION OF DIRECTORS

Section 509. A director of this Corporation shall not be personally liable for monetary damages as such for any action taken or for any failure to take any action, unless:

(a) the director has breached or failed to perform the duties of his office; and

(b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

Section 510. The provisions of Section 509 of this Article shall not apply to:

(a) the responsibility or liability of a director pursuant to a criminal statute, or

(b) the liability of a director for the payment of taxes pursuant to local, state or federal law.

Section 511. The Corporation shall indemnify any director (including directors also then serving as officers or employees of the Corporation), or any former director who was or is a party to, or is threatened to be made a part to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the act that such person is or was a director of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent authorized or permitted by the laws of the Commonwealth of Pennsylvania.

Section 512. Expenses (including attorneys' fees) incurred by a director in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article.

Section 513. The indemnification provided by Section 511 this Article and the advancement of expenses provided by Section 512 of this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any agreement, vote or shareholders or disinterested directors, or otherwise, both as to action in his official capacity while serving as a director and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 514. The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification and expense advancement obligations arising under Sections 511 and 512 of this Article.

Section 515. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

Section 516. Indemnification under Section 511 of this Article shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

C. GENERAL PROVISIONS

Section 517. The provisions of this Article relating to the limitation of directors' liability, to indemnification and to the advancement of expenses shall constitute a contract between the Corporation and each of its directors, officers and employees which may be modified as to any director, officer or employee only with that person's consent or as specifically provided in the following sentence. Notwithstanding any other provision of these Bylaws relating to their amendment generally, any repeal or amendment of any provision of this Article, which is adverse to any director, officer or employee shall apply to such director, officer or employee, only on a prospective basis, and shall not reduce any limitation on the personal liability of a director of the Corporation or limit the rights of any person to indemnification or to the advancement of expenses with respect to any action or failure to act occurring prior to the time of such repeal or amendment.

Section 518. References in this Article V to Pennsylvania law or to any provision thereof shall be to such law (including without limitation the Directors' Liability Act) as it existed on April 27, 1988, or as such law thereafter may be changed, provided that (a) in the case of any change which expands the liability of directors or limits the indemnification rights or the rights to advancement of expenses which the Corporation may provide, the

rights to limited liability, to indemnification and to the advancement of expenses provided in this Article V shall continue as theretofore in effect to the extent permitted by law; and (b) if such change permits the Corporation without the requirement of any further action by shareholders or directors to limit further the liability of directors (or limit the liability of officers) or to provide broader indemnification rights or rights to the advancement of expenses than the Corporation was permitted to provide prior to such change, then liability thereupon shall be so limited and rights to indemnification and the advancement of expenses shall be so broadened to the extent permitted by law.

Section 519. If, for any reason, any provision of this Article V shall be held invalid, such invalidity shall not affect any other provision not held so invalid, and each such other provision shall, to the full extent consistent with law continue in full force and effect. If any provision of this Article V shall be held invalid in part, such invalidity shall in no way affect the remainder of such provision, and the remainder of such provision, together with all other provisions of this Article V shall, to the full extent consistent with law, continue in full force and effect.

ARTICLE VI. SHARES OF CAPITAL STOCK.

Section 601. Form of Certificates. Certificated shares shall be of such form and style, printed or otherwise, as the Board of Directors may designate, and each certificate shall state all of the following facts:

(a) That the Company is organized under the laws of the Commonwealth of Pennsylvania.

(b) The name of the registered holder of the shares represented by the certificate.

(c) The number and class of shares and the designation of the series, if any, which such certificate represents.

Section 602. Authority to Sign Share Certificates. Every share certificate of the Corporation shall be signed by the President or one of the Vice Presidents and by the Secretary or one of the Assistant Secretaries. Certificates may be signed by a- facsimile signature of the President and the Secretary or one of the Senior Vice Presidents or Assistant Secretaries of the Corporation.

Section 603. Transfer of Shares. Transfer of certificated or uncertificated shares shall be made on the books of the Corporation upon surrender of the shares therefor, and, in the case of certificated shares, endorsed by the person named in the certificate or by his attorney, lawfully constituted in writing. No transfer shall be made which is inconsistent with law.

Section 604. Lost or Destroyed Certificates. Any person claiming a share certificate to be lost, destroyed or wrongfully taken shall receive a replacement certificate if such person shall have: (a) requested such replacement certificate before the Corporation has notice that the shares have been acquired by a bona fide purchaser; (b) provided the Corporation with an indemnity agreement satisfactory in form and substance to the Board of Directors, or the President or the Secretary; and (c) satisfied any other reasonable requirements (including providing an affidavit and a surety bond) fixed by the Board of Directors, or the President or the Secretary.

Section 605. Transfer Agents and Registrars. The Board of Directors may appoint one (1) or more transfer agents and one (1) or more registrars, each of which shall be a registered transfer agent or registrar or shall be an incorporated bank or trust company, either domestic or foreign, either independent or a subsidiary of the Corporation, which shall be appointed at such times and places as the requirements of the Corporation may necessitate and the Board of Directors may designate.

ARTICLE VII. GENERAL.

Section 701. Fiscal Year. The fiscal year of the Corporation shall begin on the first (1st) day of January in each year and end on the thirty-first (31st) day of December in each year.

Section 702. Record Date. The Board of Directors may in the manner permitted by law fix a time prior to the date of any meeting of shareholders, or the date for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or will go into effect, as a record date for the determination of the shareholders entitled to notice of, or to vote at, any such meetings, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares.

Section 703. Absentee Participation in Meetings. One (1) or more Directors may participate in a meeting of the Board of Directors, or of a Committee of the Board, by means of a conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other.

Section 704. Emergency Bylaws. In the event of any emergency resulting from armed conflicts involving the United States military, terrorist attacks in the United States, nuclear or natural disasters, or similar catastrophes, and during the continuance of such emergency, the following Bylaw provisions shall be in effect, notwithstanding any other provisions of the Bylaws:

(a) A meeting of the Board of Directors or of any Committee thereof may be called by any Officer or Director upon one (1) hour's notice to all persons entitled to notice whom, in the sole judgment of the notifier, it is feasible to notify;

(b) The Director or Directors in attendance at the meeting of the Board of Directors or of any Committee thereof shall constitute a quorum; and

(c) These Bylaws may be amended or repealed, in whole or in part, by a majority vote of the Directors attending any meeting of the Board of Directors, provided such amendment or repeal shall only be effective for the duration of such emergency.

Section 705. Severability. If any provision of these Bylaws is illegal or unenforceable as such, such illegality or unenforceability shall not affect any other provision of these Bylaws and such other provisions shall continue in full force and effect.

ARTICLE VIII. AMENDMENT OR REPEAL.

Section 801. Amendment or Repeal by the Board of Directors. These Bylaws may be amended or repealed, in whole or in part, by a majority vote of members of the Board of Directors at any regular or special meeting of the Board duly convened. Notice need not be given of the purpose of the meeting of the Board of Directors at which the amendment or repeal is to be considered.

Section 802. Recording Amendments and Repeals. The text of all amendments and repeals to these Bylaws shall be attached to the Bylaws with a notation of the date and vote of such amendment or repeal.

ARTICLE IX. APPROVAL OF AMENDED BYLAWS AND RECORD OF AMENDMENTS AND REPEALS.

Section 901. Approval and Effective Date. These Bylaws have been approved as the Bylaws of the Corporation this 23rd day of February, 1983, and shall be effected as of said date.

Section 902. Amendments or Repeals.

Section Involved	Date Amended/Repealed	Approved By
Article V Indemnification	Amended April 27, 1988	Shareholders at Annual Meeting
Article VI Shares of Capital	Amended September 27, 1994	Board of Directors at bi-

Stock Sec. 601		Monthly Meeting
Article II Eligibility and Mandatory Retirement Sec. 204	Amended April 7, 1995	Board of Directors at Special Meeting
Article II Vacancies Sec. 207	Amended April 7, 1995	Board of Directors at Special Meeting
Article I Quorum of Shareholders Sec. 105	Amended October 11, 2001	Board of Directors at Special Meeting
Amendment and Restatement	Amended June 14, 2005	Board of Directors at Regular Meeting
Article II Eligibility and Mandatory Retirement Sec. 204	Amended November 22, 2011	Board of Directors at Regular Meeting
Article II Eligibility and Mandatory Retirement Sec. 204	Amended August 15, 2015	Board of Directors at Regular Meeting
Article I Meetings of Shareholders Sec. 101 and Sec. 105	Amended April 2, 2020	Unanimous Written Consent of Directors

Exhibit 4(i)

DESCRIPTION OF CAPITAL STOCK

As of March 1, 2021, Penns Woods Bancorp, Inc. (the "Corporation") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, $5.55 par value per share (the "Common Stock"). The following summarizes the provisions of the Common Stock under the articles of incorporation and bylaws of the Corporation and under the provisions of the Pennsylvania Business Corporation Law of 1988, as amended (the "PBCL"). The summary should be read in conjunction to the complete text of the articles of incorporation and bylaws and the PBCL.

Authorized Shares of Capital Stock

The authorized capital stock consists of 22,500,000 shares of Common Stock and 3,000,000 shares of preferred stock. As of March 1, 2021, there were 7,056,712 shares of Common Stock issued and outstanding. No shares of preferred stock were issued and outstanding as of March 1, 2021.

Common Stock

Voting Rights

Holders of Common Stock are entitled to one vote for every share having voting power on all matters submitted for action by the shareholders. Holders of Common Stock do not have cumulative voting rights in the election of directors. The Corporation's articles of incorporation provide that a merger, consolidation, liquidation, or dissolution of the Corporation requires the affirmative vote of 66-2/3% of our outstanding shares of Common Stock, in addition to any vote required by law. This provision does not apply to any merger, consolidation, share exchange or similar transaction if (i) members of the Corporation's board of directors will constitute at least a majority of the of the board of directors or the surviving or new corporation or entity immediately after the transaction and (ii) shareholders of the Corporation will hold in the aggregate voting shares of the surviving or new corporation or entity to be outstanding immediately after completion of the transaction entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors.

Dividends and Distributions

Holders of Common Stock are entitled to receive dividends ratably if, as and when dividends are declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any.

Ranking

Upon liquidation, dissolution or winding up, the holders of Common Stock are entitled to receive ratably the assets available for distribution to the shareholders after payment of liabilities and accumulated and unpaid dividends and liquidation preferences on outstanding preferred stock, if any.

No Conversion Rights; No Preemptive Rights; No Redemption

Holders of Common Stock have no preemptive or conversion rights and are not subject to further calls or assessment by the Corporation. There are no redemption or sinking fund provisions applicable to the Common Stock. The rights, preferences and privileges of holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock, which our board of directors may designate and issue in the future without further shareholder approval.

Stock Exchange Listing

The Common Stock is listed on the Nasdaq Global Select Market under the symbol, "PWOD."

Fully Paid and Nonassessable

Outstanding shares of Common Stock are validly issued, fully-paid and nonassessable.

Preferred Stock

The Corporation's articles of incorporation authorize the board of directors to fix by resolution the voting rights, designations and preferences, priorities, qualifications, privileges, limitations, restrictions, options, conversion rights, dividend features, retirement features, liquidation features, redemption features and other special or relative rights of the preferred stock and any series thereof. The board of directors has full authority to issue authorized preferred stock from time to time in one or more series, without further shareholder approval.

Anti-Takeover Provisions

Certain provisions of the Corporation's articles of incorporation, bylaws and the PBCL may have the have the effect of delaying, deferring, or preventing a change in control of the Corporation:

Pennsylvania Anti-Takeover Provisions

Certain anti-takeover provisions of the PBCL apply to Pennsylvania registered corporations (e.g., publicly traded companies) including those relating to (1) control share acquisitions, (2) disgorgement of profits by certain controlling persons, (3) business combination transactions with interested shareholders, and (4) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows corporations to opt-out of these anti-takeover sections under certain circumstances, but the Corporation has not opted out of any of these anti-takeover provisions. A general summary of these applicable anti-takeover provisions is set forth below.

Control Share Acquisitions. Pennsylvania law regarding control share acquisitions relates to the act of acquiring for the first time voting power over voting shares (other than (i) shares owned continuously by the same natural person since January 1, 1988, (ii) shares beneficially owned by any natural person or trust, estate, foundation or similar entity to the extent such shares were acquired solely by gift, inheritance, bequest, device or other testamentary distribution, directly or indirectly, from a natural person who beneficially owned the shares prior to January 1, 1988 or (iii) shares acquired pursuant to a stock split, stock dividend or similar distribution with respect to shares that have been beneficially owned continuously since their issuance by the Corporation by the shareholder that acquired them from the Corporation or that were acquired from such shareholder pursuant to (ii) above) equal to: (a) at least 20% but less than 33 1/3%; (b) at least 33 1/3% but less than 50%; or (c) 50% or more of the voting power of the corporation. Once a control share acquisition has occurred, then all shares in excess of the triggering threshold, plus shares purchased at any time with the intention of acquiring such voting power or shares purchased within 180 days of the date the triggering threshold was exceeded, are considered control shares. Control shares cannot vote either until their voting rights have been restored by two separate votes of the shareholders, as described below, or until they have been transferred to a person who is not an affiliate of the transferor and does not thereby also become the holder of control shares.

The holder of control shares may wait until the next annual or special meeting after the acquisition took place to submit the question of the restoration of voting rights to the shareholders, or the acquiring person may accelerate the process by agreeing to underwrite the cost of a special meeting of shareholders for that purpose. In either case, the acquiring person is required to furnish for distribution to the shareholders an information statement containing a detailed disclosure concerning the acquiring person, its intentions with respect to ownership of securities of the corporation and other matters. As an alternative, a person submitting a bona fide written offer to make a control share acquisition may request prospective approval by the shareholders of the exercise of the voting rights of the shares proposed to be acquired, provided that the control share acquisition is consummated within 90 days after shareholder approval is obtained. Two shareholder votes are required to approve the restoration of voting rights. First, the approval of a majority of all voting power must be obtained. Second, the approval of a majority of all disinterested shareholders must be obtained.

For a period of 24 months after the later of (a) a control share acquisition by an acquiring person who does not properly request consideration of voting rights, or (b) the denial of such a request or lapse of voting rights, the corporation may redeem all the control shares at the average of the high and low public market sales price of the shares on the date notice of the call for redemption is given by the corporation.

Disgorgement of Profits by Certain Controlling Persons. Pennsylvania law regarding disgorgement of profits by certain controlling persons applies in the event that (a) any person or group directly or indirectly publicly discloses or causes to be disclosed that the person or group may seek to acquire control of the corporation, or (b) a person or group acquires, offers to acquire or directly or indirectly publicly discloses or causes to be disclosed an intent to acquire) 20% or more of the voting power of the corporation and, in either case, sells shares within 18 months thereafter. Any profits from sales of equity securities of the corporation received by the person or group during such 18-month period will belong to the corporation if the securities

that were sold were acquired during the 18-month period after or within 24 months prior to becoming a controlling person.

Business Combination Transactions with Interested Shareholders. Pennsylvania law regarding business combination transactions with interested shareholders provides that a person who acquires the direct or indirect beneficial ownership of shares entitled to cast at least 20% of the votes entitled to be cast for the election of directors or an affiliate or associate of the corporation who at any time within the prior five years was the beneficial owner, directly or indirectly, of 20% of the voting shares of the corporation is an "interested shareholder." A corporation subject to this provision may not effect mergers or certain other business combinations with the interested shareholder for a period of five years, unless:

- the business combination or the acquisition of stock by means of which the interested shareholder became an interested shareholder is approved by the corporation's board of directors prior to such stock acquisition;
- the business combination is approved by the affirmative vote of the holders of all the outstanding common shares of the corporation; or
- the business combination is approved by the affirmative vote of the holders of a majority of all shares entitled to vote, excluding votes of shares held by the interested shareholders or their affiliates, and at the time of such vote, the interested shareholder is the beneficial owner of at least 80% of the voting shares of the corporation. This exception applies only if the value of the consideration to be paid by the interested shareholder in connection with the business combination satisfies certain fair price requirements.

After the five-year restricted period, an interested shareholder of the corporation may engage in a business combination with the corporation if (a) the business combination is approved by the affirmative vote of a majority of the shares other than those beneficially owned by the interested shareholder and its affiliates, or (b) the merger is approved at a shareholders meeting and certain fair price requirements are met.

Rights of Shareholders to Demand Full Value for their Stock Following Control Transaction. Under Pennsylvania law, a control transaction is an acquisition by a person or group of the voting power over at least 20% of the voting shares of the corporation. Subject to exceptions, if a Pennsylvania registered corporation is subject to a control transaction, the controlling person or group must provide prompt notice of the transaction to the court and each shareholder of record holding voting shares. Any holder of voting shares may make a written demand on the controlling person or group for payment in cash of the fair value of each voting share at the date on which the control transaction occurs. The minimum value that a shareholder can receive is the highest price paid per share by the controlling person or group within the 90-day period ending on and including the date of the control transaction. If any shareholder believes the fair value of her shares is higher than the price offered by the controlling person or group, the shareholder may file a petition with the court seeking appraisal of the shares.

Blank Check Preferred Stock

The articles of incorporation provide for the issuance of preferred stock having terms established by the Corporation's board of directors without shareholder approval.

Staggered Board of Directors

The articles of incorporation provide for the classification of the board of directors into three classes with each class serving a staggered three-year term. As a result of this classification, only one third of the entire board of directors stands for election in any one year and a minimum of two annual meetings would be required to elect a majority of the board of directors.

Calling of Special Meetings of Shareholders

Pursuant to the bylaws, special meetings of shareholders may only be called by the Chairman of the Corporation's board of directors, by the Corporation's board of directors, or by the President of the Corporation.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

The bylaws provide that notice of any proposal by a shareholder which the shareholder desires to submit to a vote at an annual meeting, including any director nominations, must made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than ninety (90) days nor more than one hundred and fifty (150) days prior to any annual meeting of shareholders. The bylaws also specify requirements as to the contents of the shareholder's notice or nomination. If notice is not provided in accordance with these provisions, a shareholder's proposal will not appear on the meeting agenda.

Removal of Directors

Under Pennsylvania law and the Corporation's articles of incorporation, directors can be removed from office by a vote of shareholders only for cause.

Board of Directors May Oppose Any Take-Over Offer

The articles of incorporation provide that the board of directors may, if it deems it advisable, oppose a tender, or other offer for the Corporation's securities, whether the contemplated payment is in cash or in the securities of a corporation, or some other form of consideration. When considering whether to oppose an offer, the board of directors may consider any pertinent issues, including any or all of the following:

- whether the offer price is acceptable based on the historical and present operating results or financial condition of the Corporation;
- whether a more favorable price could be obtained for the Corporation's securities in the future;
- the impact which an acquisition of the Corporation would have on the employees, depositors and customers of the Corporation and its subsidiaries in the community which they serve;
- the reputation and business practices of the offeror and its management and affiliates as they would affect the employees, depositors and customers of the Corporation and its subsidiaries and the future value of the Corporation's stock;
- the value of the securities (if any) which the offeror is offering in exchange for the Corporation's securities, based on an analysis of the worth of the Corporation as compared to the corporation or other entity whose securities are being offered; and
- any antitrust or other legal and regulatory issues that are raised by the offer.

If the board of directors determines that an offer should be rejected, it may take any lawful action to accomplish its purpose including:

- advising shareholders not to accept the offer;
- litigation against the offeror;
- filing complaints with governmental and regulatory authorities;
- acquiring the authorized but unissued securities or treasury stock or granting options with respect thereto;
- acquiring a Corporation to create an antitrust or other regulatory problem for the offeror; and
- obtaining a more favorable offer from another individual or entity.

Amendments to Articles of Incorporation

Under the PBCL, an amendment to the articles of incorporation requires, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter and the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class. The PBCL also provides that our shareholders are not entitled by statute to propose amendments to the articles of incorporation.

The articles of incorporation provide that, in addition to any affirmative vote required by law, the approval of any amendment to Article 13 (business combinations) of the articles of incorporation requires the affirmative vote of holders of at least 66-2/3% of the outstanding shares of voting stock.

Amendments to Bylaws

The bylaws provide that our bylaws may be amended or repealed, in whole or in part, by the affirmative vote of a majority of the board of directors at any regular or special meeting of the board of directors. The PBCL provides that the ability of our board of directors to adopt, amend or repeal the bylaws is subject to the power of shareholders to change such action. The PBCL also provides that the board of directors does not have the authority to adopt or change a bylaw on specified subjects, including, but not limited to, authorized capital, the personal liability of directors, various matters relating to our board of directors, and matters relating to the voting rights of shareholders.

Exhibit 21

Subsidiaries of the Registrant

	State or Jurisdiction Under the Law of Which Organized
Jersey Shore State Bank	Pennsylvania
Luzerne Bank	Pennsylvania
Woods Real Estate Development Company, Inc.	Pennsylvania
Woods Investment Company, Inc.	Delaware
The M Group (subsidiary of the Jersey Shore State Bank)	Pennsylvania
United Insurance Solutions, LLC	Pennsylvania

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-238749, File No. 333-238748, File No. 333-205722, File No. 333-134585, File No. 333-58682 on Form S-8 of Penns Woods Bancorp, Inc. of our report dated March 10, 2021, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Penns Woods Bancorp, Inc. for the year ended December 31, 2020.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 10, 2021

Exhibit 31(i)

Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer

I, Richard A. Grafmyre, certify that:

1. I have reviewed this annual report on Form 10-K of Penns Woods Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Richard A. Grafmyre
Richard A. Grafmyre
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(ii)

Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer

I, Brian L. Knepp, certify that:

1. I have reviewed this annual report on Form 10-K of Penns Woods Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Brian L. Knepp

Brian L. Knepp
President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32 (i)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penns Woods Bancorp, Inc. (the "Company") on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Grafmyre, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard A. Grafmyre

Richard A. Grafmyre
Chief Executive Officer
March 10, 2021

Exhibit 32 (ii)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penns Woods Bancorp, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian L. Knepp, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Brian L. Knepp

Brian L. Knepp
President and Chief Financial Officer
March 10, 2021

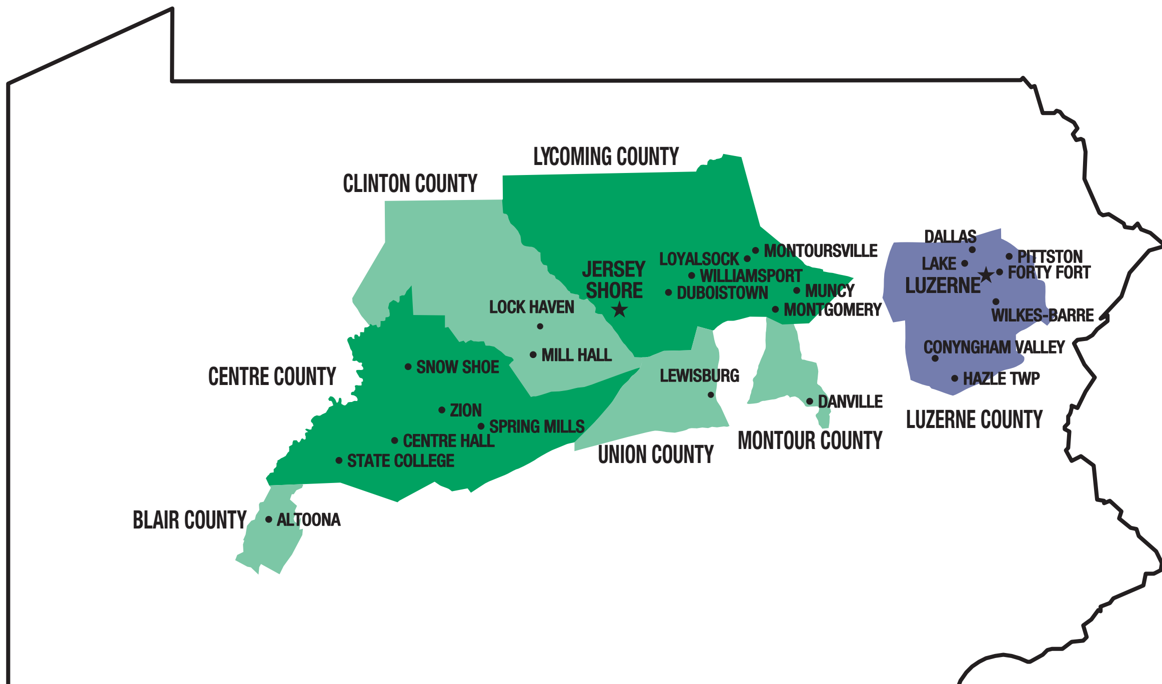
BOARD OF DIRECTORS

Penns Woods Bancorp, Inc.	
Daniel K. Brewer	Certified Public Accountant, retired principal, Brewer and Company, LLC
Michael J. Casale, Jr.	Principal, Michael J. Casale, Jr., Esq., LLC
William J. Edwards	President & Owner of JEB Environmental Technologies, Inc.
James M. Furey, II	Retired Former President & Former Owner of Eastern Wood Products
Richard A. Grafmyre	Chief Executive Officer of the Corporation and Luzerne Bank
D. Michael Hawbaker	Executive Vice President of Glenn O. Hawbaker, Inc.
Leroy H. Keiler, III	Leroy H. Keiler, III, Attorney at Law
Cameron W. Kephart	Executive Vice President, Susquehanna Transit Company & Susquehanna Trailways LLC
Joseph E. Kluger	Chairman of the Board of Luzerne Bank, Managing Principal of Hourigan, Kluger & Quinn P.C.
Brian L. Knepp	President of the Corporation & Chief Financial Officer of the Corporation, JSSB, and Luzerne Bank
Charles E. Kranich, II	President of Kranich's Jewelers
Robert Q. Miller	President of Miller Brothers Auto Sales & Mor Car Rentals
John G. Nackley	President & CEO of InterMetro Industries Corporation
R. Edward Nestlerode, Jr.	Chairman of the Board of the Corporation, President and Chief Executive Officer of Nestlerode Contracting Co., Inc.
William H. Rockey	Retired; Former Senior Vice President of the Corporation & JSSB; Former President of First National Bank of Spring Mills
Jill F. Schwartz	Senior Partner of Wyoming Weavers; President of Fortune Fabrics, Inc.; Owner of Gosh Yarn It!
Ronald A. Walko	Retired; Former President and Chief Executive Officer of the Corporation and JSSB

Jersey Shore State Bank	
Daniel K. Brewer	Certified Public Accountant, retired principal, Brewer and Company, LLC
Michael J. Casale, Jr.	Principal, Michael J. Casale, Jr., Esq., LLC
William J. Edwards	President & Owner of JEB Environmental Technologies, Inc.
James M. Furey, II	Retired Former President & Former Owner of Eastern Wood Products
Richard A. Grafmyre	Chief Executive Officer of the Corporation and Luzerne Bank
D. Michael Hawbaker	Executive Vice President of Glenn O. Hawbaker, Inc.
Leroy H. Keiler, III	Leroy H. Keiler, III, Attorney at Law
Cameron W. Kephart	Executive Vice President, Susquehanna Transit Company & Susquehanna Trailways LLC
Brian L. Knepp	President of the Corporation & Chief Financial Officer of the Corporation, JSSB, and Luzerne Bank
Charles E. Kranich, II	President of Kranich's Jewelers
Robert Q. Miller	President of Miller Brothers Auto Sales & Mor Car Rentals
R. Edward Nestlerode, Jr.	Chairman of the Board of the Company, President and Chief Executive Officer of Nestlerode Contracting Co., Inc.
William H. Rockey	Retired; Former Senior Vice President of the Company & JSSB; Former President of First National Bank of Spring Mills
Ronald A. Walko	Retired; Former President and Chief Executive Officer of the Company and
Karen S. Young	President & Chief Executive Officer of JSSB

Luzerne Bank	
Patricia Finan Castellano	Health Care Consultant
James F. Clemente	Managing Partner, Snyder & Clemente
Robert G. Edgerton, Jr.	Retired, Former President & Chief Executive Officer of Luzerne Bank
Robert Gill	Partner, Thomas M. Gill & Company
Richard A. Grafmyre...................	Chief Executive Officer of the Corporation and Luzerne Bank
Joseph E. Kluger.........................	Chairman of the Board of Luzerne Bank, Managing Principal of Hourigan, Kluger & Quinn P.C.
Brian L. Knepp	President of the Corporation & Chief Financial Officer of the Corporation, JSSB, and Luzerne Bank
Gary F. Lamont...........................	Principal, Conyngham Pass Co.; Former President of Luzerne Bank
Robert G. Lawrence....................	Partner, Lawrence, Cable and Company, LLP
John G. Nackley..........................	President and CEO of InterMetro Industries Corporation
Robert O. Neher ………………..	President, Luzerne Bank
Jill F. Schwartz...........................	Senior Partner of Wyoming Weavers; President of Fortune Fabrics, Inc.; Owner of Gosh Yarn It!
Angelo C. Terrana, Jr.	Principal, Terrana Law, P.C.

Jersey Shore State Bank Locations
& Luzerne Bank Locations



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Williamsport, PA 17703-0967

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