MUNI INTERMEDIATE DURATION FUND INC
Form 497
August 02, 2005
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PROSPECTUS

$35,000,000

Muni Intermediate Duration Fund, Inc.

Auction Market Preferred Stock (AMPS)

1,400 Shares, Series TH28

Liquidation Preference $25,000 per Share

Muni Intermediate Duration Fund, Inc. is a non-diversified, closed-end fund. The investment objective of the Fund is to provide common stockholders with high current income exempt from Federal income taxes. The Fund seeks to achieve its investment objective by investing, as a fundamental policy, at least 80% of its net assets (including assets acquired from the sale of preferred stock), plus the amount of any borrowings for investment purposes, in a portfolio of municipal obligations the interest on which, in the opinion of bond counsel to the issuer, is excludable from gross income for Federal income tax purposes (except that the interest may be includable in taxable income for purposes of the Federal alternative minimum tax). Under normal market conditions, the Fund expects to invest at least 75% of its total assets in municipal obligations that are rated investment grade or, if unrated, are considered by the Fund s investment adviser to be of comparable quality. The Fund may invest up to 25% of its total assets in municipal obligations that are rated below investment grade (commonly known as junk bonds) or, if unrated, are considered by the Fund s investment adviser to possess similar credit characteristics. Under normal market conditions and after the initial investment period following this offering (expected to be approximately three months), the Fund will invest, as a non-fundamental policy, at least 80% of its net assets (including assets acquired from the sale of preferred stock), plus the amount of any borrowings for investment purposes, in municipal obligations with a duration, as calculated by the Fund s investment adviser, of three to ten years. The Fund expects to maintain, under normal market conditions, a dollar-weighted average portfolio duration, as calculated by the Fund s investment adviser, of three to ten years. The Fund may invest in certain tax exempt securities classified as private activity bonds, as discussed within, that may subject certain investors in the Fund to an alternative minimum tax. There can be no assurance that the Fund s investment objective will be realized.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. The Fund s statement of additional information dated August 1, 2005 contains further information about the Fund and is incorporated by reference (legally considered to be part of this prospectus) and the table of contents of the statement of additional information appears on page 56 of this prospectus. A copy of the statement of additional information and copies of the Fund s semi-annual and annual reports may be obtained without charge by writing to the Fund at its address at 800 Scudders Mill Road, Plainsboro, New Jersey 08536, or by calling the Fund at (800) 543-6217. In addition, you may request other information about the Fund or make stockholder inquiries by calling the Fund toll-free at (800) 543-6217. In addition, the Securities and Exchange Commission maintains a website (http://sec.gov) that contains the statement of additional information, material incorporated by reference and other information regarding registrants that file electronically with the Securities and Exchange Commission. The Fund does not maintain a website.

Certain capitalized terms used herein not otherwise defined in this prospectus have the meaning provided in the Glossary at the back of this prospectus.

Investing in the AMPS involves certain risks that are described in the Risk Factors and Special Considerations section beginning on page 10 of this prospectus. The minimum purchase amount for the AMPS is $25,000.

	Per Share	Total
Public offering price	$ 25,000	$ 35,000,000
Underwriting discount	$250	$350,000
Proceeds, before expenses, to the Fund (1)	$ 24,750	$ 34,650,000

(1) The estimated offering expenses payable by the Fund are $150,000.
The public offering price per share will be increased by the amount of accumulated dividends, if any, from the date the shares are first issued.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

One certificate for the AMPS will be ready for delivery to the nominee of The Depository Trust Company on or about August 3, 2005.

Merrill Lynch & Co.

The date of this prospectus is August 1, 2005.

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Information about the Fund can be reviewed and copied at the Securities and Exchange Commission s Public Reference Room in Washington, D.C. Call 1-202-942-8090 for information on the operation of the public reference room. This information is also available on the Securities and Exchange Commission s Internet site at http://www.sec.gov and copies may be obtained upon payment of a duplicating fee by writing to the Public Reference Section of the Securities and Exchange Commission, Washington, D.C. 20549-0102.

You should rely only on the information contained in this prospectus. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary is qualified in its entirety by reference to the detailed information included in this prospectus and the statement of additional information.

The Fund Muni Intermediate Duration Fund, Inc. is a non-diversified, closed-end management investment company.

The Offering The Fund is offering a total of 1,400 shares of Auction Market Preferred Stock, Series TH28, at a purchase price of $25,000 per share plus accumulated dividends, if any, from the date the shares are first issued. The shares of AMPS are being offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch), as underwriter.

The Series TH28 AMPS will be shares of preferred stock of the Fund that entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods. In general, except as described below, each dividend period following the initial dividend period will be 28 days. The applicable dividend for a particular dividend period will be determined by an auction conducted on the business day next preceding the start of that dividend period.

Investors and potential investors in shares of Series TH28 AMPS may participate in auctions for the AMPS through their broker-dealers.

Generally, AMPS investors will not receive certificates representing ownership of their shares. Ownership of AMPS will be maintained in book-entry form by the securities depository (The Depository Trust Company) or its nominee for the account of the investor s agent member (generally the investor s broker-dealer). The investor s agent member, in turn, will maintain records of such investor s beneficial ownership of AMPS.

Investment Objective and Policies The investment objective of the Fund is to provide common stockholders with high current income exempt from Federal income taxes. The Fund seeks to achieve its investment objective by investing, as a fundamental policy, at least 80% of its net assets (including assets acquired from the sale of preferred stock), plus the amount of any borrowings for investment purposes, in a portfolio of municipal obligations issued by or on behalf of states, territories and possessions of the United States and their political subdivisions, agencies or instrumentalities, each of which pays interest that, in the opinion of bond counsel to the issuer, is excludable from gross income for Federal income tax purposes (Municipal Bonds). In general, the Fund does not intend for its investments to earn a large amount of interest income that is not exempt from Federal income tax, except that the interest may be includable in taxable income for purposes of the Federal alternative minimum tax. There can be no assurance that the Fund s investment objective will be realized.

Duration. Under normal market conditions, and after the initial investment period following this offering (expected to be approximately three months), the Fund will invest, as a non-fundamental policy, at least 80% of its net assets (including assets acquired from the sale of preferred stock), plus the amount of any borrowings for investment purposes, in Municipal Bonds with a duration, as calculated by Fund Asset Management, L.P. (the Investment Adviser), of three to ten years. The Fund expects to maintain, under normal market conditions, a dollar-weighted average portfolio duration, as calculated by the Investment Adviser, of three to ten years. There is no limit on the remaining maturity of each individual Municipal Bond investment by the Fund.

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Investment Grade Municipal Bonds. Under normal market conditions, the Fund invests at least 75% of its total assets in Municipal Bonds that are rated investment grade by one or more nationally recognized statistical rating organizations (NRSROs) (Baa or higher by Moody s Investors Service, Inc. (Moody s) or BBB or higher by Standard & Poor s (S&P) or Fitch Ratings (Fitch)) or in unrated bonds considered by the Investment Adviser to be of comparable quality. In assessing the quality of Municipal Bonds, the Investment Adviser takes into account any letters of credit or similar credit enhancement to which particular Municipal Bonds are entitled and the creditworthiness of the financial institution that provided such credit enhancement.

High Yield or Junk Bonds. The Fund may invest up to 25% of its total assets in high yield Municipal Bonds (commonly known as junk bonds) that are rated below investment grade by the NRSROs (Ba or lower by Moody s or BB or lower by S&P or Fitch) or are unrated securities that are considered by the Investment Adviser to possess similar credit characteristics. Although junk bonds generally pay higher rates of interest than investment grade bonds, they are high risk investments that may cause income and principal losses for the Fund. Junk bonds generally are less liquid and experience more price volatility than higher rated debt securities. The issuers of junk bonds may have a larger amount of outstanding debt relative to their assets than issuers of investment grade bonds. In the event of an issuer s bankruptcy, claims of other creditors may have priority over the claims of junk bond holders, leaving few or no assets available to repay junk bond holders. Junk bonds may be subject to greater call and redemption risk than higher rated debt securities.

Indexed and Inverse Floating Rate Securities. The Fund may invest in securities whose potential returns are directly related to changes in an underlying index or interest rate, known as indexed securities. The return on indexed securities will rise when the underlying index or interest rate rises and fall when the index or interest rate falls. The Fund may also invest in securities whose return is inversely related to changes in an interest rate (inverse floaters). In general, income on inverse floaters will decrease when short term interest rates increase and increase when short term interest rates decrease. Investments in inverse floaters may subject the Fund to the risks of reduced or eliminated interest payments and loss of principal. In addition, certain indexed securities and inverse floaters may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund s investment. As a result, the market value of such securities will generally be more volatile than that of fixed rate, tax exempt securities. Both indexed securities and inverse floaters are derivative securities and can be considered speculative.

Hedging Transactions. The Fund may seek to hedge its portfolio against changes in interest rates using options and financial futures contracts or swap transactions. The Fund s hedging transactions are designed to reduce volatility, but come at some cost. For example, the Fund may try to limit its risk of loss from a decline in price of a portfolio security by purchasing a put option. However, the Fund must pay for the option, and the price of the security may not in fact drop. In large part, the success of the Fund s hedging activities depends on its ability to forecast movements in securities prices and interest rates. The Fund is not required to hedge its portfolio and may choose not to do so. The Fund cannot guarantee that any hedging strategies it uses will work.

Swap Agreements. The Fund is authorized to enter into swap agreements, which are over-the-counter contracts in which one party agrees to make periodic payments based on

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the change in the market value of a specific bond, basket of bonds or index in return for periodic payments based on a fixed or variable interest rate or the change in market value of a different bond, basket of bonds or index. Swap agreements may be used to obtain exposure to a bond or market without owning or taking physical custody of securities.

Tax Considerations. While exempt-interest dividends are excluded from gross income for Federal income tax purposes, they may be subject to the Federal alternative minimum tax in certain circumstances. Distributions of any capital gain or other taxable income will be taxable to stockholders. The Fund may not be a suitable investment for investors subject to the Federal alternative minimum tax or who would become subject to such tax by investing in the Fund. See Taxes.

Risk Factors *Set forth below is a summary of the main risks of investing in the Fund s Series TH28 AMPS. For a more detailed description of the main risks as well as certain other risks associated with investing in the Fund s Series TH28 AMPS, see Risk Factors and Special Considerations.*

The credit ratings of the AMPS could be reduced or terminated while an investor holds the AMPS, which could affect liquidity.

Neither broker-dealers nor the Fund are obligated to purchase shares of AMPS in an auction or otherwise, nor is the Fund required to redeem shares of AMPS in the event of a failed auction.

If sufficient bids do not exist in an auction, the applicable dividend rate will be the maximum applicable dividend rate, and in such event, owners of AMPS wishing to sell will not be able to sell all, and may not be able to sell any, AMPS in the auction. As a result, investors may not have liquidity of investment.

As a result of bidding by broker-dealers in an auction for their own account, the dividend rate that would apply at the auction may be higher or lower than the rate that would have prevailed had the broker-dealer not bid.

A broker-dealer may bid in an auction in order to prevent what would otherwise be (i) a failed auction, (ii) an all-hold auction, or (iii) an applicable dividend rate that the broker-dealer believes, in its sole discretion, does not reflect the market for the AMPS at the time of the auction.

The relative buying and selling interest of market participants in AMPS and in the auction rate securities market as a whole will vary over time, and such variations may be affected by, among other things, news relating to the issuer, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted principles relating to the treatment of auction rate securities, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any one or simultaneous particular events cannot be predicted and may be short-lived or exist for longer periods.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) has advised the Fund that it and various other broker-dealers and other firms that participate in the

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auction rate securities market received letters from the staff of the Securities and Exchange Commission last spring. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practices and procedures in that market. Pursuant to this request, Merrill Lynch conducted its own voluntary review and reported its findings to the Securities and Exchange Commission staff. At the Securities and Exchange Commission staff s request, Merrill Lynch is engaging in discussions with the Securities and Exchange Commission staff concerning its inquiry. Neither Merrill Lynch nor the Fund can predict the ultimate outcome of the inquiry or how that outcome will affect the market for the AMPS or the auctions.

Broker-dealers have no obligation to maintain a secondary trading market in the AMPS outside of auctions and there can be no assurance that a secondary market for the AMPS will develop or, if it does develop, that it will provide holders with a liquid trading market. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the AMPS, and a selling stockholder may have to sell AMPS between auctions at a price per share of less than $25,000.

The Fund will issue the AMPS only if the AMPS have received a rating of Aaa from Moody s and AAA from S&P. Under certain circumstances, the Fund may voluntarily terminate compliance with Moody s or S&P guidelines, or both, in which case the AMPS may no longer be rated by Moody s or S&P, as applicable, but will be rated by at least one rating agency.

The Fund issues shares of AMPS, which generally pay dividends based on short term interest rates. The Fund generally will purchase Municipal Bonds that pay interest at fixed or adjustable rates. If market interest rates rise, this could negatively impact the value of the Fund s investment portfolio, reducing the amount of assets serving as asset coverage for the AMPS. If the asset coverage becomes too low, the Fund may be required to redeem some or all of the shares of AMPS.

The Fund is registered as a non-diversified investment company, the Fund may invest a greater percentage of its assets in a single issuer than a diversified investment company. Since the Fund may invest a relatively high percentage of its assets in a limited number of issuers, the Fund may be more exposed to any single economic, political or regulatory occurrence than a more widely diversified fund.

The amount of public information available about Municipal Bonds in the Fund s portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may, therefore, be more dependent on the analytical abilities of the Investment Adviser than the performance of a stock fund or taxable bond fund.

The Fund s investments in Municipal Bonds are subject to interest rate and credit risk. Interest rate risk is the risk that prices of Municipal Bonds generally increase when interest rates decline and decrease when interest rates increase. Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. Changes in an issuer s credit rating or the market s perception of an issuer s creditworthiness may affect the value of the Fund s investment in that issuer.

Investments in junk bonds entail a higher level of credit risk (loss of income and/or principal) and a corresponding greater risk of loss than investments in investment grade Municipal Bonds. Municipal Bonds rated in the lower rating categories are considered to be predominantly speculative with respect to capacity to pay interest and dividend income and repay principal.

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Investment Adviser The Investment Adviser provides investment advisory and administrative services to the Fund. For its services, the Fund pays the Investment Adviser a monthly fee at the annual rate of 0.55% of the Fund s average daily net assets (including any proceeds from the issuance of preferred stock), plus the proceeds of any outstanding borrowings used for leverage. The Investment Adviser has contractually agreed to waive a portion of its fee during the first seven years of the Fund s operations, which began August 1, 2003, ending July 31, 2010, as follows:

	Fee Waiver (as a percentage of average daily net assets)
Years 1 through 5	0.15%
Year 6	0.10%
Year 7	0.05%
Year 8 and thereafter	0.00%

Dividends and Dividend Periods Dividends on the Series TH28 AMPS will be cumulative from the date the shares are first issued and payable at the annualized cash dividend rate for the initial dividend period on the initial dividend payment date as follows:

AMPS Series	Initial Dividend Rate	Initial Dividend Period Ending	Initial Dividend Payment Date
Series TH28	2.25%	September 1, 2005	September 2, 2005

After the initial dividend period, each dividend period for the Series TH28 AMPS will generally consist of 28 days; provided however, that before any auction, the Fund may decide, subject to certain limitations and only if it gives notice to holders, to declare a special dividend period of up to five years.

After the initial dividend period, in the case of dividend periods that are not special dividend periods, dividends generally will be payable on each succeeding fourth Friday.

Dividends for the Series TH28 AMPS will be paid through the securities depository (The Depository Trust Company) on each dividend payment date for the AMPS.

For each subsequent dividend period, the auction agent (The Bank of New York) will hold an auction to determine the cash dividend rate on the shares of the Series TH28 AMPS.

Determination of Maximum Dividend Rates Generally, the applicable dividend rate for any dividend period for the Series TH28 AMPS will not be more than the maximum applicable rate attributable to such shares. The maximum applicable rate for the Series TH28 AMPS will be the higher of (A) the applicable percentage of the reference rate on the auction date or (B) the applicable spread plus the reference rate on the auction date. The reference rate is (A) the higher of the applicable LIBOR Rate (as defined in the Glossary) and the Taxable Equivalent of the Short-Term Municipal Bond Rate (as defined in the Glossary) (for a dividend period or special dividend period of 364 or fewer days), or (B) the applicable Treasury Index Rate (as

defined in the Glossary) (for a special dividend period of 365 days or more). The applicable percentage and the applicable spread as so determined may be subject to

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upward but not downward adjustment in the discretion of the Board of Directors of the Fund after consultation with the broker-dealers participating in the auction for the AMPS. The maximum applicable rate for the AMPS will depend on the credit rating assigned to the shares, the length of the dividend period and whether or not the Fund has given notification prior to the auction for the dividend period that any taxable income will be included in the dividend on the AMPS for that dividend period. The applicable percentage and applicable spread are as follows:

Credit Ratings		Applicable Percentage of Reference Rate No Notification	Applicable Percentage of Reference Rate Notification	Applicable Spread Over Reference Rate No Notification	Applicable Spread Over Reference Rate Notification
Moody s	**S&P**				
Aaa	AAA	110%	125%	1.10%	1.25%
Aa3 to Aa1	AA- to AA+	125%	150%	1.25%	1.50%
A3 to A1	A- to A+	150%	200%	1.50%	2.00%
Baa3 to Baa1	BBB- to BBB+	175%	250%	1.75%	2.50%
Below Baa3	Below BBB-	200%	300%	2.00%	3.00%

The applicable percentage and the applicable spread as so determined may be subject to upward but not downward adjustment in the discretion of the Board of Directors of the Fund after consultation with the broker-dealers participating in the auction for the AMPS.

There is no minimum applicable dividend rate for any dividend period.

Other AMPS

The Fund has outstanding 11,400 shares of five other series of Auction Market Preferred Stock, each with a liquidation preference of $25,000 per share, plus accumulated but unpaid dividends, for an aggregate initial liquidation preference of $285,000,000 (the Other AMPS). The Other AMPS are as follows: 2,000 shares of Auction Market Preferred Stock, Series M7; 2,700 shares of Auction Market Preferred Stock, Series T7; 2,000 shares of Auction Market Preferred Stock, Series W7; 2,700 shares of Auction Market Preferred Stock, Series TH7; and 2,000 shares of Auction Market Preferred Stock, Series F7. The Series TH28 AMPS offered hereby rank on a parity with the Other AMPS with respect to dividends and liquidation preference.

Asset Maintenance

Under the Fund s Articles Supplementary creating the Series TH28 AMPS (the Articles Supplementary), the Fund must maintain:

asset coverage of the AMPS and Other AMPS as required by the rating agencies rating the AMPS, and

asset coverage of the AMPS and Other AMPS of at least 200% as required by the Investment Company Act of 1940 (the 1940 Act).

The Fund estimates that, based on the composition of its portfolio at May 31, 2005, asset coverage of the AMPS and Other AMPS as required by the 1940 Act would be approximately 284% immediately after the Fund issues the shares of AMPS offered by this prospectus representing

approximately 35% of the Fund s capital, or approximately 54% of the Fund s common stock equity, immediately after the issuance of such AMPS.

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Mandatory Redemption	If the required asset coverage is not maintained or, when necessary, restored, the Fund must redeem shares of the Series TH28 AMPS at the price of $25,000 per share plus accumulated but unpaid dividends thereon (whether or not earned or declared). The provisions of the 1940 Act may restrict the Fund s ability to make such a mandatory redemption.
Optional Redemption	The Fund may, at its option, choose to redeem all or a portion of the shares of AMPS on any dividend payment date at the price of $25,000 per share, plus accumulated but unpaid dividends thereon (whether or not earned or declared) plus any applicable premium.
Liquidation Preference	The liquidation preference (that is, the amount the Fund must pay to holders of AMPS if the Fund is liquidated) of each share of AMPS will be $25,000, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared).
Ratings	The AMPS will be issued with a rating of Aaa from Moody s and AAA from S&P.
Voting Rights	The 1940 Act requires that the holders of AMPS and any other preferred stock, including the Other AMPS, voting as a separate class, have the right to elect at least two directors at all times and to elect a majority of the directors at any time when dividends on the AMPS or any other preferred stock, including the Other AMPS, are unpaid for two full years. The Fund s Charter, the 1940 Act and the General Corporation Laws of the State of Maryland require holders of AMPS and any other preferred stock, including the Other AMPS, to vote as a separate class on certain other matters.

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RISK FACTORS AND SPECIAL CONSIDERATIONS

An investment in the Fund s AMPS should not constitute a complete investment program.

Set forth below are the main risks of investing in the Fund s AMPS.

Investment Considerations. Investors in AMPS should consider the following factors:

The credit ratings of the AMPS could be reduced or terminated while an investor holds the AMPS, which could affect liquidity.

Neither broker-dealers nor the Fund are obligated to purchase shares of AMPS in an auction or otherwise, nor is the Fund required to redeem shares of AMPS in the event of a failed auction.

If sufficient bids do not exist in an auction, the applicable dividend rate will be the maximum applicable dividend rate, and in such event, owners of AMPS wishing to sell will not be able to sell all, and may not be able to sell any, AMPS in the auction. As a result, investors may not have liquidity of investment.

Broker-dealers may submit orders in auctions for the AMPS for their own account. If a broker-dealer submits an order for its own account in any auction, it may have knowledge of orders placed through it in that auction and therefore have an advantage over other bidders, but such broker-dealer would not have knowledge of orders submitted by other broker-dealers in that auction. As a result of bidding by a broker-dealer in an auction, the dividend rate that would apply at the auction may be higher or lower than the rate that would have prevailed had the broker-dealer not bid.

A broker-dealer may bid in an auction in order to prevent what would otherwise be (i) a failed auction, (ii) an all-hold auction, or (iii) an applicable dividend rate that the broker-dealer believes, in its sole discretion, does not reflect the market for the AMPS at the time of the auction. A broker-dealer may, but is not obligated to, advise owners of AMPS that the dividend rate that would apply in an all-hold auction may be lower than would apply if owners submit bids and such advice, if given, may facilitate the submission of bids by owners that would avoid the occurrence of an all-hold auction.

The relative buying and selling interest of market participants in AMPS and in the auction rate securities market as a whole will vary over time, and such variations may be affected by, among other things, news relating to the issuer, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted principles relating to the treatment of auction rate securities, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any one or simultaneous particular events cannot be predicted and may be short-lived or exist for longer periods.

Merrill Lynch has advised the Fund that it and various other broker-dealers and other firms that participate in the auction rate securities market received letters from the staff of the Securities and Exchange Commission last spring. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practices and procedures in that market. Pursuant to this request, Merrill Lynch conducted its own voluntary review and reported its findings to the Securities and Exchange Commission staff. At the Securities and Exchange Commission staff s request, Merrill Lynch is engaging in

discussions with the Securities and Exchange Commission staff concerning its inquiry. Neither Merrill Lynch nor the Fund can predict the ultimate outcome of the inquiry or how that outcome will affect the market for the AMPS or the auctions.

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Secondary Market. Broker-dealers have no obligation to maintain a secondary trading market in the AMPS outside of auctions and there can be no assurance that a secondary market for the AMPS will develop or, if it does develop, that it will provide holders with a liquid trading market. The AMPS will not be registered on any stock exchange or on any automated quotation system. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the AMPS, and a selling stockholder may have to sell AMPS between auctions at a price per share of less than $25,000.

Rating Agencies. The Fund will issue the AMPS only if the AMPS have received a rating of Aaa from Moody s and AAA from S&P. As a result of such ratings the Fund will be subject to guidelines of Moody s, S&P or another substitute NRSRO that may issue ratings for its preferred stock. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act and may prohibit or limit the use by the Fund of certain portfolio management techniques or investments. The Fund does not expect these guidelines to prevent the Investment Adviser from managing the Fund s portfolio in accordance with the Fund s investment objective and policies. Also, under certain circumstances, the Fund may voluntarily terminate compliance with Moody s or S&P s guidelines, or both, in which case the AMPS may no longer be rated by Moody s or S&P, as applicable, but will be rated by at least one rating agency.

Non-Diversification. The Fund is registered as a non-diversified investment company. This means that the Fund may invest a greater percentage of its assets in a single issuer than a diversified investment company. Since the Fund may invest a relatively high percentage of its assets in a limited number of issuers, the Fund may be more exposed to any single economic, political or regulatory occurrence than a more widely diversified fund. Even as a non-diversified fund, the Fund must still meet the diversification requirements applicable to regulated investment companies under the Federal income tax laws.

Interest Rate Risk and AMPS. The Fund issues shares of AMPS, which generally pay dividends based on short-term interest rates. The Fund generally will purchase Municipal Bonds that pay interest at fixed or adjustable rates. If short-term interest rates rise, dividend rates on the shares of AMPS may rise so that the amount of dividends paid to the holders of shares of AMPS exceeds the income from the Fund s portfolio securities. Because income from the Fund s entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the AMPS offering) is available to pay dividends on the shares of AMPS, dividend rates on the shares of AMPS would need to greatly exceed the Fund s net portfolio income before the Fund s ability to pay dividends on the shares of AMPS would be jeopardized. If market interest rates rise, this could negatively impact the value of the Fund s investment portfolio, reducing the amount of assets serving as asset coverage for the AMPS. If the asset coverage becomes too low, the Fund may be required to redeem some or all of the shares of AMPS.

Market Risk and Selection Risk. Market risk is the risk that the bond market will go down in value, including the possibility that the market will go down sharply and unpredictably. Selection risk is the risk that the securities that Fund management selects will underperform the bond market, the market relevant indices, or other funds with similar investment objectives and investment strategies.

Tax Exempt Securities Market Risk. The amount of public information available about Municipal Bonds in the Fund s portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of the Investment Adviser than that of a stock fund or taxable bond fund.

Interest Rate and Credit Risk. The Fund invests in Municipal Bonds, which are subject to interest rate and credit risk. Interest rate risk is the risk that prices of Municipal Bonds generally increase when interest rates decline and decrease when interest rates increase. Prices of longer term securities generally change more in response to interest rate changes than prices of shorter term securities. The Fund s use of leverage by the

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issuance of preferred stock and its investment in inverse floating obligations, as discussed below, may increase interest rate risk. Because market interest rates are currently near their lowest levels in many years, there is a greater risk that the Fund s portfolio will decline in value if interest rates increase in the future. Changes in an issuer s credit rating or the market s perception of an issuer s creditworthiness may affect the value of the Fund s investment in that issuer. Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation.

Risks Associated with Non-Investment Grade Securities. Under normal market conditions, the Fund expects to invest at least 75% of its total assets in Municipal Bonds that are rated investment grade by Moody s, S&P or Fitch, or in unrated Municipal Bonds that are considered by the Investment Adviser to possess similar credit characteristics. Obligations rated in the lowest investment grade category may have certain speculative characteristics. The Fund may invest up to 25% of its total assets in Municipal Bonds that are rated below investment grade or are unrated securities that are considered by the Investment Adviser to possess similar credit characteristics. Securities rated below investment grade, also known as junk bonds, generally entail greater interest rate and credit risks than investment grade securities. For example, their prices are more volatile, economic downturns and financial setbacks may affect their prices more negatively, and their trading market may be more limited.

Set forth below are certain other risks associated with investing in the Fund s AMPS.

Call and Redemption Risk. A Municipal Bond s issuer may call the bond for redemption before it matures. If this happens to a Municipal Bond that the Fund holds, the Fund may lose income and may have to invest the proceeds in Municipal Bonds with lower yields.

Rating Categories. The Fund intends to invest primarily in Municipal Bonds that are rated investment grade by S&P, Moody s or Fitch, or in unrated Municipal Bonds that are considered by the Investment Adviser to possess similar credit characteristics. Obligations rated in the lowest investment grade category may have certain speculative characteristics. For example, their prices are more volatile, economic downturns and financial setbacks may affect their prices more negatively, and their trading market may be more limited.

Reinvestment Risk. Reinvestment risk is the risk that income from the Fund s Municipal Bond portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio s current earnings rate. A decline in income could negatively affect the Fund s yield, return or the market price of the common stock.

Sector Risk. The Fund may invest 25% or more of its total assets in tax exempt securities of issuers in the industries comprising the same economic sector, such as hospitals or life care facilities and transportation-related issuers. However, the Fund will not invest 25% or more of its total assets in any one of the industries comprising an economic sector. In addition, a substantial part of the Fund s portfolio may be comprised of securities credit enhanced by banks, insurance companies or companies with similar characteristics. Emphasis on these sectors may subject the Fund to certain risks.

Private Activity Bonds. The Fund may invest in certain tax exempt securities classified as private activity bonds. These bonds may subject certain investors in the Fund to the Federal alternative minimum tax.

Liquidity of Investments. Certain Municipal Bonds in which the Fund invests may lack an established secondary trading market or are otherwise considered illiquid. Liquidity of a security relates to the ability to easily dispose of the security and the price to be obtained and does

not generally relate to the credit risk or likelihood of receipt of cash at maturity. Illiquid securities may trade at a discount from comparable, more liquid investments.

Portfolio Strategies. The Fund may engage in various portfolio strategies both to seek to increase the return of the Fund and to seek to hedge its portfolio against adverse effects from movements in interest rates and in the securities markets. These portfolio strategies include the use of derivatives, such as indexed securities, inverse securities, options, futures, options on futures, interest rate swap transactions, credit default swaps, and the use of short sales. Such strategies subject the Fund to the risk that, if the Investment Adviser incorrectly forecasts market values, interest rates or other applicable factors, the Fund s performance could suffer. Certain of these strategies such as investments in inverse securities, credit default swaps and short sales may provide investment leverage to the Fund s portfolio. The Fund is not required to use derivatives or other portfolio strategies to seek to increase return or to seek to hedge its portfolio and may choose not to do so. There can be no assurance that the Fund s portfolio strategies will be effective. Some of the derivative strategies that the Fund may use to seek to increase its return are riskier than its hedging transactions and have speculative characteristics. Such strategies do not attempt to limit the Fund s risk of loss.

General Risks Related to Derivatives. Derivatives are financial contracts or instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indices). The Fund may invest in a variety of derivative instruments for investment purposes, hedging purposes or to seek to increase its return, such as options, futures contracts and swap agreements, and may engage in short sales. The Fund may use derivatives as a substitute for taking a position in an underlying security or other asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. The Fund also may use derivatives to add leverage to the portfolio and/or to hedge against increases in the Fund s costs associated with the dividend payments on the preferred stock, including the AMPS. The Fund also may invest in certain derivative products that pay tax exempt income interest via a trust or partnership through which the Fund holds interests in one or more underlying long term municipal securities. The Fund s use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation and correlation risk (*i.e.*, the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index). If the Fund invests in a derivative instrument it could lose more than the principal amount invested. Moreover, derivatives raise certain tax, legal, regulatory and accounting issues that may not be presented by investments in Municipal Bonds, and there is some risk that certain issues could be resolved in a manner that could adversely impact the performance of the Fund and/or the tax exempt nature of the dividends paid by the Fund.

Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

Swaps. Swap agreements are types of derivatives. In order to seek to hedge the value of the Fund s portfolio, to hedge against increases in the Fund s cost associated with the interest payments on its outstanding borrowings or to seek to increase the Fund s return, the Fund may enter into interest rate or credit default swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by the Fund, which would cause the Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. In addition to the risks applicable to swaps generally, credit default swap transactions involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty). The Fund is not required to enter into interest rate or credit default swap transactions for hedging purposes or to enhance its return and may choose not to do so.

Taxability Risk. The Fund intends to minimize the payment of taxable income to stockholders by investing in Municipal Bonds and other tax exempt securities in reliance on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for Federal income tax purposes. Such securities, however, may be determined to pay, or to have paid, taxable income subsequent to the Fund s acquisition of the securities. In that event, the Internal Revenue Service may demand that the Fund pay taxes on the affected interest income, and, if the Fund agrees to do so, the Fund s yield on its common stock could be adversely affected. A determination that interest on a security held by the Fund is includable in gross income for Federal income tax purposes retroactively to its date of issue may, likewise, cause a portion of prior distributions received by stockholders, including holders of AMPS, to be taxable to those stockholders in the year of receipt. The Fund will not pay an Additional Dividend (as defined herein) to a holder of AMPS under these circumstances.

Antitakeover Provisions. The Fund s Charter, By-laws and the General Corporation Law of the State of Maryland include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Directors. Such provisions could limit the ability of stockholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See Description of Capital Stock Certain Provisions of the Charter and By-laws.

Market Disruption. The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets, some of which were closed for a four-day period. The continued threat of similar attacks and related events, including U.S. military actions in Iraq and continued unrest in the Middle East, have led to increased short term market volatility and may have long term effects on U.S. and world economies and markets. Similar disruptions of the financial markets could adversely affect the market prices of the Fund s portfolio securities, interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Fund s AMPS. Non-investment grade securities tend to be more volatile than investment grade fixed income securities so that these events and other market disruptions may have a greater impact on the prices and volatility of non-investment grade securities than on investment grade fixed income securities. There can be no assurance that these events and other market disruptions will not have other material and adverse implications for the non-investment grade securities markets.

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FINANCIAL HIGHLIGHTS

The following Financial Highlights table is intended to help you understand the Fund s financial performance for the years shown. Certain information reflects financial results for a single share of common stock or preferred stock of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in shares of common stock of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal years May 31, 2004 and May 31, 2005 has been audited by Ernst & Young LLP, whose report for the fiscal year ended May 31, 2005, along with the financial statements of the Fund, are included in the Fund s 2005 Annual Report, which is incorporated by reference herein. You may obtain a copy of the 2005 Annual Report at no cost by calling (800) 543-6217 between 8:30 a.m. and 5:30 p.m. Eastern time on any business day.

The following per share data and ratios have been derived from information provided in the financial statements.

ear Ended lay 1, 005
4.52
1.02
1.15
(.11)
(.02)
2.04
(.86)

(.19)

1.05)

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting many aspects of our operatio
including capital levels, lending and funding practices, and liquidity standards. New laws and regulations may increase our costs o
regulatory compliance and of doing business and otherwise affect our operations, and may significantly affect the markets in which
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 dep
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
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 dis
on any of these properties, we could be liable to governmental entities or third parties for the costs of remediation of the hazard, 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 m
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
more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental lia

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 su
technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect ou
business, financial condition, or operating results.

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, o
any other public or private entity. Investment in our common stock is subject to the same market forces that affect the price of com
stock in any company.

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ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The Company owns and leases its properties. Listed herewith are the locations of properties owned or leased as of December 31, 2
which the banking offices are located; all properties are in good condition and adequate for the Company's purposes:

Jersey Shore State Bank & Subsidiaries

Office	Address	Ownership
Main Street	115 South Main Street, PO Box 5098 Jersey Shore, Pennsylvania 17740	Owned
Bridge Street	112 Bridge Street Jersey Shore, Pennsylvania 17740	Owned
DuBoistown	2675 Euclid Avenue Williamsport, Pennsylvania 17702	Owned
Williamsport	300 Market Street P.O. Box 967 Williamsport, Pennsylvania 17703-0967	Owned
Montgomery	9094 Rt. 405 Highway Montgomery, Pennsylvania 17752	Owned
Lock Haven	4 West Main Street Lock Haven, Pennsylvania 17745	Owned
Mill Hall	(Inside Wal-Mart), 173 Hogan Boulevard Mill Hall, Pennsylvania 17751	Under Lease
Spring Mills	3635 Penns Valley Road, P.O. Box 66 Spring Mills, Pennsylvania 16875	Under Lease
Centre Hall	2842 Earlystown Road Centre Hall, Pennsylvania 16828	Land Under Lease
Zion	100 Cobblestone Road Bellefonte, Pennsylvania 16823	Under Lease
State College	2050 North Atherton Street State College, Pennsylvania 16803	Land Under Lease
Montoursville	820 Broad Street Montoursville, Pennsylvania 17754	Under Lease
Danville	606 Continental Boulevard	Under Lease

	Danville, Pennsylvania 17821	
Loyalsock	1720 East Third Street Williamsport, PA 17701	Owned
The M Group, Inc. D/B/A The Comprehensive Financial Group	705 Washington Boulevard Williamsport, Pennsylvania 17701	Under Lease

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Luzerne Bank Office	Address	Ownership
Dallas	509 Main Road Memorial Highway Dallas, PA 16812	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
Plains	1077 Hwy. 315 Wilkes Barre, PA 18702	Under Lease
Swoyersville	801 Main Street Swoyersville, PA 18704	Owned
Wilkes-Barre	67 Public Square Wilkes-Barre, PA 18701	Under Lease
Wyoming	324 Wyoming Ave. Wyoming, PA 18644	Owned

ITEM 3 LEGAL PROCEEDINGS

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

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 Company's common stock is listed on the NASDAQ Global Select Market under the symbol "PWOD". The following table se (1) the quarterly high and low closing sale prices for a share of the Company'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, 2012.

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	Price Range High	Low	Dividends Declared
2014			
First quarter	$50.95	$43.19	$0.47
Second quarter	48.37	43.21	0.47
Third quarter	48.79	42.25	0.47
Fourth quarter	49.26	42.18	0.47
2013			
First quarter	$41.45	$38.50	$0.72
Second quarter	41.86	39.44	0.47
Third quarter	49.89	42.76	0.47
Fourth quarter	53.99	47.03	0.47
2012			
First quarter	$41.67	$36.20	$0.47
Second quarter	39.90	36.72	0.47
Third quarter	44.60	37.78	0.47
Fourth quarter	45.27	37.16	0.47

The Company has paid dividends since the effective date of its formation as a bank holding company. It is the present intention of Company's board of directors to continue the dividend payment policy; however, further dividends must necessarily depend upon e financial condition, appropriate legal restrictions, and other factors relevant at the time the board of directors of the Company consi dividend policy. Cash available for dividend distributions to shareholders of the Company primarily comes from dividends paid by Shore State Bank and Luzerne Bank to the Company. Therefore, the restrictions on the Banks' dividend payments are directly appli to the Company. See also the information appearing in Note 19 to "Notes to Consolidated Financial Statements" for additional info 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 t assets of the corporation would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation w be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of the shareholders whose preferential are superior to those receiving the dividend.

As of March 1, 2015, the Company had approximately 1,402 shareholders of record.

Following is a schedule of the shares of the Company's common stock purchased by the Company during the fourth quarter of 201

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 (c Approximate Dollar V of Shares (or Units) t May Yet Be Purchase Under the Plans or Pr
Month #1 (October 1 - October 31, 2014)	5,494	$43.07	5,494	464,762
Month #2 (November 1 - November 30, 2014)	—	—	—	464,762
Month #3 (December 1 - December 31, 2014)	—	—	—	464,762

Set forth below is a line graph comparing the yearly dollar changes in the cumulative shareholder return on the Company's commo against the cumulative total return of the S&P 500 Stock Index, NASDAQ Bank Index, and NASDAQ Composite for the period of fiscal years assuming the investment of $100.00 on December 31, 2009 and assuming the reinvestment of dividends. The sharehold return shown on the graph below is not necessarily indicative of future performance.

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Index	Period Ending 12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31
Penns Woods Bancorp, Inc.	100.00	129.67	132.92	134.62	192.59	193.7
S&P 500	100.00	115.06	117.49	136.30	180.44	205.1
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.1
NASDAQ Bank	100.00	114.16	102.17	121.26	171.86	180.3

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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, 2014:

(In Thousands, Except Per Share Data Amounts)	2014	2013	2012	2011	2010
Consolidated Statement of Income Data:					
Interest income	$45,606	$43,299	$37,107	$36,376	$36,362
Interest expense	4,962	5,264	6,211	7,656	9,868
Net interest income	40,644	38,035	30,896	28,720	26,494
Provision for loan losses	2,850	2,275	2,525	2,700	2,150
Net interest income after provision for loan losses	37,794	35,760	28,371	26,020	24,344
Non-interest income	14,508	12,042	10,100	8,219	7,459
Non-interest expense	33,890	30,267	22,023	19,964	19,492
Income before income tax provision	18,412	17,535	16,448	14,275	12,311
Income tax provision	3,804	3,451	2,598	1,913	1,382
Net income	$14,608	$14,084	$13,850	$12,362	$10,929
Consolidated Balance Sheet at End of Period:					
Total assets	$1,245,011	$1,211,995	$856,535	$763,953	$691,68
Loans	915,579	818,344	512,232	435,959	415,557
Allowance for loan losses	(10,579)	(10,144)	(7,617)	(7,154)	(6,035
Deposits	981,419	973,002	642,026	581,664	517,508
Long-term debt	71,176	71,202	76,278	61,278	71,778
Shareholders’ equity	135,967	127,815	93,726	80,460	66,620
Per Share Data:					
Earnings per share - basic	$3.03	$3.19	$3.61	$3.22	$2.85
Earnings per share - diluted	3.03	3.19	3.61	3.22	2.85
Cash dividends declared	1.88	2.13	1.88	1.84	1.84
Book value	28.30	26.52	24.42	20.97	17.37
Number of shares outstanding, at end of period	4,804,815	4,819,333	3,838,516	3,837,081	3,835,1
Weighted average number of shares outstanding - basic	4,816,149	4,410,626	3,837,751	3,836,036	3,834,2
Selected Financial Ratios:					
Return on average shareholders’ equity	10.79%	12.36%	15.36%	16.60%	15.30
Return on average total assets	1.19%	1.32%	1.70%	1.69%	1.56
Net interest margin	3.81%	4.13%	4.45%	4.70%	4.57
Dividend payout ratio	61.99%	67.88%	52.08%	57.10%	64.56
Average shareholders’ equity to average total assets	11.05%	10.70%	11.04%	10.18%	10.19
Loans to deposits, at end of period	93.29%	84.11%	79.78%	74.95%	80.30

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

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 pa interest-bearing liabilities. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to taxable equivalents ba the marginal corporate federal tax rate of 34%. The tax equivalent adjustments to net interest income for 2014, 2013, and 2012 wer $2,219,000, $2,730,000, and $3,203,000, respectively.

2014 vs. 2013

Reported net interest income increased $2,609,000 or 6.86% to $40,644,000 for the year ended December 31, 2014 compared to the ended December 31, 2013, although the yield on earning assets decreased to 4.25% from 4.66%. On a tax equivalent basis, the cha net interest income was an increase of $2,098,000 or 5.15% to $42,863,000 for the year ended December 31, 2014 compared to the ended December 31, 2013. Total interest income increased $2,307,000 as the impact of growth in the average balance of the loan portfolio was offset by a decline in the average balance of the investment portfolio and in the portfolio yields caused by the prolong interest rate cycle enacted by the Federal Open Markets Committee ("FOMC"). Interest income on a tax equivalent basis recognize loan portfolio increased $4,223,000 due to a $170,929,000 increase in the average balance in the loan portfolio which was partially by interest rates repricing downward. Interest and dividend income generated from the investment portfolio on a tax equivalent bas decreased $2,441,000 due to a $36,794,000 decrease in the average balance in the investment portfolio and a 30 basis point ("bp") reduction in the average rate. The decrease in the portfolio was driven by a strategic plan to sell off long-term municipal bonds wit maturity date of 2025 or later and securities with a call date within the next five years, in order to reduce interest rate risk and mark

Interest expense decreased $302,000 to $4,962,000 for the year ended December 31, 2014 compared to 2013. Leading the decrease interest expense was a decline of 7.02% or $226,000 related to deposits. The FOMC actions noted previously together with a strate focus on core deposits led to a 8 bp decline in the rate paid on interest-bearing deposits from 0.48% for the year ended December 3 to 0.40% for the year ended December 31, 2014. The overall growth in average deposit balances of $91,174,000 coupled with the decrease in the average investment portfolio were the primary funding source for the growth in the average loans of $170,929,000.

2013 vs. 2012

Reported net interest income increased $7,139,000 or 23.11% to $38,035,000 for the year ended December 31, 2013 compared to th ended December 31, 2012, although the yield on earning assets decreased to 4.66% from 5.25%. The acquisition of Luzerne was a primary driver for the increase. On a tax equivalent basis, the change in net interest income was an increase of $6,666,000 or 19.55 $40,765,000 for the year ended December 31, 2013 compared to the year ended December 31, 2012. Total interest income increase $6,192,000 as the impact of growth in the average balance of the loan and investment portfolios was offset by a decline in the portf yields caused by the prolonged low interest rate cycle enacted by the Federal Open Markets Committee ("FOMC"). Interest income recognized on the loan portfolio increased $6,934,000 due to a $216,902,000 increase in the average balance in the loan portfolio w was partially offset by interest rates repricing downward. Interest and dividend income generated from the investment portfolio and interest bearing cash deposits decreased $1,215,000. The decrease was driven by a decrease in yield of 47 basis points ("bp") for th investment portfolio.

Interest expense decreased $947,000 to $5,264,000 for the year ended December 31, 2013 compared to 2012. Leading the decrease interest expense was a decline of 11.63% or $424,000 related to deposits. The FOMC actions noted previously and the Luzerne acquisition, together with a strategic focus on core deposits led to a 23 bp decline in the rate paid on interest-bearing deposits from for the year ended December 31, 2012 to 0.48% for the year ended December 31, 2013. Leading the significant decline in interest- deposit expense was a decline in the cost of time deposits of 41 bp's and a decline in the cost of money market deposits of 21 bp's.

overall growth in average deposit balances of $149,381,000 was the primary funding source for the growth in the average loans of $216,902,000.

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AVERAGE BALANCES AND INTEREST RATES

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

	2014				2013				2012		
(In Thousands)	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate		Average Balance	Interest	Ave
Assets:											
Tax-exempt loans	$29,461	$1,295	4.40	%	$24,934	$1,056	4.24	%	$23,857	$1,195	5.01
All other loans	828,796	35,640	4.30	%	662,394	31,656	4.78	%	446,569	24,583	5.50
Total loans	858,257	36,935	4.30	%	687,328	32,712	4.76	%	470,426	25,778	5.48
Fed funds sold	170	—	—	%	226	—	—	%	—	—	—
Taxable securities	161,889	5,626	3.48	%	176,674	6,326	3.58	%	158,765	6,298	3.97
Tax-exempt securities	94,688	5,232	5.53	%	116,697	6,973	5.98	%	131,637	8,226	6.25
Total securities	256,577	10,858	4.23	%	293,371	13,299	4.53	%	290,402	14,524	5.00
Interest-bearing deposits	9,318	32	0.34	%	6,946	18	0.26	%	6,621	8	0.12
Total interest-earning assets	1,124,322	47,825	4.25	%	987,871	46,029	4.66	%	767,449	40,310	5.25
Other assets	100,983				76,593				49,070		
Total assets	$1,225,305				$1,064,464				$816,519		
Liabilities and shareholders' equity:											
Savings	$140,575	81	0.06	%	$118,125	140	0.12	%	$78,724	65	0.08
Super Now deposits	182,229	583	0.32	%	154,131	687	0.45	%	118,515	610	0.51
Money market deposits	210,066	561	0.27	%	183,460	548	0.30	%	145,339	734	0.51
Time deposits	223,537	1,770	0.79	%	209,517	1,846	0.88	%	173,274	2,236	1.29
Total interest-bearing deposits	756,407	2,995	0.40	%	665,233	3,221	0.48	%	515,852	3,645	0.71
Short-term borrowings	22,342	54	0.24	%	22,281	81	0.38	%	20,961	137	0.65
Long-term borrowings	71,195	1,913	2.65	%	72,140	1,962	2.68	%	64,994	2,429	3.68
Total borrowings	93,537	1,967	2.07	%	94,421	2,043	2.14	%	85,955	2,566	2.94
Total interest-bearing liabilities	849,944	4,962	0.58	%	759,654	5,264	0.69	%	601,807	6,211	1.03
Demand deposits	225,981				174,909				113,431		
Other liabilities	13,933				15,962				11,126		
Shareholders' equity	135,447				113,939				90,155		
	$1,225,305				$1,064,464				$816,519		

Total liabilities and shareholders' equity								
Interest rate spread		3.67	%		3.97	%		4.22
Net interest income/margin	$42,863	3.81	%	$40,765	4.13	%	$34,099	4.45

· Fees on loans are included with interest on loans as follows: 2014 - $487,000; 2013 - $610,000; 2012 - $356,000.
· Information in this table has been calculated using average daily balance sheets to obtain average balances.
· Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
· Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income fro tax-exempt obligations and the taxable equivalent of such income at the standard 34% tax rate.

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Reconciliation of Taxable Equivalent Net Interest Income

(In Thousands)	2014	2013	2012
Total interest income	$45,606	$43,299	$37,107
Total interest expense	4,962	5,264	6,211
Net interest income	40,644	38,035	30,896
Tax equivalent adjustment	2,219	2,730	3,203
Net interest income (fully taxable equivalent)	$42,863	$40,765	$34,099

Rate/Volume Analysis

The table below sets forth certain information regarding changes in our interest income and interest expense for the periods indicate interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (cha 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 and the change due to interest rate. Income and interest rates are on a taxable equivalent basis.

	Year Ended December 31, 2014 vs. 2013			2013 vs. 2012		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$197	$42	$239	$10	$(149)	$(139
Loans	5,099	(1,115)	3,984	8,074	(1,001)	7,073
Fed funds sold	—	—	—			
Taxable investment securities	(524)	(176)	(700)	341	(313)	28
Tax-exempt investment securities	(1,246)	(495)	(1,741)	(905)	(348)	(1,253
Interest-bearing deposits	3	11	14	—	10	10
Total interest-earning assets	3,529	(1,733)	1,796	7,520	(1,801)	5,719
Interest expense:						
Savings deposits	3	(62)	(59)	40	35	75
Super Now deposits	37	(141)	(104)	110	(33)	77
Money market deposits	141	(128)	13	145	(331)	(186
Time deposits	45	(121)	(76)	126	(516)	(390
Short-term borrowings	—	(27)	(27)	—	(56)	(56
Long-term borrowings	(27)	(22)	(49)	141	(608)	(467
Total interest-bearing liabilities	199	(501)	(302)	562	(1,509)	(947
Change in net interest income	$3,330	$(1,232)	$2,098	$6,958	$(292)	$6,66

PROVISION FOR LOAN LOSSES

2014 vs 2013

The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to as loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, ar assess general economic conditions in the markets served. An external independent loan review is also performed annually for the Company. 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 h
determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in

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mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards an 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 lo losses is adequate at December 31, 2014, 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 in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increase loss provisions and reductions in interest income. Additionally, as an integral part of the examination process, bank regulatory agen periodically review the Banks' loan loss allowance adequacy. The banking regulators could require the recognition of additions to t 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 se however, the allowance is available for the entire portfolio as needed.

The allowance for loan losses increased from $10,144,000 at December 31, 2013 to $10,579,000 at December 31, 2014. At Decem 2014, the allowance for loan losses was 1.16% of total loans compared to 1.24% of total loans at December 31, 2013.

The provision for loan losses totaled $2,850,000 for the year ended December 31, 2014 compared to $2,275,000 for the year ended December 31, 2013. The increase in the provision was appropriate when considering the gross loan growth, the increase in the spec mention or substandard rated loans, and charge-offs. Net charge-offs of $2,415,000 represented 0.28% of average loans for the yea December 31, 2014 compared to net recoveries of $251,000 or 0.04% of average loans for the year ended December 31, 2013. In addition, nonperforming loans increased $2,570,000 to $12,248,000 at December 31, 2014 compared to December 31, 2013, which primarily the result of certain commercial loans becoming non-performing. The majority of the nonperforming loans are in a secur position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan loss Internal loan review and analysis, coupled with the ratios noted previously, dictated an increase in the provision for loan losses. Ut both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a leve adequate to provide for probable losses inherent in the loan portfolio.

2013 vs 2012

The allowance for loan losses increased from $7,617,000 at December 31, 2012 to $10,144,000 at December 31, 2013. At Decemb 2013, the allowance for loan losses was 1.24% of total loans compared to 1.49% of total loans at December 31, 2012.

The provision for loan losses totaled $2,275,000 for the year ended December 31, 2013 compared to $2,525,000 for the year ended December 31, 2012. The decrease in the provision was appropriate when considering the gross loan growth was concentrated in we collateralized real estate backed loans with the borrowers having strong underlying financial positions. Net recoveries of $251,000 represented 0.04%% of average loans for the year ended December 31, 2013 compared to net charge-offs of $2,062,000 or 0.44% o average loans for the year ended December 31, 2012. In addition, nonperforming loans decreased $2,028,000 to $9,678,000 at December 31, 2013 compared to December 31, 2012 as a nonperforming commercial loan was paid-off during 2013. The nonperfo loans are 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, coupled with the ratios noted previously, dictated a decrease in the pro for loan losses.

NON-INTEREST INCOME

2014 vs. 2013

Total non-interest income increased $2,466,000 from the year ended December 31, 2013 to December 31, 2014. Excluding net sec gains, non-interest income increased $1,368,000 year over year. Service charges increased primarily due to the impact of the Luzer

acquisition and the increased number of deposit accounts being serviced, but was partially offset by changes in the Banks' overdraft product that reduced the number of daily overdrafts on a per customer basis. Bank owned life insurance income increased primarily to a gain on death benefit. Insurance commissions and brokerage commissions increased due in part to the acquisition of Luzerne B and a shift in product mix. Gain on sale of loans increased due to an increase in volume that was driven in part by the access to the Wilkes-Barre market provided by the acquisition of Luzerne. The increase in other income was impacted by the acquisition of Luze Bank as it increased the debit and credit card related income and by an increasing number of merchants that utilize our merchant ca services.

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(In Thousands)	2014 Amount	% Total		2013 Amount	% Total		Change Amount	%
Service charges	$2,419	16.67	%	$2,307	19.16	%	$112	4.85
Securities gains, net	3,515	24.23		2,417	20.07		1,098	45.43
Bank owned life insurance	923	6.36		677	5.62		246	36.34
Gain on sale of loans	1,803	12.43		1,438	11.94		365	25.38
Insurance commissions	1,146	7.90		1,084	9.00		62	5.72
Brokerage commissions	1,077	7.42		1,018	8.45		59	5.80
Other	3,625	24.99		3,101	25.76		524	16.90
Total non-interest income	$14,508	100.00	%	$12,042	100.00	%	$2,466	20.48

2013 vs. 2012

Total non-interest income increased $1,942,000 from the year ended December 31, 2012 to December 31, 2013. Excluding net sec gains, non-interest income increased $810,000 year over year. Service charges increased primarily due to the impact of the Luzerne acquisition. Earnings on bank-owned life insurance remained stable as the steady interest rate environment held crediting rates con Insurance commissions decreased due to a change in commission rates coupled with a shift in products. Management of The M Gr continues to pursue new and build upon current relationships. However, the sales cycle for insurance and investment products can typically from six months to one year or more to complete. The increase in other income was primarily due to increases in revenue debit/credit card transactions and merchant card commissions as electronic payment methods continue to gain in popularity and an increasing number of merchants use our merchant card services.

(In Thousands)	2013 Amount	% Total		2012 Amount	% Total		Change Amount		%
Service charges	$2,307	19.16	%	$1,894	18.75	%	$413		21.81
Securities gains, net	2,417	20.07		1,285	12.72		1,132		88.09
Bank owned life insurance	677	5.62		670	6.63		7		1.04
Gain on sale of loans	1,438	11.94		1,386	13.72		52		3.75
Insurance commissions	1,084	9.00		1,357	13.44		(273	)	(20.12
Brokerage commissions	1,018	8.45		912	9.03		106		11.62
Other	3,101	25.76		2,596	25.71		505		19.45
Total non-interest income	$12,042	100.00	%	$10,100	100.00	%	$1,942		19.23

NON-INTEREST EXPENSE

2014 vs. 2013

Total non-interest expenses increased $3,623,000 from the year ended December 31, 2013 to December 31, 2014. The increase in and employee benefits was attributable to increases in salaries and health insurance, coupled with the acquisition of Luzerne Bank. Occupancy and furniture and equipment expenses increased due to the additional branches of Luzerne Bank and significant upgrad the core operating system, a new teller system, and various enhancements to other ancillary systems. Other expenses increased prin due to increased fees related to providing debit card services and other expenses related to the acquisition of Luzerne Bank.

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(In Thousands)	2014 Amount	% Total		2013 Amount	% Total		Change Amount	%
Salaries and employee benefits	$17,273	50.97	%	$15,415	50.93	%	$1,858	12.05
Occupancy	2,301	6.79		1,905	6.29		396	20.79
Furniture and equipment	2,536	7.48		1,815	6.00		721	39.72
Pennsylvania shares tax	907	2.68		864	2.85		43	4.98
Amortization of investment in limited partnerships	661	1.95		661	2.18		—	—
FDIC deposit insurance	746	2.20		594	1.96		152	25.59
Marketing	532	1.57		517	1.71		15	2.90
Intangible amortization	345	1.02		213	0.70		132	61.97
Other	8,589	25.34		8,283	27.38		306	3.69
Total non-interest expense	$33,890	100.00	%	$30,267	100.00	%	$3,623	11.97

2013 vs. 2012

Total non-interest expenses increased $8,244,000 from the year ended December 31, 2012 to December 31, 2013. The primary dri
all items was the acquisition of Luzerne that was effective as of June 1, 2013 and included $1,307,000 in one time expenses related
acquisition. Salaries and employee benefits also increased due to routine annual salary increases and related costs. Intangible amort
of $213,000 is due in its entirety to the Luzerne acquisition.

(In Thousands)	2013 Amount	% Total		2012 Amount	% Total		Change Amount	%
Salaries and employee benefits	$15,415	50.93	%	$11,762	53.41	%	$3,653	31.06
Occupancy	1,905	6.29		1,270	5.77		635	50.00
Furniture and equipment	1,815	6.00		1,452	6.59		363	25.00
Pennsylvania shares tax	864	2.85		674	3.06		190	28.19
Amortization of investment in limited partnerships	661	2.18		661	3.00		—	—
FDIC deposit insurance	594	1.96		468	2.13		126	26.92
Marketing	517	1.71		516	2.34		1	0.19
Intangible amortization	213	0.70		—	—		213	—
Other	8,283	27.38		5,220	23.70		3,063	58.68
Total non-interest expense	$30,267	100.00	%	$22,023	100.00	%	$8,244	37.43

INCOME TAXES

2014 vs. 2013

The provision for income taxes for the year ended December 31, 2014 resulted in an effective income tax rate of 20.66% compared
19.68.% for 2013. This increase is primarily the result of increased pre-tax income which includes an increase in net securities gai
$1,098,000.

The Company currently is in a deferred tax asset position due to the low income housing tax credits earned both currently and prev
Management has reviewed the deferred tax asset and has determined that the asset will be utilized within the appropriate carry forw
period and therefore does not require a valuation allowance.

2013 vs. 2012

The provision for income taxes for the year ended December 31, 2013 resulted in an effective income tax rate of 19.68% compared
15.8.% for 2012. This increase is primarily the result of increased pre-tax income which includes an increase in net securities gains
$1,132,000.

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FINANCIAL CONDITION

INVESTMENTS

2014

The fair value of the investment portfolio decreased $56,399,000 from December 31, 2013 to December 31, 2014. The decrease in
is the result of the investment portfolio being actively managed in order to reduce interest rate and market risk. This is being undert
primarily through the sale of long term municipal bonds that have a maturity date of 2025 or later and securities with a call date wit
next five years. The proceeds of the bond sales are being deployed into loans and intermediate term corporate bonds and short and
intermediate term municipal bonds. The strategy to sell a portion of the long-term bond portfolio does negatively impact current ear
but this action plays a key role in our long-term asset/liability management strategy as the balance sheet is shortened to better prepa
rising rate environment. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/
as approximately 90% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Mo

2013

The fair value of the investment portfolio decreased $704,000 from December 31, 2012 to December 31, 2013. The decrease was
primarily due to a change in the portfolio from having a net unrealized gain to the portfolio having an unrealized loss at December
2013. The increase in amortized cost was primarily the result of purchasing shorter-term corporate bonds. These bonds were purch
due to their shorter maturity and ability to reduce the duration of the total investment portfolio during the continued period of low i
rates. The municipal portfolio had the largest change in unrealized gains to an unrealized loss as the portfolio moved from an unrea
gain of $11,381,000 at December 31, 2012 to an unrealized loss of $3,326,000 at December 31, 2013 as uncertainty continued to cl
environment.

The carrying amounts of investment securities are summarized as follows for the years ended December 31, 2014 and 2013:

(In Thousands)	2014 Balance	% Portfolio		2013 Balance	% Port
U.S. Government agency securities:					
Available for sale	$3,841	1.65	%	$9,923	3.44
Mortgage-backed securities:					
Available for sale	12,697	5.47		10,592	3.67
Asset-backed securities:					
Available for sale	2,492	1.07		6,564	2.27
State and political securities (tax-exempt):					
Available for sale	89,024	38.34		105,200	36.45
State and political securities (taxable):					
Available for sale	19,092	8.22		36,595	12.68
Other bonds, notes and debentures:					
Available for sale	89,643	38.61		106,773	37.00
Total bonds, notes and debentures	216,789	93.36		275,647	95.51
Financial institution equity securities:					
Available for sale	9,915	4.27		10,662	3.69
Other equity securities:					
Available for sale	5,509	2.37		2,303	0.80
Total equity securities	15,424	6.64		12,965	4.49
Total	$232,213	100.00	%	$288,612	100.00

The following table shows the maturities and repricing of investment securities, at amortized cost and the weighted average yields (
tax-exempt obligations on a fully taxable basis assuming a 34% tax rate) at December 31, 2014:

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(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	Amorti Cost T
U.S. Government agency securities:						
AFS Amount	$—	$—	$—	$3,953	$—	$3,953
Yield	— %	— %	— %	1.83 %	— %	1.83
Mortgage-backed securities:						
AFS Amount	—	—	3,914	—	8,326	12,240
Yield	— %	— %	1.661 %	— %	3.824 %	3.13
Asset-backed securities:						
AFS Amount	—	—	—	521	1,947	2,468
Yield	— %	— %	— %	0.68 %	1.21 %	1.09
State and political securities (tax-exempt):						
AFS Amount	325	971	12,356	18,710	54,680	87,042
Yield	1.15 %	3.07 %	2.60 %	4.81 %	6.46 %	5.50
State and political securities (taxable):						
AFS Amount	—	—	932	8,124	8,722	17,778
Yield	— %	— %	3.04 %	4.47 %	5.86 %	5.08
Other bonds, notes, and debentures:						
AFS Amount	—	3,103	20,086	66,251	471	89,911
Yield	— %	3.07 %	2.78 %	3.09 %	6.97 %	3.04
Total Amount	$325	$4,074	$37,288	$97,559	$74,146	213,39
Total Yield	1.15 %	3.07 %	2.61 %	3.47 %	5.96 %	4.17
Equity Securities						14,381
Total Investment Portfolio Value						$227,7
Total Investment Portfolio Yield						3.91

All yields represent weighted average yields expressed on a tax equivalent basis. They are calculated on the basis of the cost, adjus amortization of premium and accretion of discount, and effective yields weighted for the scheduled maturity of each security. The equivalent adjustment represents the difference between annual income from tax-exempt obligations and the taxable equivalent of s income at the standard 34% tax rate (derived by dividing tax-exempt interest by 66%).

The distribution of credit ratings by amortized cost and estimated fair value for the debt security portfolio at December 31, 2014 fol

(In Thousands)	A- to AAA Amortized Cost	A- to AAA Fair Value	B- to BBB+ Amortized Cost	B- to BBB+ Fair Value	C to CCC+ Amortized Cost	C to CCC+ Fair Value	Not Rated Amortized Cost	Not Rated Fair Value	Total Amortized Cost	Total Fai Val
Available for sale										
U.S. Government and agency securities	$—	$—	$—	$—	$—	$—	$3,953	$3,841	$3,953	$3,
Mortgage-backed securities	12,240	12,697	—	—	—	—	—	—	12,240	12,
Asset-backed securities	2,468	2,492	—	—	—	—	—	—	2,468	2,4
State and political securities	98,836	102,054	—	—	—	—	5,984	6,062	104,820	108
Other debt securities	76,337	76,532	13,574	13,111	—	—	—	—	89,911	89,
Total debt securities	$189,881	$193,775	$13,574	$13,111	$—	$—	$9,937	$9,903	$213,392	$21

LOAN PORTFOLIO

2014

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Gross loans of $915,579,000 at December 31, 2014 represented an increase of $97,235,000 from December 31, 2013. The continue emphasis on well collateralized real estate loans was the primary driver of the overall increase in loans outstanding, with home equi loans and lines of credit leading the way. Successful campaigns to increase home equity, multifamily residential, and auto loans we undertaken during 2014 with the increase in residential and commercial loans being directly correlated to the campaigns.

2013

Gross loans of $818,344,000 at December 31, 2013 represented an increase of $306,112,000 from December 31, 2012. The primary of the increase was $254,057,000 in loans acquired from the acquisition of Luzerne as of June 1, 2013. The continued emphasis on collateralized real estate loans accounted for the remaining majority of the overall increase in loans outstanding with home equity l and lines of credit leading the way. Successful campaigns to increase home equity, multifamily residential, and auto loans were undertaken during 2013 with the increase in residential and commercial loans being directly correlated to the campaigns.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan at December 31, 2013, 2012, 2011, and 2010:

(In Thousands)	2014 Amount	% Total	2013 Amount	% Total	2012 Amount	% Total	2011 Amount	% Total	2010 Amount	% T
Commercial and agricultural	$124,156	13.56 %	$105,029	12.83 %	$48,455	9.46 %	$53,129	12.19 %	$50,853	12.
Real estate mortgage:										
Residential	457,760	50.00	399,781	48.86	252,142	49.22	179,383	41.15	173,578	41.
Commercial	291,348	31.82	282,476	34.52	182,031	35.54	164,288	37.68	160,189	38.
Construction	21,996	2.40	17,282	2.11	20,067	3.92	29,457	6.76	22,545	5.4
Installment loans to individuals	21,509	2.35	14,647	1.79	10,659	2.08	11,297	2.59	9,432	2.2
Net deferred loan fees and discounts	(1,190)	(0.13)	(871)	(0.11)	(1,122)	(0.22)	(1,595)	(0.37)	(1,040)	(0.2
Gross loans	$915,579	100.00 %	$818,344	100.00 %	$512,232	100.00 %	$435,959	100.00 %	$415,557	100

The amounts of domestic loans at December 31, 2014 are presented below by category and maturity:

(In Thousands)	Commercial and Agricultural	Real Estate Residential	Commercial	Construction	Installment Loans to Individuals	Total
Loans with variable interest rates:						
1 year or less	$31,231	$11,252	$12,588	$3,056	$150	$58,
1 through 5 years	4,337	3,749	12,339	542	161	21,12
5 through 10 years	12,549	19,568	32,395	268	2	64,78
After 10 years	37,836	376,056	211,392	14,263	3,251	642,
Total floating interest rate loans	85,953	410,625	268,714	18,129	3,564	786,9
Loans with fixed interest rates:						
1 year or less	3,073	2,387	558	1,010	860	7,888
1 through 5 years	26,669	8,364	11,496	2,334	13,812	62,67
5 through 10 years	5,281	14,372	2,507	240	1,513	23,91
After 10 years	3,180	22,012	8,073	283	1,760	35,30

Total predetermined interest rate loans	38,203	47,135	22,634	3,867	17,945	129,7
Total	$124,156	$457,760	$291,348	$21,996	$21,509	916,7
Net deferred loan fees and discounts						(1,19
						$915

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· The loan maturity information is based upon original loan terms and is not adjusted for "rollovers." In the ordinary cou 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 r have any foreign loans outstanding at December 31, 2014.

The following table shows the amount of accrual and nonaccrual TDRs at December 31, 2014 and 2013:

	2014			2013		
(In Thousands)	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial and agricultural	$551	$440	$991	$437	$—	$437
Real estate mortgage:						
Residential	697	181	878	603	118	721
Commercial	3,267	6,160	9,427	4,145	5,123	9,268
Construction	514	—	514	11	1,028	1,039
Installment loans to individuals	—	—	—	7	—	7
	$5,029	$6,781	$11,810	$5,203	$6,269	$11,4

ALLOWANCE FOR LOAN LOSSES

2014

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inhere loan portfolio, as of the consolidated balance sheet date. All loan losses are charged to the allowance and all recoveries are credited per the allowance method of providing for loan losses. The allowance for loan losses is established through a provision for loan los charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpo the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also perform 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 h determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and vol the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respec nonperforming loans and its knowledge and experience with specific lending segments.

The allowance for loan losses increased from $10,144,000 at December 31, 2013 to $10,579,000 at December 31, 2014. At Decem 2014, the allowance for loan losses was 1.16% of total loans compared to 1.24% of total loans at December 31, 2013. The decrease allowance for loan losses to total loans was the result of the increased allowance for loan losses that was more than offset by the inc in loan growth. The increase in the allowance for loan losses was appropriate when considering the gross loan growth, level of com loans, declining impact of the Marcellus Shale natural gas exploration, and the continued uncertain economic environment. Net loa charge-offs of $2,415,000 limited the impact of the provision for loan losses of $2,850,000. Management concluded that the allowa 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 pr for loan losses discussion.

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

2013

The allowance for loan losses increased from $7,617,000 at December 31, 2012 to $10,144,000 at December 31, 2013. At Decemb
2013, the allowance for loan losses was 1.24% of total loans compared to 1.49% of total loans at December 31, 2012. The decrease
allowance for loan losses to total loans was the result of purchase accounting adjustment that were

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applied to the Luzerne loan portfolio. The increase in the allowance for loan losses was appropriate when considering the gross loan growth, level of commercial loans, declining impact of the Marcellus Shale natural gas exploration, and the continued uncertain eco environment. Net loan recoveries of $251,000 augmented the allowance for loan losses and were the result of a large recovery on a commercial loan.

Allocation of The Allowance For Loan Losses

	December 31, 2014			December 31, 2013			December 31, 2012			December 31, 2011			December 31,	
(In Thousands)	Amount	% Total		Amount	% Total		Amount	% Total		Amount	% Total		Amount	% T
Balance at end of period applicable to:														
Commercial and agricultural	$1,124	13.54	%	$474	12.82	%	$361	9.44	%	$418	12.14	%	$443	12.2
Real estate mortgage:														
Residential	3,755	49.93		3,917	48.80		1,954	49.11		939	41.00		908	41.6
Commercial	4,205	31.78		4,079	34.48		3,831	35.46		2,651	37.55		1,435	38.4
Construction	786	2.40		741	2.11		950	3.91		2,775	6.73		2,753	5.41
Installment loans to individuals	245	2.35		139	1.79		144	2.08		190	2.58		179	2.26
Unallocated	464	—		794	—		377	—		181	—		317	—
	$10,579	100.00	%	$10,144	100.00	%	$7,617	100.00	%	$7,154	100.00	%	$6,035	100

NONPERFORMING LOANS

Non-accrual loans increased primarily due to several commercial loans that are either in a secured position or have sureties with a s underlying financial position or have a specific allocation within the allowance for loan losses.

The following table presents information concerning nonperforming loans. The accrual of interest will be discontinued when the pr 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 th process of collection. Consumer loans and residential real estate loans secured by 1 to 4 family dwellings are not ordinarily subject those guidelines. The reversal of previously accrued but uncollected interest applicable to any loan placed in a nonaccrual status an treatment of subsequent payments of either principal or interest is handled in accordance with GAAP. These principles do not requ write-off of previously accrued interest if principal and interest are ultimately protected by sound collateral values. A nonperformin 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
2014	$387	$11,861	$12,248
2013	604	9,074	9,678
2012	351	11,355	11,706
2011	384	11,625	12,009
2010	557	5,658	6,215

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 schedul satisfied in the near future. Presently, there are no significant amounts of loans where serious doubts exist as to the ability of the bo to comply with the current loan payment terms which are not included in the nonperforming categories as indicated above.

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Management's judgment in determining the amount of the additions to the allowance charged to operating expense considers the fo
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.
4. Reports of examination of the loan portfolio by the Department and the FDIC.

DEPOSITS

2014 vs. 2013

Total average deposits increased $142,246,000 or 16.93% from 2013 to 2014. The growth is a result of an emphasis to increase an solidify deposit relationships by focusing on core deposits, not time deposits. The actions caused average core deposits, which excl time deposits, to increase to 77.25% in 2014 from 75.06% for 2013. In addition to the emphasis on growing core deposits by utiliz marketing strategies, the core deposit growth is receiving a lift from the attraction of municipal relationships. In addition, the Bank continued to capitalize on their reputation of safety and soundness during this prolonged economic downturn.

2013 vs. 2012

Total average deposits increased $210,859,000 or 33.51% from 2012 to 2013. The growth is a combination of the Luzerne acquisit the result of an emphasis to increase and solidify deposit relationships by focusing on core deposits, not time deposits. The actions average core deposits, which exclude time deposits, to increase to 75.06% from 72.46% for 2012. In addition to the emphasis on g core deposits by utilizing marketing strategies, the core deposit growth received a lift from the natural gas exploration throughout o market footprint and municipal account gathering efforts.

The average amount and the average rate paid on deposits are summarized below for the years ended December 31, 2014, 2013, an

(In Thousands)	2014 Average Amount	Rate		2013 Average Amount	Rate		2012 Average Amount	Rate
Noninterest-bearing	$225,981	0.00	%	$174,909	0.00	%	$113,431	0.00
Savings	140,575	0.06		118,125	0.12		78,724	0.08
Super Now	182,229	0.32		154,131	0.45		118,515	0.51
Money Market	210,066	0.27		183,460	0.30		145,339	0.51
Time	223,537	0.79		209,517	0.88		173,274	1.29
Total average deposits	$982,388	0.31	%	$840,142	0.38	%	$629,283	0.58

SHAREHOLDERS' EQUITY

2014

Shareholders' equity increased $8,152,000 to $135,967,000 at December 31, 2014 compared to December 31, 2013. The accumula other comprehensive loss of $1,667,000 at December 31, 2014 is a result of an increase in unrealized gains on available for sale sec from an unrealized loss of $2,169,000 at December 31, 2013 to an unrealized gain of $2,930,000 at December 31, 2014. The amou accumulated other comprehensive loss at December 31, 2014 was also impacted by the change in net excess of the projected benefi obligation over the market value of the plan assets of the defined benefit pension plan resulting in an increase in the net loss of $1,8 to $4,597,000 at December 31, 2014. The current level of shareholders' equity equates to a book value per share of $28.30 at December 31, 2014 compared to $26.52 at December 31, 2013 and an equity to asset ratio of 10.92% at December 31, 2014 compa

10.55% at December 31, 2013. Excluding goodwill and intangibles, book value per share was $24.44 at December 31, 2014 compa
$22.60 at December 31, 2013. Dividends declared for the twelve months ended December 31, 2014 were $1.88 per share compared
$2.13, which included a special cash dividend of $0.25 per share declared in the first quarter 2013, for the twelve months ended
December 31, 2013.

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2013

Shareholders' equity increased $34,089,000 to $127,815,000 at December 31, 2013 compared to December 31, 2012. The accumu
other comprehensive loss of $4,894,000 at December 31, 2013 is a result of a decrease in unrealized gains on available for sale secu
from an unrealized gain of $10,164,000 at December 31, 2012 to an unrealized loss of $2,169,000 at December 31, 2013. The amo
accumulated other comprehensive loss at December 31, 2013 was also impacted by the change in net excess of the projected benefi
obligation over the market value of the plan assets of the defined benefit pension plan resulting in a decrease in the net loss of $2,08
to $2,725,000 at December 31, 2013. The current level of shareholders' equity equates to a book value per share of $26.52 at
December 31, 2013 compared to $24.42 at December 31, 2012 and an equity to asset ratio of 10.55% at December 31, 2013 compa
10.94% at December 31, 2012. Excluding goodwill and intangibles, book value per share was $22.60 at December 31, 2013 compa
$23.63 at December 31, 2012. Dividends declared for the twelve months ended December 31, 2013 were $2.13 per share, which in
a special cash dividend of $0.25 per share declared in the first quarter 2013, compared to $1.88 for the twelve months ended Decem
2012.

Bank regulators have risk based capital guidelines. Under these guidelines the Company 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 iten
December 31, 2014, both the Company's and each Bank's required ratios were well above the minimum ratios as follows:

	Company		Jersey Shore State Bank		Luzerne Bank		Minimu Standard
Tier 1 capital ratio	9.27	%	8.50	%	8.56	%	4.00
Total capital ratio	12.65	%	12.30	%	10.23	%	8.00

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 Company 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 foll

	2014		2013		2012
Percentage of net income to:					
Average total assets	1.19	%	1.32	%	1.70
Average shareholders' equity	10.79	%	12.36	%	15.36
Percentage of dividends declared to net income	61.99	%	67.88	%	52.08
Percentage of average shareholders' equity to average total assets	11.05	%	10.70	%	11.04

LIQUIDITY, INTEREST RATE SENSITIVITY, AND MARKET RISK

The Asset/Liability Committee addresses the liquidity needs of the Company to ensure that sufficient funds are available to meet cr
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, 2014:

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

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

Management monitors the Company's liquidity on both a short and long-term basis, thereby, providing management necessary info
to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies cons
both customer needs and economical cost. Both short and long term funding needs are addressed by maturities and sales of availab
sale investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. T
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 opportun
deposit pricing and growth potential, as well as the current cost of borrowing funds. The Company has a current borrowing capacit
FHLB of $484,916,000 with $97,581,000 utilized, leaving $387,335,000 available. In addition to this credit arrangement, the Com
has additional lines of credit with correspondent banks of $35,616,000. The Company's management believes that it has sufficient l
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 Compa
portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and investment sec
assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet st
which can cope effectively with market rate fluctuations. The matching process is affected by segmenting both assets and liabilities
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 p
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, co
an element of risk and must be prudently managed. In addition to gap management, the Company has an asset liability managemer
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 Company's balance sheet.

The Company currently maintains a gap position of being liability sensitive. The Company has strategically taken this position as i
decreased the duration of the time deposit portfolio over the last several years, while continuing to maintain a primarily fixed rate e
asset portfolio with a duration greater than the liabilities utilized to fund earning assets. Lengthening of the liability portfolio coupl
the addition of limited short-term assets is being undertaken. These actions are expected to reduce, but not eliminate, the liability s
structure of the balance sheet.

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

INTEREST RATE SENSITIVITY

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

The following is a rate shock forecast for the twelve month period ended December 31, 2015 assuming a static balance sheet as of
December 31, 2014.

	Parallel Rate Shock in Basis Points						
(In Thousands)	(200)	(100)	Static	100	200	300	400
Net interest income	$36,238	$37,969	$39,569	$40,728	$41,897	$42,743	$43,32
Change from static	(3,331)	(1,600)	—	1,159	2,328	3,174	3,756
Percent change from static	-8.42%	-4.04%	—	2.93%	5.88%	8.02%	9.49

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The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash
from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results coul
differ significantly from these estimates which would result in significant differences in the calculated projected change. In additio
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 Company is well position
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 inflatio
a more significant impact on the Company's performance. Interest rates are not always affected in the same direction or magnitude
prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors that are not measured by a price

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are integral to understanding the results reported. The accounting policies are described in det
Note 1 of the "Notes to Consolidated Financial Statements." Our most complex accounting policies require management's judgme
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 add
the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. T
following is a brief description of our current accounting policies involving significant management valuation judgments.

Other Than Temporary Impairment of Debt and Equity Securities

Debt and equity securities are evaluated periodically to determine whether a decline in their value is other than temporary. Manage
utilizes criteria such as the magnitude and duration of the decline, in addition to the reason underlying the decline, to determine wh
the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent.
indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to sup
values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than tempor
the value of the security is reduced and a corresponding charge to earnings is recognized. For a full discussion of the Company's
methodology of assessing impairment, refer to Note 4 of the "Notes to Consolidated Financial Statements."

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Company's allowance for loa
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 way
currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off ar
reduced by loans charged-off. For a full discussion of the Company's methodology of assessing the adequacy of the reserve for all
for loan losses, refer to Note 1 of the "Notes to Consolidated Financial Statements."

Goodwill and Other Intangible Assets

As discussed in Note 8 of the "Notes to Consolidated Financial Statements," the Company must assess goodwill and other intangib
each year for impairment. This assessment involves estimating cash flows for future periods. If the future cash flows were less thar
recorded goodwill and other intangible assets balances, we would be required to take a charge against earnings to write down the as
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 future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may b applied, the asset may not be realized and the Company's net income will be reduced. The Company's deferred tax assets are descr further in Note 12 of the "Notes to Consolidated Financial Statements."

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Pension Benefits

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

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations, including contractual obligations which may require future cash payments. The fol table presents, as of December 31, 2014, 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."

	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	$765,161	$—	$—	$—	$765,16
Time deposits	98,721	66,422	48,718	2,397	216,258
Repurchase agreements	13,987	—	—	—	13,987
Short-term borrowings	26,831	—	—	—	26,831
Long-term borrowings	26	15,805	55,058	287	71,176
Operating leases	589	900	601	1,048	3,138

The Company's operating lease obligations represent short and long-term lease and rental payments for branch facilities and equipr The Bank leases certain facilities under operating leases which expire on various dates through 2027. Renewal options are availabl 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 perfo and assumptions and other statements which are other than statements of historical fact. The Company wishes to caution readers th following important factors, among others, may have affected and could in the future affect the Company's actual results and could the Company's actual results for subsequent periods to differ materially from those expressed in any forward-looking statement ma on behalf of the Company herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Company must comply, and the associated costs of compliance with such laws and regulations either cu or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory ag as well as by the Financial Accounting Standards Board, or of changes in the Company's organization, compensation and benefit pl (iii) the effect on the Company'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 wel non-bank providers of various financial services; (iv) the effect of changes in interest rates; (v) the effect of changes in the business and downturns in the local, regional or national economies; and (vi) the successful integration of the business and operations of Luz with those of the Company.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk for the Company is comprised primarily from interest rate risk exposure and liquidity risk. Interest rate risk and liquidi management is performed at the Banks' level as well as the Company level. The Company's interest rate sensitivity is monitored b

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 Company is well positioned to respond expeditiously when the market interest rate outlook ch

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Penns Woods Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Penns Woods Bancorp, Inc. and subsidiaries a
December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders'
and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the
responsibility of Penns Woods Bancorp, Inc.'s management. Our responsibility is to express an opinion on these consolidated finan
statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Th
standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free
material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financi
statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well
evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated finan
position of Penns Woods Bancorp, Inc. and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their
operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generall
accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penns
Woods Bancorp, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria establish
Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 20
our report dated March 10, 2015, expressed an unqualified opinion on the effectiveness of Penns Woods Bancorp, Inc.'s internal co
over financial reporting.

Wexford, Pennsylvania
March 10, 2015

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PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31, 2014		2013
ASSETS:			
Noninterest-bearing balances	$19,403		$23,723
Interest-bearing deposits in other financial institutions	505		770
Federal funds sold	—		113
Total cash and cash equivalents	19,908		24,606
Investment securities available for sale, at fair value	232,213		288,612
Loans held for sale	550		1,626
Loans	915,579		818,344
Allowance for loan losses	(10,579	)	(10,144
Loans, net	905,000		808,200
Premises and equipment, net	21,109		20,184
Accrued interest receivable	3,912		4,696
Bank-owned life insurance	25,959		25,410
Investment in limited partnerships	1,560		2,221
Goodwill	17,104		17,104
Intangibles	1,456		1,801
Deferred tax asset	8,101		9,889
Other assets	8,139		7,646
TOTAL ASSETS	$1,245,011		$1,211,
LIABILITIES:			
Interest-bearing deposits	$738,041		$755,62
Noninterest-bearing deposits	243,378		217,377
Total deposits	981,419		973,002
Short-term borrowings	40,818		26,716
Long-term borrowings	71,176		71,202
Accrued interest payable	381		405
Other liabilities	15,250		12,855
TOTAL LIABILITIES	1,109,044		1,084,1
SHAREHOLDERS' EQUITY:			
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—		—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,002,649 and 4,999,929 shares issued	41,688		41,665
Additional paid-in capital	49,896		49,800
Retained earnings	53,107		47,554
Accumulated other comprehensive loss:			
Net unrealized gain (loss) on available for sale securities	2,930		(2,169
Defined benefit plan	(4,597	)	(2,725
Treasury stock at cost, 197,834 and 180,596 shares	(7,057	)	(6,310
TOTAL SHAREHOLDERS' EQUITY	135,967		127,815
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,245,011		$1,211,

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
(In Thousands, Except Per Share Data)	2014	2013	2012
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$36,495	$32,353	$25,37
Investment securities:			
Taxable	5,111	6,034	5,940
Tax-exempt	3,453	4,602	5,429
Dividend and other interest income	547	310	366
TOTAL INTEREST AND DIVIDEND INCOME	45,606	43,299	37,107
INTEREST EXPENSE:			
Deposits	2,995	3,221	3,645
Short-term borrowings	54	81	137
Long-term borrowings	1,913	1,962	2,429
TOTAL INTEREST EXPENSE	4,962	5,264	6,211
NET INTEREST INCOME	40,644	38,035	30,896
PROVISION FOR LOAN LOSSES	2,850	2,275	2,525
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,794	35,760	28,371
NON-INTEREST INCOME:			
Service charges	2,419	2,307	1,894
Securities gains, net	3,515	2,417	1,285
Bank-owned life insurance	923	677	670
Gain on sale of loans	1,803	1,438	1,386
Insurance commissions	1,146	1,084	1,357
Brokerage commissions	1,077	1,018	912
Other	3,625	3,101	2,596
TOTAL NON-INTEREST INCOME	14,508	12,042	10,100
NON-INTEREST EXPENSE:			
Salaries and employee benefits	17,273	15,415	11,762
Occupancy	2,301	1,905	1,270
Furniture and equipment	2,536	1,815	1,452
Pennsylvania shares tax	907	864	674
Amortization of investment in limited partnerships	661	661	661
Federal Deposit Insurance Corporation deposit insurance	746	594	468
Marketing	532	517	516
Intangible amortization	345	213	—
Other	8,589	8,283	5,220
TOTAL NON-INTEREST EXPENSE	33,890	30,267	22,023
INCOME BEFORE INCOME TAX PROVISION	18,412	17,535	16,448
INCOME TAX PROVISION	3,804	3,451	2,598
NET INCOME	$14,608	$14,084	$13,8

EARNINGS PER SHARE - BASIC AND DILUTED	$3.03	$3.19	$3.61
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	4,816,149	4,410,626	3,837,
DIVIDENDS PER SHARE	$1.88	$2.13	$1.88

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2014	2013	2012
Net Income	$14,608	$14,084	$13,850
Other comprehensive income (loss):			
Change in unrealized gain (loss) on available for sale securities	11,242	(16,270)	12,270
Tax effect	(3,822)	5,532	(4,172
Net realized gain included in net income	(3,515)	(2,417)	(1,285
Tax effect	1,195	822	437
(Accretion) amortization of unrecognized pension and post-retirement items	(2,837)	3,155	(1,021
Tax effect	964	(1,073)	347
Total other comprehensive income (loss)	3,227	(10,251)	6,576
Comprehensive income	$17,835	$3,833	$20,426

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 SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2011	4,017,677	$33,480	$ 18,115	$ 36,394	$ (1,219)	$ (6,310)	$ 80,460
Net income				13,850			13,850
Other comprehensive income					6,576		6,576
Dividends declared, ($1.88 per share)				(7,214)			(7,214
Common shares issued for employee stock purchase plan	1,435	12	42				54
Balance, December 31, 2012	4,019,112	33,492	18,157	43,030	5,357	(6,310)	93,726
Net income				14,084			14,084
Other comprehensive loss					(10,251)		(10,251
Dividends declared, ($2.13 per share)				(9,560)			(9,560
Common shares issued for acquisition of Luzerne National Bank Corporation	978,977	8,158	31,578				39,736
Common shares issued for employee stock purchase plan	1,840	15	65				80
Balance, December 31, 2013	4,999,929	41,665	49,800	47,554	(4,894)	(6,310)	127,815
Net income				14,608			14,608
Other comprehensive income					3,227		3,227
Dividends declared, ($1.88 per share)				(9,055)			(9,055
Common shares issued for employee stock purchase plan	2,720	23	96				119

Purchase of treasury stock (17,238 shares)						(747)	(747
Balance, December 31, 2014	5,002,649	$41,688	$ 49,896	$ 53,107	$ (1,667)	$ (7,057)	$ 135,96

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2014	2013	2012
OPERATING ACTIVITIES:			
Net Income	$14,608	$14,084	$13,8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,078	1,448	1,077
Amortization of intangible assets	345	213	—
Provision for loan losses	2,850	2,275	2,525
Accretion and amortization of investment security discounts and premiums	672	69	(989
Securities gains, net	(3,515)	(2,417)	(1,285
Originations of loans held for sale	(51,119)	(51,512)	(44,57
Proceeds of loans held for sale	53,998	55,098	45,970
Gain on sale of loans	(1,803)	(1,438)	(1,386
Earnings on bank-owned life insurance	(923)	(677)	(670
(Increase) decrease in deferred tax asset	124	123	(128
Other, net	423	61	(427
Net cash provided by operating activities	18,738	17,327	13,966
INVESTING ACTIVITIES:			
Investment securities available for sale:			
Proceeds from sales	102,145	79,114	48,460
Proceeds from calls and maturities	13,354	16,359	19,995
Purchases	(47,902)	(90,179)	(74,79
Investment securities held to maturity:			
Proceeds from calls and maturities	—	—	55
Net increase in loans	(101,816)	(55,953)	(78,32
Acquisition of bank premises and equipment	(2,795)	(4,918)	(1,403
Proceeds from the sale of foreclosed assets	1,059	143	765
Purchase of bank-owned life insurance	(30)	(981)	(33
Proceeds from bank-owned life insurance death benefit	367	—	383
Proceeds from redemption of regulatory stock	3,955	3,239	1,171
Purchases of regulatory stock	(4,583)	(2,384)	(796
Acquisition, net of cash acquired	—	17,487	—
Net cash used for investing activities	(36,246)	(38,073)	(84,51
FINANCING ACTIVITIES:			
Net (decrease) increase in interest-bearing deposits	(17,584)	34,114	56,763
Net increase in noninterest-bearing deposits	26,001	19,906	3,599
Proceeds from long-term borrowings	—	452	30,000
Repayment of long-term borrowings	(26)	(5,528)	(15,00
Net increase (decrease) in short-term borrowings	14,102	(9,254)	3,606
Dividends paid	(9,055)	(9,560)	(7,214
Issuance of common stock	119	80	54
Purchase of treasury stock	(747)	—	—
Net cash provided by financing activities	12,810	30,210	71,808
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,698)	9,464	1,257
CASH AND CASH EQUIVALENTS, BEGINNING	24,606	15,142	13,885
CASH AND CASH EQUIVALENTS, ENDING	$19,908	$24,606	$15,14

See accompanying notes to the consolidated financial statements.

(In Thousands)	Year Ended December 31, 2014	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$4,986	$5,225	$6,381
Income taxes paid	3,750	3,998	2,950
Transfer of loans to foreclosed real estate	2,166	470	—
Acquisition of Luzerne National Bank Corporation			
Non-cash assets acquired:			
Securities available for sale		21,783	
Loans		250,377	
Premises and equipment, net		8,014	
Accrued interest receivable		726	
Bank-owned life insurance		7,419	
Intangibles		2,015	
Other assets		2,636	
Goodwill		14,072	
		307,042	
Liabilities assumed:			
Deferred tax liability		76	
Interest-bearing deposits		194,438	
Noninterest-bearing deposits		82,518	
Short-term borrowings		2,766	
Accrued interest payable		103	
Other liabilities		4,892	
		284,793	
Net non-cash assets acquired		22,249	
Cash and cash equivalents acquired		$20,363	

See accompanying notes to the consolidated financial statements.

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PENNS WOODS BANCORP, INC.
NOTES TO 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" collectively with JSSB "Banks"), Woods Real Estate Development Co., Inc., Woods Investment Company, Inc., and The M Group Inc. D/B/A The Comprehensive Financial Group (“T Group”), a wholly owned subsidiary of the Bank (collectively, the “Company”). All significant intercompany balances and transac 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 serv including, but not limited to, installment loans, credit cards, mortgage and home equity loans, lines of credit, construction financing loans, community development loans, loans to non-profit entities and local government, and various types of demand and time depo including, but not limited to, checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and IRA 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 the twenty-two offices located in Clinton, Lycoming, Centre, Montour, and Luzerne Counties, Pennsylvania.

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

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, ann and estate planning services.

Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial service opera 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 o 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 val 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 da 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).

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Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to matur securities available for sale. 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 o 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, n tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income wh earned.

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

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated a principal amount outstanding, net of deferred fees and discounts, unamortized loan fees and costs, and the allowance for loan losse Interest on loans is recognized as income when earned on the accrual method. The Company's general policy has been to stop accr interest on loans when it is determined a reasonable doubt exists as to the collectability of additional interest. Income is subsequent 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 unpai principal balance of the loan. Loans are restored to accrual status if certain conditions are met, including but not limited to, the rep 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 adjust 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 inhere loan portfolio, as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly 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 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 independ loan review is also performed 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 h
determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and vol
the loan portfolio, historical loan loss experience, and general economic conditions. In addition, management considers industry st
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 lo
losses is adequate at December 31, 2014, 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

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unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increase of nonperforming assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of periodic regulatory examination process is the review of the adequacy of the Banks' loan loss allowance. The regulatory agencies co require the Banks, based on their evaluation of information available at the time of their examination, to provide additional loan los 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 am due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do no aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual lo although the two categories overlap. The Banks may choose to place a loan on nonaccrual status due to payment delinquency or un collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors cons by management in determining impairment include payment status and collateral value. The amount of impairment for these types loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original int rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of th collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of th collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans an measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, ge 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 payme 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 concessio 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 mo 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 repossessi the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, manageme 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 impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounti guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estima 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 h
period, which can range from less than two weeks to a maximum of thirty days. Sold loans are not serviced by the Banks. Proceeds
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 compon
non-interest income within the Consolidated Statement of Income.

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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 und
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 dispos
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 fur
fixtures, and equipment and fifteen to forty years for buildings and improvements. Costs incurred for routine maintenance and repa
charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

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

Goodwill

The Company performs an annual impairment analysis of goodwill for its purchased subsidiaries, Luzerne and The M Group. Base
the fair value of these reporting units, estimated using the expected present value of future cash flows, no impairment of goodwill w
recognized in 2014, 2013, or 2012.

Intangible Assets
At December 31, 2014, the Company had intangible assets of $1,456,000 as a result of the acquisition of Luzerne National Bank
Corporation, which is net of accumulated amortization of $558,000. These intangible assets will continue to be amortized using the
sum-of-the-years digits method of amortization over ten years.

Investments in Limited Partnerships

The Company is a limited partner in four partnerships at December 31, 2014 that provide low income elderly housing in the Compa
geographic market area. The carrying value of the Company's investments in limited partnerships was $1,560,000 at December 31,
and $2,221,000 at December 31, 2013. One investment is fully amortized, while the other three are being amortized over the ten-ye
credit receipt period utilizing the straight-line method. The partnerships are amortized once the projects reach the level of occupanc
needed to begin the ten year tax credit recognition period. Amortization of limited partnership investments amounted to $661,000 i
2014, 2013, and 2012.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company 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 Company re
the amounts in its financial statements.

Advertising Cost

Advertising costs are generally expensed as incurred.

Income Taxes

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurem
tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statemen
when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that wou
full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at t
largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previ
failed to meet the more-likely-than-not recognition threshold should be

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recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting perio 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 refl at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realize settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income The Company analyzed its deferred tax asset position and determined that there was not a need for a valuation allowance due to the Company's ability to generate future ordinary and capital taxable income.

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

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated utilizing ne income as reported in the numerator and weighted average shares outstanding in the denominator. The computation of diluted earn 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 eligi employees of JSSB. The plan is funded on a current basis to the extent that it is deductible under existing federal tax regulations. I 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 is m annually at the discretion of the board of directors for the employees of JSSB.

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 policies with the majority of the policies written being permanent. Term life insurance policies are written for 10, 15, 20, and 30 ye 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 insurar 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 f monthly and annual payment plans are recognized at the start of each annual period for the life insurance, while quarterly and semi- 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 pay 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 cov period versus at the time of each monthly payment. No liability is maintained for chargebacks as these are removed from income a time of the occurrence.

Accumulated Other Comprehensive Income (Loss)

The Company is required to present accumulated other comprehensive income (loss) in a full set of general-purpose financial stater
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 p

Segment Reporting

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

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Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications d
affect net income or shareholders' equity.

Recent Accounting Pronouncements

In January 2014, FASB issued ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investr
in Qualified Affordable Housing Projects. The amendments in this update permit reporting entities to make an accounting policy el
to account for their investments in qualified affordable housing projects using the proportional amortization method if certain condi
are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax c
and other tax benefits received and recognizes the net investment performance in the income statement as a component of income t
expense (benefit). The amendments in this update should be applied retrospectively to all periods presented. A reporting entity that
the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may co
to apply the effective yield method for those preexisting investments. The amendments in this update are effective for public busine
entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early ado
is permitted. This ASU did not have an impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40):
Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this up
clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of
residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the resi
real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property
creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, t
amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the c
and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process
foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public bu
entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elec
adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. Th
Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results o
operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The
core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that re
the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifie
accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognit
This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that repo
period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position
results of operations.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurch
Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secu
borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a finan
asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing
accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this updat
effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accou
for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the p
of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presen
interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending

transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual pe
beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be
presented for comparative periods before the effective date. The Company is currently evaluating the impact the adoption of the sta
will have on the Company's financial position or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Paym
when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amen
require that a performance target that affects vesting and that could be achieved after the requisite service period

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be treated as a performance condition. The amendments in this update are effective for annual periods and interim periods within th
annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this update
(a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targ
are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified aw
thereafter. If retrospective transition is adopted, the cumulative effect of applying this update as of the beginning of the earliest ann
period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that d
Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cos
ASU did not have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40). The
amendments in this update require that a mortgage loan be de-recognized and that a separate other receivable be recognized upon
foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before
foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a c
on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the cl
that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be
measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amend
in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginnin
December 15, 2014. This ASU did not have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The
amendments in this update provide guidance in accounting principles generally accepted in the United States of America about
management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern an
provide related footnote disclosures. The amendments in this update are effective for the annual period ending after December 15, 2
and for annual periods and interim periods thereafter. Early application is permitted. This ASU is not expected to have a significant
on the Company's financial statements.

In November 2014, the FASB issued ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting. The amendments
update apply to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (e
public or nonpublic) upon the occurrence of an event in which an acquirer (an individual or an entity) obtains control of the acquire
entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-contro
occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entit
have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent
change-in-control event. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired e
can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. This up
will not have an impact on the Company's financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement -Extraordinary and Unusual Items, as part of its initiative to red
complexity in accounting standards. This update eliminates from GAAP the concept of extraordinary items. The amendments in thi
update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting e
may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods pre
in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year o
adoption. This update is not expected to have a significant impact on the Company's financial statements.

NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component as of December 31, 2014 and 2013 were as follows:

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(In Thousands)	Twelve Months Ended December 31, 2014			Twelve Months Ended December 31,		
	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	Tot
Beginning balance	$(2,169)	$(2,725)	$(4,894)	$10,164	$(4,807)	$5,
Other comprehensive (loss) income before reclassifications	7,419	(2,010)	5,409	(10,738)	1,749	(8,9
Amounts reclassified from accumulated other comprehensive (loss) income	(2,320)	138	(2,182)	(1,595)	333	(1,2
Net current-period other comprehensive income (loss)	5,099	(1,872)	3,227	(12,333)	2,082	(10
Ending balance	$2,930	$(4,597)	$(1,667)	$(2,169)	$(2,725)	$(4

The reclassifications out of accumulated other comprehensive income as of December 31, 2014 and 2013 were as follows:

(In Thousands)	Amount Reclassified from Accumulated Other Comprehensive Income		
Details about Accumulated Other Comprehensive Income Components	Twelve Months Ended December 31, 2014	December 31, 2013	Affected Line Item in the Consolidated Statement of Income
Net realized gain on available for sale securities	$ (3,515)	$ (2,417)	Securities gains, net
Income tax effect	1,195	822	Income tax provision
	(2,320)	(1,595)	Net of tax
Net unrecognized pension costs	209	504	Salaries and employee benefits
Income tax effect	(71)	(171)	Income tax provision
	$ 138	$ 333	Net of tax

NOTE 3 - PER SHARE DATA

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share; therefo 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,		
	2014	2013	2012
Weighted average common shares issued	5,001,171	4,591,222	4,018,
Average treasury stock shares	(185,022)	(180,596)	(180,5
Weighted average common shares used to calculate basic and diluted earnings per share	4,816,149	4,410,626	3,837,

No stock options were outstanding during 2014, 2013, or 2012.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost and fair values of investment securities at December 31, 2014 and 2013 are as follows:

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(In Thousands)	2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Va
Available for sale (AFS)				
U.S. Government and agency securities	$3,953	$—	$(112)	$3,841
Mortgage-backed securities	12,240	485	(28)	12,697
Asset-backed securities	2,468	27	(3)	2,492
State and political securities	104,820	3,885	(589)	108,116
Other debt securities	89,911	1,031	(1,299)	89,643
Total debt securities	213,392	5,428	(2,031)	216,789
Financial institution equity securities	8,823	1,110	(18)	9,915
Other equity securities	5,558	79	(128)	5,509
Total equity securities	14,381	1,189	(146)	15,424
Total investment securities AFS	$227,773	$6,617	$(2,177)	$232,2

(In Thousands)	2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Va
Available for sale (AFS)				
U.S. Government and agency securities	$9,989	$17	$(83)	$9,923
Mortgage-backed securities	9,966	694	(68)	10,592
Asset-backed securities	6,700	43	(179)	6,564
State and political securities	145,121	2,120	(5,446)	141,795
Other debt securities	108,939	879	(3,045)	106,773
Total debt securities	280,715	3,753	(8,821)	275,647
Financial institution equity securities	8,842	1,820	—	10,662
Other equity securities	2,342	28	(67)	2,303
Total equity securities	11,184	1,848	(67)	12,965
Total investment securities AFS	$291,899	$5,601	$(8,888)	$288,6

The following tables show the Company’s gross unrealized losses and fair value, aggregated by investment category and length of t the individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013.

	2014 Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrea Losses
U.S. Government and agency securities	$—	$—	$3,841	$(112)	$3,841	$(112
Mortgage-backed securities	6,741	(28)	—	—	6,741	(28
Asset-backed securities	—	—	519	(3)	519	(3
State and political securities	8,243	(14)	6,382	(575)	14,625	(589
Other debt securities	23,174	(718)	29,266	(581)	52,440	(1,299
Total debt securities	38,158	(760)	40,008	(1,271)	78,166	(2,031
Financial institution equity securities	407	(18)	—	—	407	(18
Other equity securities	1,837	(100)	773	(28)	2,610	(128

Total equity securities	2,244	(118)	773	(28)	3,017	(146
Total	$40,402	$(878)	$40,781	$(1,299)	$81,183	$(2,17

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	2013					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrea Losse
U.S. Government and agency securities	$7,740	$(83)	$—	$—	$7,740	$(83
Mortgage-backed securities	2,483	(68)	—	—	2,483	(68
Asset-backed securities	3,847	(177)	712	(2)	4,559	(179
State and political securities	42,577	(2,558)	8,233	(2,888)	50,810	(5,446
Other debt securities	73,254	(3,045)	—	—	73,254	(3,045
Total debt securities	129,901	(5,931)	8,945	(2,890)	138,846	(8,821
Financial institution equity securities	—	—	—	—	—	—
Other equity securities	274	(22)	655	(45)	929	(67
Total equity securities	274	(22)	655	(45)	929	(67
Total	$130,175	$(5,953)	$9,600	$(2,935)	$139,775	$(8,88

At December 31, 2014 there were 45 individual securities in a continuous unrealized loss position for less than twelve months and 1 individual securities in a continuous unrealized loss position for greater than twelve months.

The Company reviews its position quarterly and has asserted that at December 31, 2014 and 2013, the declines outlined in the abov represent temporary declines and the Company does not intend to sell and does not believe they will be required to sell these securi before recovery of their cost basis, which may be at maturity. The Company 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-coll of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2014, by contractual maturity, are shown below. Expected mat may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepa penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$4,400	$4,436
Due after one year to five years	37,288	37,313
Due after five years to ten years	97,559	97,682
Due after ten years	74,145	77,358
Total	$213,392	$216,789

Total gross proceeds from sales of securities available for sale were $102,145,000, $79,114,000, and $48,460,000 for 2014, 2013, a 2012, respectively. The following table represents gross realized gains and losses on those transactions:

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	Year Ended December 31,		
(In Thousands)	2014	2013	2012
Gross realized gains:			
U.S. Government and agency securities	$59	$—	$2
Mortgage-backed securities	89	—	136
State and political securities	2,327	2,076	327
Other debt securities	622	490	426
Financial institution equity securities	710	241	609
Other equity securities	491	340	587
Total gross realized gains	$4,298	$3,147	$2,087
Gross realized losses:			
U.S. Government and agency securities	$45	$—	$—
Mortgage-backed securities	—	92	—
State and political securities	412	611	440
Other debt securities	209	27	53
Financial institution equity securities	—	—	67
Other equity securities	117	—	242
Total gross realized losses	$783	$730	$802

There were no impairment charges included in gross realized losses for the years ended December 31, 2014, 2013, and 2012.

Investment securities with a carrying value of approximately $128,501,000 and $141,876,000 at December 31, 2014 and 2013, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

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, is 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 s the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as rest stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of t value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is inf by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amou the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and th of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base 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 con that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, new s 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 and agricul real estate, and installment loans to individuals. Real estate loans are further segmented into three categories: residential, commerc construction.

The following table presents the related aging categories of loans, by segment, as of December 31, 2014 and 2013:

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2014					
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$122,624	$773	$—	$759	$124,156
Real estate mortgage:					
Residential	450,503	6,078	332	847	457,760
Commercial	279,731	1,819	54	9,744	291,348
Construction	21,485	—	—	511	21,996
Installment loans to individuals	21,125	383	1	—	21,509
	895,468	$9,053	$387	$11,861	916,769
Net deferred loan fees and discounts	(1,190)				(1,190
Allowance for loan losses	(10,579)				(10,579
Loans, net	$883,699				$905,000

2013					
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$104,419	$502	$—	$108	$105,029
Real estate mortgage:					
Residential	392,300	6,424	531	526	399,781
Commercial	272,745	2,533	—	7,198	282,476
Construction	15,967	—	73	1,242	17,282
Installment loans to individuals	14,170	477	—	—	14,647
	799,601	$9,936	$604	$9,074	819,215
Net deferred loan fees and discounts	(871)				(871
Allowance for loan losses	(10,144)				(10,144
Loans, net	$788,586				$808,200

Purchased loans acquired are recorded at fair value on their purchase date without a carryover of the related allowance for loan loss

Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date o acquisition that the Company will not collect all contractually required principal and interest payments. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying va purchased loans acquired with deteriorated credit quality was $349,000 at December 31, 2014. The remaining carrying value of the purchased loan acquired with deteriorated credit quality was transfered into other real estate owned by the Bank during the 3rd and quarters of 2014.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquire Luzerne acquisition was $1,211,000 and the estimated fair value of the loans was $878,000. Total contractually required payments these loans, including interest, at the acquisition date was $1,783,000. However, the Company's preliminary estimate of expected c flows was $941,000. At such date, the Company established a credit risk related non-accretable discount (a discount representing a which are not expected to be collected from the customer nor liquidation of collateral) of $842,000 relating to these impaired loans, reflected in the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans. The Company f estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount $63,000 on the acquisition date relating to these impaired loans.

The carrying value of the loans acquired and accounted for in accordance with ASC 310-30, was determined by projecting discount
contractual cash flows. The table below presents the components of the purchase accounting adjustments related to the purchased i
loans acquired in the Luzerne acquisition as of June 1, 2013:

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(In Thousands)	June 1, 2013
Unpaid principal balance	$1,211
Interest	572
Contractual cash flows	1,783
Non-accretable discount	(842
Expected cash flows	941
Accretable discount	(63
Estimated fair value	$878

Changes in the amortizable yield for purchased credit-impaired loans were as follows for December 31, 2014 and 2013:

(In Thousands)	December 31, 2014		December 31, 20
Balance at beginning of period	$35		$63
Accretion	(35	)	(28
Balance at end of period	$—		$35

The following table presents additional information regarding loans acquired with specific evidence of deterioration in credit qualit
ASC 310-30:

(In Thousands)	December 31, 2014	December 31, 20
Outstanding balance	$449	$1,224
Carrying amount	349	868

The following table presents the interest income if interest had been recorded based on the original loan agreement terms and rate o
interest for non-accrual loans and interest income recognized on a cash basis for non-accrual loans as of December 31, 2014, 2013,
2012:

(In Thousands)	Year Ended December 31, 2014 Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	2013 Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	2012 Interest Income That Would Have Been Recorded Based on Original Term and Rate	Intere Incor Reco a Cas
Commercial and agricultural	$42	$33	$7	$3	$—	$—
Real estate mortgage:						
Residential	63	34	41	20	67	37
Commercial	600	264	447	251	281	172
Construction	63	2	88	56	377	74
	$768	$333	$583	$330	$725	$283

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 t
the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifica
The definition of “impaired loans” is not the same as the definition of “non-accrual loans,” although the two categories overlap. Th
may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the l
impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount
impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to

loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the differe
between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured
on the fair value of the collateral.

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Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,0
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 an
measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, ge
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 paym
record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded co
to the Banks' policy on non-accrual loans.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segme
December 31, 2014 and 2013:

(In Thousands)	2014 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and agricultural	$439	$439	$—
Real estate mortgage:			
Residential	139	139	—
Commercial	3,228	3,228	—
Construction	716	716	—
	4,522	4,522	—
With an allowance recorded:			
Commercial and agricultural	673	673	298
Real estate mortgage:			
Residential	1,327	1,449	147
Commercial	10,745	10,889	1,581
Construction	309	309	67
	13,054	13,320	2,093
Total:			
Commercial and agricultural	1,112	1,112	298
Real estate mortgage:			
Residential	1,466	1,588	147
Commercial	13,973	14,117	1,581
Construction	1,025	1,025	67
	$17,576	$17,842	$2,093

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(In Thousands)	2013 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and agricultural	$—	$—	$—
Real estate mortgage:			
Residential	916	1,173	—
Commercial	623	879	—
Construction	528	528	—
	2,067	2,580	—
With an allowance recorded:			
Commercial and agricultural	532	532	224
Real estate mortgage:			
Residential	319	342	65
Commercial	7,598	7,742	2,153
Construction	512	1,367	113
	8,961	9,983	2,555
Total:			
Commercial and agricultural	532	532	224
Real estate mortgage:			
Residential	1,235	1,515	65
Commercial	8,221	8,621	2,153
Construction	1,040	1,895	113
	$11,028	$12,563	$2,555

The following table presents the average recorded investment in impaired loans and related interest income recognized for Decemb 2014, 2013, and 2012:

(In Thousands)	2014 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Incom Recognized or Cash Basis on Impaired Loan
Commercial and agricultural	$763	$26	$25
Real estate mortgage:			
Residential	1,245	46	20
Commercial	10,987	130	101
Construction	1,086	17	89
	$14,081	$219	$235

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(In Thousands)	2013 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Incom Recognized or Cash Basis on Impaired Loan
Commercial and agricultural	$538	$26	$—
Real estate mortgage:			
Residential	1,581	62	25
Commercial	8,605	183	95
Construction	2,651	1	569
	$13,375	$272	$689

(In Thousands)	2012 Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Incom Recognized or Cash Basis on Impaired Loan
Commercial and agricultural	$97	$—	$—
Real estate mortgage:			
Residential	1,417	44	49
Commercial	7,001	290	146
Construction	7,831	1	74
	$16,346	$335	$269

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 conce 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 re to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six month

Loan modifications that are considered TDRs completed during the twelve months ended December 31, 2014 and 2013 were as fol

(In Thousands, Except Number of Contracts)	Year Ended December 31, 2014 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	2013 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modi Outstandir Recorded Investmen
Commercial and agricultural	3	$620	$620	—	$—	$—
Real estate mortgage:						
Residential	3	392	392	2	61	61
Commercial	3	636	636	4	1,898	1,898
Total	9	$1,648	$1,648	6	$1,959	$1,959

There was one commercial real estate loan modifications considered a troubled debt restructurings made during the twelve months previous to December 31, 2014 that defaulted during the twelve month period ending December 31, 2014. However, that loan was

off in the fourth quarter of 2014. There were four commercial real estate loan modifications considered troubled debt restructurings
recorded investment of $1,884,000 made during the twelve months previous to December 31, 2013 that defaulted during the twelve
period ending December 31, 2013.

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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 categ are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resu an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard categ have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be susta 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. S loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occu 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 B have a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mo loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awarenes possible credit event. An external annual loan review of large commercial relationships is performed, as well as a sample of smalle transactions. During 2014, the threshold for the annual loan review was commercial relationships $1,000,000 or greater for JSSB a $1,450,000 or greater for Luzerne. Confirmation of the appropriate risk category is included in the review. Detailed reviews, incluc 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, 2014 and 2013:

	2014					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$118,210	$454,885	$256,444	$20,927	$21,509	$871,97
Special Mention	3,186	2,384	16,262	445	—	22,277
Substandard	2,760	491	18,642	624	—	22,517
Total	$124,156	$457,760	$291,348	$21,996	$21,509	$916,76

	2013					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$99,256	$398,327	$259,505	$13,608	$14,647	$785,34
Special Mention	4,529	598	10,181	214	—	15,522
Substandard	1,244	856	12,790	3,460	—	18,350
Total	$105,029	$399,781	$282,476	$17,282	$14,647	$819,21

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 evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversificat 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 Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the tv components represents the Banks' ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances
segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that

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are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for "Pass 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 ar are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. Ho management may adjust the moving average time frame by up to four quarters to adjust for variances in the economic cycle. Manag has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these fa are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The addi factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volum terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; concentrations of credit from a loan type, industry, and/or geographic standpoint.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closel monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan se 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. Wher information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Activity in the allowance is presented for the twelve months ended December 31, 2014 and 2013:

	2014						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individual	Unallocated	Total
Beginning Balance	$474	$3,917	$4,079	$741	$139	$794	$10,
Charge-offs	(289)	(65)	(2,038)	—	(142)	—	(2,53
Recoveries	18	15	—	22	64	—	119
Provision	921	(112)	2,164	23	184	(330)	2,850
Ending Balance	$1,124	$3,755	$4,205	$786	$245	$464	$10,

	2013						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Total
Beginning Balance	$361	$1,954	$3,831	$950	$144	$377	$7,6
Charge-offs	(4)	(250)	(297)	(100)	(116)	—	(767
Recoveries	7	13	88	850	61	—	1,019
Provision	110	2,200	457	(959)	50	417	2,27
Ending Balance	$474	$3,917	$4,079	$741	$139	$794	$10,

The Company grants commercial, industrial, residential, and installment loans to customers throughout north-central and north-east Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2014 and 2013, a substantial portion of its d ability to honor their contracts is dependent on the economic conditions within this region.

The Company has a concentration of loans at December 31, 2014 and 2013 as follows:

	2014	2013
Owners of residential rental properties	16.01 %	15.67
Owners of commercial rental properties	14.67 %	12.99

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of December 31, 2014 and 2013:

(In Thousands)	2014 Commercial and Agricultural	Real Estate Mortgages Residential	 Commercial	 Construction	Installment Loans to Individuals	Unallocated	Tota
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$298	$147	$1,581	$67	$—	$—	$2,0
Collectively evaluated for impairment	826	3,608	2,624	719	245	464	8,48
Total ending allowance balance	$1,124	$3,755	$4,205	$786	$245	$464	$10,
Loans:							
Individually evaluated for impairment	$1,112	$1,117	$13,973	$1,025	$—		$17,
Loans acquired with deteriorated credit quality	—	349	—	—	—		349
Collectively evaluated for impairment	123,044	456,294	277,375	20,971	21,509		899,
Total ending loans balance	$124,156	$457,760	$291,348	$21,996	$21,509		$916

(In Thousands)	2013 Commercial and Agricultural	Real Estate Mortgages Residential	 Commercial	 Construction	Installment Loans to Individuals	Unallocated	Tota
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$224	$65	$2,153	$113	$ —	$—	$2,5
Collectively evaluated for impairment	250	3,852	1,926	628	139	794	7,58
Total ending allowance balance	$474	3,917	$4,079	$741	$ 139	$794	$10,
Loans:							
Individually evaluated for impairment	$532	$881	$7,707	$1,040	$ —		$10,
Loans acquired with deteriorated credit quality	—	354	514	—	—		868
Collectively evaluated for impairment	104,497	398,546	274,255	16,242	14,647		808,
Total ending loans balance	$105,029	399,781	$282,476	$17,282	$ 14,647		$819

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31, 2014 and 2013:

(In Thousands)	2014	2013
Land	$5,759	$5,823
Premises	14,767	13,114
Furniture and equipment	7,435	7,320
Leasehold improvements	1,351	1,347
Total	29,312	27,604
Less accumulated depreciation and amortization	8,203	7,420
Net premises and equipment	$21,109	$20,184

Depreciation and amortization related to premises and equipment for the years ended 2014, 2013, and 2012 was $1,494,000, $1,054
and $762,000, respectively.

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NOTE 8 - GOODWILL AND OTHER INTANGIBLES

As of December 31, 2014 and 2013 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 in the third quarter of each fiscal year. Based on the fair value of th 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, 2014 or 2013.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodica reassessed to determine if any amortization period adjustments are required. Since the acquisition, no such adjustments were record The identifiable intangible assets consist of a core deposit intangible and trade name intangible which are being amortized on an accelerated basis over the useful life of such assets. The gross carrying amount of the core deposit intangible and trade name intang December 31, 2014 was $1,360,000 and $96,000, respectively, with $521,000 and $37,000 accumulated amortization as of that date

As of December 31, 2014, the estimated future amortization expense for the core deposit and trade name intangible was:

(In Thousands)	
2015	$ 308
2016	272
2017	235
2018	198
2019	162
2020	125
2021	89
2022	52
2023	15
	$ 1,456

NOTE 9 - TIME DEPOSITS

Time deposits of $250,000 or more totaled approximately $26,468,000 on December 31, 2014 and $29,822,000 on December 31, 2 Interest expense on time deposits of $100,000 or more was approximately $875,000, $841,000, and $874,000, for the years ended December 31, 2014, 2013, and 2012, respectively.

At December 31, 2014, the scheduled maturities on time deposits of $100,000 or more are as follows:

(In Thousands)	2014
Three months or less	$ 11,235
Three months to six months	7,686
Six months to twelve months	18,258
Over twelve months	49,680
Total	$ 86,859

Total time deposit maturities are as follows at December 31, 2014:

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(In Thousands)	2014
2015	$98,721
2016	33,533
2017	32,889
2018	37,231
2019	11,487
Thereafter	2,397
Total	$216,258

NOTE 10 - SHORT-TERM BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase and primarily FHLB advances, which generally re overnight or less than six month borrowings. In addition to the outstanding balances noted below, the Banks also have additional li credit totaling $35,616,000 available from correspondent banks other than the FHLB. The outstanding balances and related inform for short-term borrowings are summarized as follows at December 31, 2014, 2013, and 2012:

(In Thousands)	2014		2013		2012
Repurchase Agreements:					
Balance at year end	$13,987		$12,391		$16,968
Maximum amount outstanding at any month end	18,801		16,632		21,609
Average balance outstanding during the year	16,350		16,839		16,951
Weighted-average interest rate:					
At year end	0.23	%	0.28	%	0.65
Paid during the year	0.22	%	0.40	%	0.73
Overnight:					
Balance at year end	$26,831		$14,325		$16,236
Maximum amount outstanding at any month end	26,831		21,350		20,175
Average balance outstanding during the year	5,992		5,508		4,009
Weighted-average interest rate:					
At year end	0.27	%	0.25	%	0.25
Paid during the year	0.30	%	0.31	%	0.31

NOTE 11 - LONG-TERM BORROWINGS

The following represents outstanding long-term borrowings with the FHLB by contractual maturities at December 31, 2014 and 20

(In Thousands)		Weighted Average Interest Rate				Stated Interest Rate Range					
Description	Maturity	2014		2013		From		To		2014	2013
Variable	2015	3.97	%	3.97	%	3.97	%	3.97	%	10,000	10,00
Variable	2017	4.22	%	4.22	%	4.15	%	4.28	%	20,000	20,00
Variable	2018	3.18	%	3.18	%	3.18	%	3.18	%	10,000	10,00
Total Variable		3.90	%	3.90	%					40,000	40,00
Fixed	2015	6.92	%	6.92	%	6.92	%	6.92	%	750	750
Fixed	2016	0.75	%	0.75	%	0.75	%	0.75	%	5,000	5,000
Fixed	2017	0.91	%	0.91	%	0.90	%	0.97	%	25,000	25,00
Total Fixed		1.03	%	1.03	%					30,750	30,75
Total		2.65	%	2.65	%					$70,750	$70,7

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(In Thousands) Year Ending December 31,	Amount	Weighted Average Ra
2015	10,750	4.18
2016	5,000	0.75
2017	45,000	2.38
2018	10,000	3.18
	$70,750	2.65

The terms of the convertible borrowings allow the FHLB to convert the interest rate to an adjustable rate based on the three month I
Interbank Offered Rate ("LIBOR") at a predetermined anniversary date of the borrowing's origination, ranging from three months t
years. If the FHLB converts the interest rate on one of the predetermined dates, the Bank has the ability to pay off the debt on the conversion date and quarterly thereafter without incurring the customary pre-payment penalty.

The Banks maintain a credit arrangement which includes a revolving line of credit with the FHLB. Under this credit arrangement,
December 31, 2014 JSSB has a remaining borrowing capacity of $245,776,000 and Luzerne has a remaining capacity of $141,559,0
which are subject to annual renewal and typically incur no service charges. Under terms of a blanket agreement, collateral for the F
borrowings must be secured by certain qualifying assets of each Bank which consist principally of first mortgage loans and mortgage-backed securities.

In December 2012, JSSB entered in to a capital lease on a piece of land in Lewisburg, Pennsylvania. The carrying amount of the lan
December 31, 2014 and 2013 was $827,000. The present value of minimum lease payments at December 31, 2014 and 2013 was $4
and $452,000. The following is a schedule showing the furture minimum lease payments under the capital lease by years and the pr
value of the minimum lease payments as of December 31, 2014. The interest rate related to the lease obligation is 2.75% and the m
date is October 2023.

(In Thousands)	Lease Payment	Interest	Present Value of Mi Lease Payment
2015	$38	$12	$26
2016	38	11	27
2017	38	10	28
2018	38	10	28
2019	38	8	30
Thereafter	314	27	287
	$504	$78	$426

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NOTE 12 - INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset position at December 31, 2014 and 2013:

(In Thousands)	2014	2013
Deferred tax assets:		
Allowance for loan losses	$3,380	$3,167
Deferred compensation	1,579	1,459
Pension	2,172	1,336
Loan fees and discounts	256	—
Investment securities allowance	487	689
Unrealized loss on available for sale securities	—	1,118
Low income housing credit carryforward	2,034	2,803
Capital loss carryforward	98	103
Other	1,578	1,214
Total	11,584	11,889
Deferred tax liabilities:		
Unrealized gain on available for sale securities	1,510	—
Bond accretion	262	207
Loan fees and discounts	—	49
Depreciation	734	842
Amortization	977	902
Total	3,483	2,000
Deferred tax asset, net	$8,101	$9,889

The current low income housing credit carryforward will expire in twelve years. The current capital loss carryforward will expire i
years. The Company fully anticipates being able to use the carry-forwards.

No valuation allowance was established at December 31, 2014 and 2013, because of the Company's ability to carry back capital lo
recover taxes paid in previous years and certain tax strategies, together with the anticipated future taxable income as evidenced by t
Company's earning potential. The Corporation is no longer subject to federal, state, and local examinations by tax authorities for ye
before 2011.

The provision or benefit for income taxes is comprised of the following for the year ended December 31, 2014, 2013, and 2012:

(In Thousands)	2014	2013	2012
Currently payable	$3,680	$3,328	$2,726
Deferred benefit (provision)	124	123	(128
Total provision	$3,804	$3,451	$2,598

A reconciliation between the expected income tax or benefit and the effective income tax rate on income before income tax provisi
benefit follows for the year ended December 31, 2014, 2013, and 2012:

	2014				2013				2012		
(In Thousands)	Amount		%		Amount		%		Amount		%
Provision at expected rate	$6,260		34.00	%	$5,962		34.00	%	$5,592		34.00
(Decrease) increase in tax resulting from:											
Tax-exempt income	(1,673	)	(9.09	)	(1,933	)	(11.02	)	(2,235	)	(13.59
Tax credits	(737	)	(4.00	)	(737	)	(4.20	)	(737	)	(4.48
Other, net	(46	)	(0.25	)	159		0.90		(22	)	(0.13
Effective income tax provision and rate	$3,804		20.66	%	$3,451		19.68	%	$2,598		15.80

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NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

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

The following table sets forth the obligation and funded status as of December 31, 2014 and 2013:

(In Thousands)	2014		2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$18,186		$19,073
Service cost	484		574
Interest cost	859		770
Actuarial loss	277		449
Benefits paid	(1,660	)	(535
Other, change in actuarial assumptions	5,304		(2,145
Benefit obligation at end of year	$23,450		$18,186
Change in plan assets:			
Fair value of plan assets at beginning of year	$14,258		$12,078
Actual return on plan assets	487		1,934
Employer contribution	850		840
Benefits paid	(1,736	)	(599
Adjustment to fair value of plan assets	47		5
Fair value of plan assets at end of year	13,906		14,258
Funded status	$(9,544	)	$(3,928
Accounts recognized on balance sheet as:			
Total liabilities	$(9,544	)	$(3,928
Amounts not yet recognized as a component of net periodic pension cost:			
Amounts recognized in accumulated other comprehensive income (loss) consist of:			
Net loss	$6,965		$4,128

The accumulated benefit obligation for the Plan was $20,296,000 and $15,866,000 at December 31, 2014 and 2013, respectively.

Components of Net Periodic Cost and Other Amounts Recognized in Other Comprehensive Income (loss) as of December 31, 2014
and 2012 are as follows:

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(In Thousands)	2014		2013		2012
Net periodic pension cost:					
Service cost	$560		$638		$624
Interest cost	859		770		746
Expected return on plan assets	(1,153	)	(985	)	(820
Amortization of transition asset	—		—		(2
Amortization of prior service cost	—		25		25
Amortization of unrecognized net loss	209		479		436
Net periodic benefit cost	$475		$927		$1,009

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31, 2014, 2013, and 2012:

	2014		2013		2012
Discount rate	3.83	%	4.75	%	4.00
Rate of compensation increase	3.00	%	3.00	%	3.00

Weighted-average assumptions used to determine net periodic cost for years ended December 31, 2014, 2013, and 2012:

	2014		2013		2012
Discount rate	4.75	%	4.00	%	4.50
Expected long-term return on plan assets	8.00	%	8.00	%	8.00
Rate of compensation increase	3.00	%	3.00	%	3.00

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

Plan Assets

The Plan's weighted-average asset allocations at December 31, 2014 and 2013 by asset category are as follows:

Asset Category	2014		2013
Cash	11.54	%	1.48
Fixed income securities	12.46	%	19.78
Equity	76.00	%	78.74
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 tolerate short-term volatility to achieve above-average returns over the long term.

Asset allocation favors equities, with target allocation of approximately 75% equity securities, 22.5% fixed income securities and 2 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 expos small capitalization and international stocks.

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

strategies.

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The following table sets forth by level, within the fair value hierarchy detailed in Note 20 - Fair Value Measurements, the Plan's as
fair value as of December 31, 2014 and 2013:

	2014			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$1,606	$—	$—	$1,606
Mutual funds - taxable fixed income	1,732	—	—	1,732
Mutual funds - domestic equity	8,372	—	—	8,372
Mutual funds - international equity	2,196	—	—	2,196
Total assets at fair value	$13,906	$—	$—	$13,906

	2013			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$211	$—	$—	$211
Mutual funds - taxable fixed income	2,820	—	—	2,820
Mutual funds - domestic equity	7,471	—	—	7,471
Mutual funds - international equity	3,756	—	—	3,756
Total assets at fair value	$14,258	$—	$—	$14,258

The following future benefit payments that reflect expected future service, as appropriate, are expected to be paid:

(In Thousands)	
2015	$715
2016	728
2017	752
2018	778
2019	838
Thereafter	4,571
	$8,382

The company expects to contribute a minimum of $600,000 to its Pension Plan in 2015.

401(k) Savings Plan

The Company 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 Company may make matching contribut
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
$171,000, $132,000, and $118,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

Deferred Compensation Plan

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

To fund benefits under the deferred compensation plan, the Company has acquired bank-owned life insurance policies on the lives
participating directors for which insurance benefits are payable to the Company. The Company incurred expenses related to the pla

$235,000, $169,000, and $84,000 for the years ended December 31, 2014, 2013, and 2012, respectively. Benefits paid under the pl
were approximately $88,000, $57,000, and $140,000 in 2014, 2013, and 2012, respectively.

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NOTE 14 - EMPLOYEE STOCK PURCHASE PLAN

The Company maintains a Penns Woods Bancorp, Inc. Employee Stock Purchase Plan ("Plan"). The Plan is intended to encourage participation in the ownership and economic progress of the Company. The Plan allows for up to 1,000,000 shares to be purchased employees. The purchase price of the shares is 95% of market value with an employee eligible to purchase up to the lesser of 15% compensation or $12,000 in market value annually. There were 2,720 and 1,840 shares issued under the plan for the years ended December 31, 2014 and 2013, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Company and the Bank, including their immediate families and companies in which are principal owners (more than ten percent), are indebted to the Company. Such indebtedness was incurred in the ordinary course 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 years ended December 31, 2014 and 2013:

(In Thousands)	Beginning Balance	New Loans	Repayments	Ending Ba
2014	$10,955	$7,920	$(9,929)	$8,946

Deposits from related parties held by the Banks amounted to $10,703,000 at December 31, 2014 and $9,295,000 at December 31, 2

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

The following schedule shows future minimum rental payments under operating leases with noncancellable terms in excess of one of December 31, 2014:

(In Thousands)	
2015	$589
2016	477
2017	423
2018	359
2019	242
Thereafter	1,048
Total	$3,138

The Company's operating lease obligations represent short and long-term lease and rental payments for facilities and equipment. T rental expense for all operating leases for the years ended December 31, 2014, 2013, and 2012 were $523,000, $493,000 and $425,

The Company is subject to lawsuits and claims arising out of its business. There are no such legal proceedings or claims currently pending or threatened other than those encountered during the normal course of business.

NOTE 17 - OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing 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 Company has in particular classes of financial instruments.

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The Company's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to ex
credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same cred
policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company may requir
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, 2014 and 2013:

(In Thousands)	2014	2013
Commitments to extend credit	$235,940	$185,415
Standby letters of credit	7,490	4,379

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

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

NOTE 18 - CAPITAL REQUIREMENTS

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

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

As of December 31, 2014 and 2013, the FDIC categorized the Banks as well capitalized under the regulatory framework for promp
corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier 1 risk-based, and Tier 1 leverage
ratios must be at least 10%, 6%, and 5%, respectively.

The Company's and the Banks' actual capital ratios are presented in the following tables, which shows that the Company and both
met all regulatory capital requirements.

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Consolidated Company

(In Thousands)	2014 Amount	Ratio		2013 Amount	Ratio
Total Capital (to Risk-weighted Assets)					
Actual	$123,371	12.65	%	$117,123	13.16
For Capital Adequacy Purposes	78,019	8.00	%	71,200	8.00
To Be Well Capitalized	97,524	10.00	%	89,000	10.00
Tier I Capital (to Risk-weighted Assets)					
Actual	$112,290	11.51	%	$106,178	11.93
For Capital Adequacy Purposes	39,010	4.00	%	35,600	4.00
To Be Well Capitalized	58,514	6.00	%	53,400	6.00
Tier I Capital (to Average Assets)					
Actual	$112,290	9.27	%	$106,178	9.02
For Capital Adequacy Purposes	48,476	4.00	%	47,111	4.00
To Be Well Capitalized	60,595	5.00	%	58,889	5.00

Jersey Shore State Bank

(In Thousands)	2014 Amount	Ratio		2013 Amount	Ratio
Total Capital (to Risk-weighted Assets)					
Actual	$83,183	12.30	%	$77,999	12.30
For Capital Adequacy Purposes	54,086	8.00	%	50,743	8.00
To Be Well Capitalized	67,608	10.00	%	63,428	10.00
Tier I Capital (to Risk-weighted Assets)					
Actual	$74,730	11.05	%	$70,046	11.04
For Capital Adequacy Purposes	27,043	4.00	%	25,371	4.00
To Be Well Capitalized	40,565	6.00	%	38,057	6.00
Tier I Capital (to Average Assets)					
Actual	$74,730	8.50	%	$70,046	8.01
For Capital Adequacy Purposes	35,175	4.00	%	34,991	4.00
To Be Well Capitalized	43,968	5.00	%	43,739	5.00

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Luzerne Bank

	2014			2013	
(In Thousands)	Amount	Ratio			
Total Capital (to Risk-weighted Assets)					
Actual	$29,856	10.23	%	$28,150	10.94
For Capital Adequacy Purposes	23,341	8.00	%	20,577	8.00
To Be Well Capitalized	29,176	10.00	%	25,721	10.00
Tier I Capital (to Risk-weighted Assets)					
Actual	$27,886	9.56	%	$27,884	10.84
For Capital Adequacy Purposes	11,670	4.00	%	10,289	4.00
To Be Well Capitalized	17,506	6.00	%	15,433	6.00
Tier I Capital (to Average Assets)					
Actual	$27,886	8.56	%	$27,884	8.72
For Capital Adequacy Purposes	13,032	4.00	%	12,794	4.00
To Be Well Capitalized	16,289	5.00	%	15,992	5.00

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, 2014, the balance in the additional paid in capital account totaling $11,657,000 for JSSB and $42,21 for Luzerne Bank 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 3 2014, the regulatory lending limit amounted to approximately $16,985,000.

Cash and Due from Banks

Jersey Shore State Bank and Luzerne Bank had no reserve requirements by the district Federal Reserve Bank at December 31, 2014 2013; 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 d with the Federal Reserve Bank.

NOTE 20 - FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal 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 o reported date. The nature of these assets and liabilities includes items for which quoted prices are available but trad 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 a 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, 201
2013, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest leve
input that is significant to the fair value measurement.

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(In Thousands)	2014 Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$3,841	$—	$3,841
Mortgage-backed securities	—	12,697	—	12,697
Asset-backed securities	—	2,492	—	2,492
State and political securities	—	108,116	—	108,116
Other debt securities	—	89,643	—	89,643
Financial institution equity securities	9,915	—	—	9,915
Other equity securities	5,509	—	—	5,509
Total assets measured on a recurring basis	$15,424	$216,789	$—	$232,213

(In Thousands)	2013 Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$9,923	$—	$9,923
Mortgage-backed securities	—	10,592	—	10,592
Asset-backed securities	—	6,564	—	6,564
State and political securities	—	141,795	—	141,795
Other debt securities	—	106,773	—	106,773
Financial institution equity securities	10,662	—	—	10,662
Other equity securities	2,303	—	—	2,303
Total assets measured on a recurring basis	$12,965	$275,647	$—	$288,612

The following table presents the assets reported on the balance sheet at their fair value on a non-recurring basis as of December 31, and 2013, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest input that is significant to the fair value measurement.

(In Thousands)	2014 Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$15,483	$15,483
Other real estate owned	—	—	3,241	3,241
Total assets measured on a non-recurring basis	$—	$—	$18,724	$18,724

(In Thousands)	2013 Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$8,473	$8,473
Other real estate owned	—	—	1,898	1,898
Total assets measured on a non-recurring basis	$—	$—	$10,371	$10,371

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items value utilizing level III techniques as of December 31, 2014 and 2013:

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2014
Quantitative Information About Level III Fair Value Measurements

(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted A
Impaired loans	$4,749	Discounted cash flow	Temporary reduction in payment amount	0 to (91)%	(12
			Probability of default	—%	
	10,734	Appraisal of collateral	Appraisal adjustments (1)	0 to (20)%	(15
Other real estate owned	$3,241	Appraisal of collateral (1)			

2013
Quantitative Information About Level III Fair Value Measurements

(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 1,465	Discounted cash flow	Temporary reduction in payment amount	0 to (91)%	(18)%
			Probability of default	—%	
	7,008	Appraisal of collateral	Appraisal adjustments (1)	0 to (44)%	(21)%
Other real estate owned	$ 1,898	Appraisal of collateral (1)			

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

The significant unobservable inputs used in the fair value measurement of the Company's impaired loans using the discounted cash valuation technique include temporary changes in payment amounts and the probability of default. Significant increases (decreases payment amounts would result in significantly higher (lower) fair value measurements. The probability of default is 0% for impair loans using the discounted cash flow valuation technique because all defaulted impaired loans are valued using the appraisal of coll valuation technique.

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

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the Company's financial instruments are as follows at December 31, 2014 and 2013:

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(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at December 31, 2014 Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable (Level III)
Financial assets:					
Cash and cash equivalents	$19,908	$19,908	$19,908	$—	$—
Investment securities:					
Available for sale	232,213	232,213	15,424	216,789	—
Loans held for sale	550	550	550	—	—
Loans, net	905,000	916,597	—	—	916,597
Bank-owned life insurance	25,959	25,959	25,959	—	—
Accrued interest receivable	3,912	3,912	3,912	—	—
Financial liabilities:					
Interest-bearing deposits	$738,041	$722,724	$506,875	$—	$215,849
Noninterest-bearing deposits	243,378	243,378	243,378	—	—
Short-term borrowings	40,818	40,818	40,818	—	—
Long-term borrowings	71,176	73,084	—	—	73,084
Accrued interest payable	381	381	381	—	—

(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable (Level III)
Financial assets:					
Cash and cash equivalents	$24,606	$24,606	$24,606	$—	$—
Investment securities:					
Available for sale	288,612	288,612	12,965	275,647	—
Loans held for sale	1,626	1,626	1,626	—	—
Loans, net	808,200	808,985	—	—	808,985
Bank-owned life insurance	25,410	25,410	25,410	—	—
Accrued interest receivable	4,696	4,696	4,696	—	—
Financial liabilities:					
Interest-bearing deposits	$755,625	$724,456	$488,818	$—	$235,638
Noninterest-bearing deposits	217,377	217,377	217,377	—	—
Short-term borrowings	26,716	26,716	26,716	—	—
Long-term borrowings	71,202	73,248	—	—	73,248
Accrued interest payable	405	405	405	—	—

Cash and Cash Equivalents, Loans Held for Sale, Accrued Interest Receivable, Short-term Borrowings, and Accrued Interest Payab

The fair value is equal to the carrying value.

Investment Securities:

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is determined by using the quoted market price for similar securities. Regulatory stocks' fair value is equal to t
carrying value.

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Loans:

Fair values are determined for portfolios of loans with similar financial characteristics. Loans are segregated by type such as comm
commercial real estate, residential real estate, construction real estate, and other consumer. Each loan category is further segmente
fixed and adjustable rate interest terms and by performing and nonperforming categories.

The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using market
rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Company's historical
experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and
lending conditions.

Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash
are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk
flows, and discounted rates are judgmentally determined using available market information and specific borrower information.

Bank-Owned Life Insurance:

The fair value is equal to the cash surrender value of the life insurance policies.

Deposits:

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW, and money market
accounts, is equal to the amount payable on demand as of December 31, 2014 and 2013. The fair value of certificates of deposit is
on the discounted value of contractual cash flows.

The fair values above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared
cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

Long Term Borrowings:

The fair value of long term borrowings is based on the discounted value of contractual cash flows.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees Written:

There is no material difference between the notional amount and the fair value of off-balance sheet items at December 31, 2014 and
The contractual amounts of unfunded commitments and letters of credit are presented in Note 17.

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NOTE 22 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEET, DECEMBER 31,

(In Thousands)	2014	2013
ASSETS:		
Cash	$1,299	$1,686
Investment in subsidiaries:		
Bank	125,524	117,556
Non-bank	8,900	8,380
Other assets	380	351
Total Assets	$136,103	$127,973
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Other liabilities	$136	$158
Shareholders' equity	135,967	127,815
Total liability and shareholders' equity	$136,103	$127,973

CONDENSED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	2014	2013	2012
Operating income:			
Dividends from subsidiaries	$10,080	$14,836	$8,034
Security gains	3	—	4
Equity in undistributed earnings of subsidiaries	5,261	346	6,407
Operating expenses	(736)	(1,098)	(595
Net income	$14,608	$14,084	$13,8
Comprehensive income	$17,835	$3,833	$20,4

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

(In Thousands)	2014	2013	2012
OPERATING ACTIVITIES:			
Net income	$14,608	$14,084	$13,8
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(5,261)	(346)	(6,407
Other, net	(50)	97	(145
Net cash provided by operating activities	9,297	13,835	7,298
INVESTING ACTIVITIES:			
Outlays for business acquisitions	—	(2,876)	—
FINANCING ACTIVITIES:			
Dividends paid	(9,055)	(9,560)	(7,214
Issuance of common stock	118	80	54
Purchase of treasury stock	(747)	—	—
Net cash used for financing activities	(9,684)	(9,480)	(7,160
NET (DECREASE) INCREASE IN CASH	(387)	1,479	138
CASH, BEGINNING OF YEAR	1,686	207	69
CASH, END OF YEAR	$1,299	$1,686	$207

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NOTE 23 - CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2014	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$11,329	$11,357	$11,460	$11,460
Interest expense	1,242	1,226	1,242	1,252
Net interest income	10,087	10,131	10,218	10,208
Provision for loan losses	485	300	460	1,605
Non-interest income, excluding securities gains	2,818	2,442	2,779	2,954
Securities gains (losses), net	393	487	2,145	490
Non-interest expense	8,643	8,422	8,313	8,512
Income before income tax provision	4,170	4,338	6,369	3,535
Income tax provision	701	875	1,576	652
Net income	$3,469	$3,463	$4,793	$2,883
Earnings per share - basic and diluted	$0.72	$0.72	$0.99	$0.60

(In Thousands, Except Per Share Data)	For the Three Months Ended			
2013	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$9,540	$10,018	$11,979	$11,762
Interest expense	1,335	1,264	1,350	1,315
Net interest income	8,205	8,754	10,629	10,447
Provision for loan losses	500	575	600	600
Non-interest income, excluding securities gains	1,747	2,261	2,845	2,772
Securities gains, net	986	1,274	(3)	160
Non-interest expense	5,851	6,965	8,975	8,476
Income before income tax provision	4,587	4,749	3,896	4,303
Income tax provision	903	1,090	650	808
Net income	$3,684	$3,659	$3,246	$3,495
Earnings per share - basic and diluted	$0.96	$0.88	$0.67	$0.73

NOTE 24 - ACQUISITION OF LUZERNE NATIONAL BANK CORPORATION

On June 1, 2013, the Company closed on a merger transaction pursuant to which Penns Woods Bancorp, Inc. acquired Luzerne Nat
Bank Corporation in a stock and cash transaction. The acquisition extended the Company's footprint into Luzerne and Lackawann
Counties, Pennsylvania.

Luzerne National Bank Corporation was the holding company for Luzerne Bank, a Pennsylvania bank that conducted its business f
main office in Luzerne, Pennsylvania with eight branch offices in Luzerne County and one loan production office in Lackawanna C
all in northeastern Pennsylvania. Since June 1, 2013, the loan production office in Lackawanna County has been closed.

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of Luzerne National Bank Corporatio
total purchase price of approximately $42,612,000. As a result of the acquisition, the Company issued 978,977 common shares, or
20.37% of the total shares outstanding as of December 31, 2014, to former shareholders of Luzerne National Bank Corporation. Lu
Bank is operating as an independent bank under the Penns Woods Bancorp, Inc. umbrella.

The acquired assets and assumed liabilities were measured at estimated fair values. Management made significant estimates and ex
significant judgment in accounting for the acquisition. Management measured loan fair values based on loan file reviews, appraise
collateral values, expected cash flows, and historical loss factors of Luzerne Bank. Real estate acquired through foreclosure was pr

valued based on appraised collateral values. The Company also recorded an identifiable intangible asset representing the core depo
of Luzerne Bank based on management's evaluation of the cost of such deposits relative to alternative funding sources. The Comp
recorded an identifiable intangible asset representing the trade name of Luzerne

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Bank based on management's evaluation of the value of the name in the market. Management used significant estimates including average lives of depository accounts, future interest rate levels, and the cost of servicing various depository products. Management market quotations to determine the fair value of investment securities.

The business combination resulted in the acquisition of loans with and without evidence of credit quality deterioration. Luzerne Ba loans were deemed impaired at the acquisition date if the Company did not expect to receive all contractually required cash flows d concerns about credit quality. Such loans were fair valued and the difference between contractually required payments at the acqui date and cash flows expected to be collected was recorded as a non-accretable difference. At the acquisition date, the Company rec $1,211,000 of purchased credit-impaired loans subject to a non-accretable difference of $842,000. The method of measuring carryi value of purchased loans differs from loans originated by the Company (originated loans), and as such, the Company identifies pur loans and purchased loans with a credit quality discount and originated loans at amortized cost.

Luzerne's loans without evidence of credit deterioration were fair valued by discounting both expected principal and interest cash f using an observable discount rate for similar instruments that a market participant would consider in determining fair value. Additi consideration was given to management's best estimates of default rates and payment speeds. At acquisition, Luzerne's loan portfo without evidence of deterioration totaled $249,789,000 and was recorded at a fair value of $249,500,000.

The following table summarizes the purchase of Luzerne National Bank Corporation as of June 1, 2013:

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(In Thousands, Except Per Share Data)		
Purchase Price Consideration in Common Stock		
Luzerne National Bank Corporation common shares settled for stock	630,216	
Exchange Ratio	1.5534	
Penns Woods Bancorp, Inc. shares issued	978,977	
Value assigned to Penns Woods Bancorp, Inc. common share	$40.59	
Purchase price assigned to Luzerne National Bank Corporation common shares exchanged for Penns Woods Bancorp, Inc.		$39,73
Purchase Price Consideration - Cash for Common Stock		
Luzerne National Bank Corporation shares exchanged for cash	46,480	
Purchase price paid to each Luzerne National Bank Corporation common share exchanged for cash	$61.86	
Purchase price assigned to Luzerne National Bank Corporation common shares exchanged for cash		2,876
Total Purchase Price		42,612
Net Assets Acquired:		
Luzerne National Bank Corporation shareholders' equity	$27,371	
Adjustments to reflect assets acquired at fair value:		
Investments	33	
Loans		
Interest rate	2,680	
General credit	(3,206)	
Specific credit - non-amortizing	(58)	
Specific credit - amortizing	(40)	
Core deposit intangible	1,882	
Trade name intangible	133	
Owned premises	1,138	
Leased premises contracts	122	
Deferred tax assets	(603)	
Adjustments to reflect liabilities acquired at fair value:		
Time deposits	(912)	
		28,540
Goodwill resulting from merger		$14,07

Results of operations for Luzerne National Bank Corporation prior to the acquisition date are not included in the Consolidated State of Income. Due to the significant amount of fair value adjustments, historical results of Luzerne National Bank Corporation are no relevant to the Company's results of operations. Therefore, no pro forma information is presented.

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

None.

ITEM 9A CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of the Company's management, including the Company's President Chief Executive Officer along with the Company's Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2014 of the design and operation of the Company'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 Company's President and Chief Executive O along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective December 31, 2014.

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There have been no changes in the Company’s internal control over financial reporting during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projectio 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. a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of th annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the norm course of performing their assigned functions.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. Manag assessment did not identify any material weaknesses in the Company’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, 2014, the Company’s internal control over financial reportin effective.

S.R. Snodgrass, P.C. an independent registered public accounting firm, has audited the consolidated financial statements included i Annual Report on Form 10-K, and, as part of the audit, has issued a report, which appears below, on the effectiveness of the Comp internal control over financial reporting as of December 31, 2014.

Date: March 10, 2015	/s/ Richard A. Grafmyre Chief Executive Officer	/s/ Brian L. Knepp Chief Financial Officer (Principal Financial Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Penns Woods Bancorp, Inc.
Williamsport, PA

We have audited Penns Woods Bancorp, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, b criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadw Commission ("COSO") in 2013. Penns Woods Bancorp, Inc.'s management is responsible for maintaining effective internal contro financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompany Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on I Woods Bancorp, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Tho standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over fi reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of int control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounti principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the main of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) p reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance wit authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projecti 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.

In our opinion, Penns Woods Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by COSO in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of Sample Financial Corp. and subsidiaries as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended our report dated March 10, 2015, expressed an unqualified opinion.

Wexford, Pennsylvania
March 10, 2015

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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
Nominees and Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Principal Officers of the Corporation,” ar
Transactions” in the Company’s Proxy Statement for the Company’s 2015 annual meeting of shareholders (the “Proxy Statement”)
incorporated herein by reference.

ITEM 11 EXECUTIVE COMPENSATION

Information appearing under the captions “Compensation of Directors," “Compensation Discussion and Analysis,” “Compensation
Report,” “Executive Compensation,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards,” “Option Exercises and Stock
“Non-qualified Deferred Compensation,” “Retirement Plan,” and “Potential Post-Employment Payments” in the Proxy Statement is
herein by reference.

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

The information appearing under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Proxy St
incorporated herein by reference.

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 incorpo
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 Fee
“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.

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(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, 2005).
(3) (ii)	Bylaws of the Registrant (incorporated by reference to Exhibit 3(ii) of the Registrant's Annual Report on Form 1 the year ended December 31, 2011).
(10) (i)	Form of First Amendment to the Jersey Shore State Bank Amendment and Restatement of the Director Fee Agre dated as of October 1, 2004 (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on For filed on June 29, 2006).
(10) (ii)	Consulting Agreement, dated July 18, 2005 between Hubert A. Valencik and Penns Woods Bancorp, Inc. (incorp by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on July 18, 2005).
(10) (iii)	Amended and Restated Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Je Shore State Bank and Brian L. Knepp (incorporated by reference to Exhibit 10.2 of the Registrant's Current Repo Form 8-K filed on February 6, 2014).*
(10) (iv)	Amended and Restated Employment Agreement, dated November 1, 2014, among Penns Woods Bancorp, Inc., J Shore State Bank and Richard A. Grafmyre (incorporated by reference to Exhibit 10.1 of the Registrant's Current on Form 8-K filed on October 31, 2014).*
(10)(v)	Employment Agreement, dated October 1, 2013, among Penns Woods Bancorp, Inc., Luzerne Bank and Robert J (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on March 10, 20
(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 Repo Language): (i) the Consolidated Balance Sheet at December 31, 2014 and December 31, 2013; (ii) the Consolida Statement of Income for the years ended December 31, 2014, 2013 and 2012; (iii) the Consolidated Statements o Shareholders' Equity for the years ended December 31, 2014, 2013, and 2012; (iv) the Consolidated Statement o Comprehensive Income for the years ended December 31, 2014, 2013 and 2012; (v) the Consolidated Statement Flows for the years ended December 31, 2014, 2013, and 2012; and (vi) the Notes to Consolidated Financial Stat tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deem be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwi subject to liability under those sections.

* Denotes compensatory plan or arrangement.

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EXHIBIT INDEX

(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
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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 rep
be signed on its behalf by the undersigned, thereunto duly authorized.

March 10, 2015	PENNS WOODS BANCORP, INC.
	/s/ Richard A. Grafmyre
	President and Chief Executive Officer

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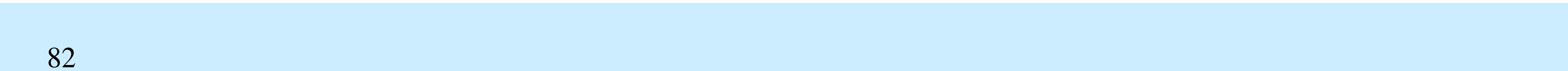
Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following person
behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Richard A. Grafmyre Richard A. Grafmyre, President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2015
/s/ Brian L. Knepp Brian L. Knepp, Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2015
/s/ R. Edward Nestlerode, Jr. R. Edward Nestlerode, Jr., Chairman of the Board	March 10, 2015
/s/ Daniel K. Brewer Daniel K. Brewer, Director	March 10, 2015
/s/ Michael J. Casale, Jr. Michael J. Casale, Jr., Director	March 10, 2015
/s/ William J. Edwards William J. Edwards, Director	March 10, 2015
/s/ James M. Furey, II James M. Furey, II, Director	March 10, 2015
/s/ D. Michael Hawbaker D. Michael Hawbaker, Director	March 10, 2015
/s/ Leroy H. Keiler, III Leroy H. Keiler, III, Director	March 10, 2015
/s/ Joseph E. Kluger Joseph E. Kluger, Director	March 10, 2015
/s/ John G. Nackley John G. Nackley, Director	March 10, 2015
/s/ Jill F. Schwartz Jill F. Schwartz, Director	March 10, 2015
/s/ William H. Rockey William H. Rockey, Director	March 10, 2015
/s/ Hubert A. Valencik Hubert A. Valencik, Director	March 10, 2015
/s/ Ronald A. Walko Ronald A. Walko, Director	March 10, 2015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