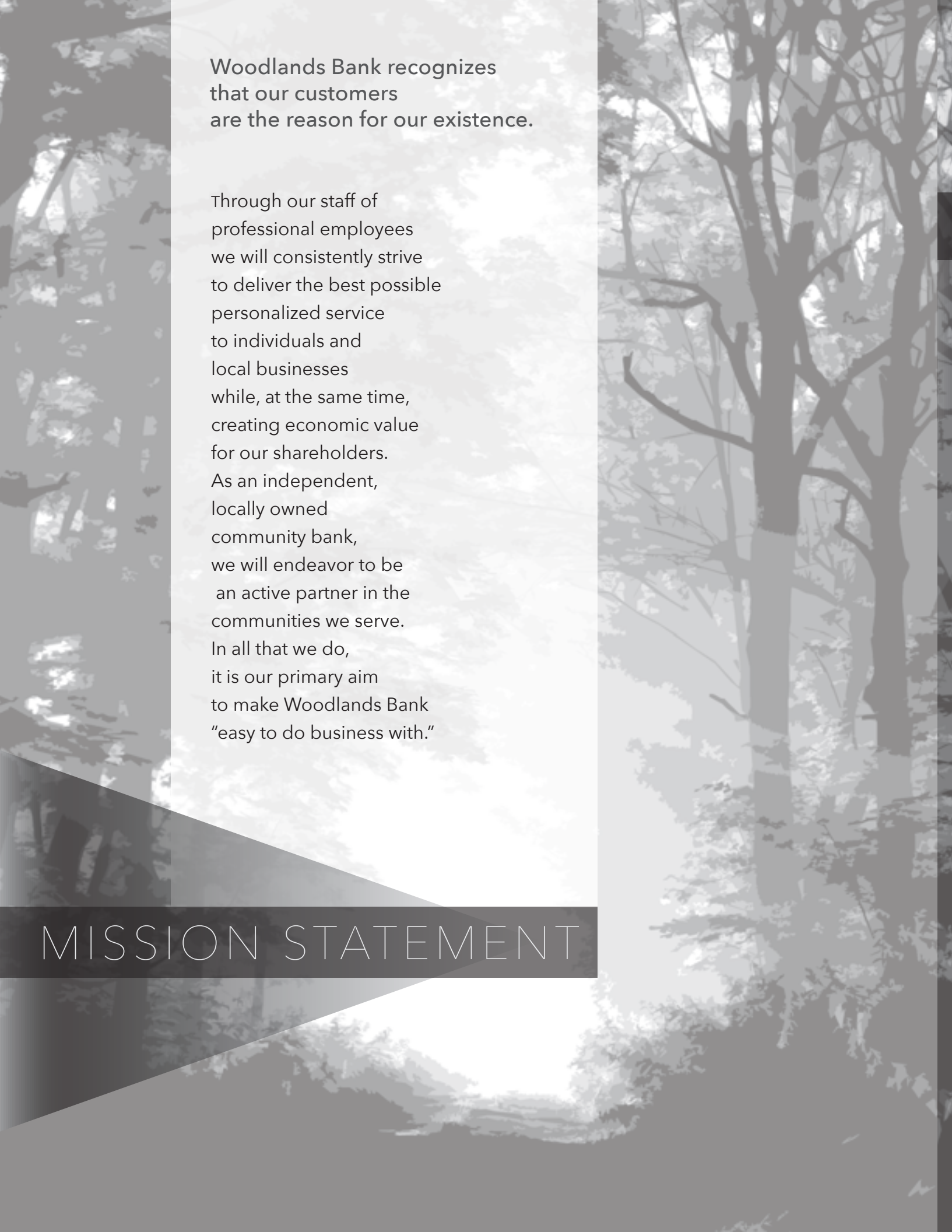


2013 ANNUAL REPORT



MISSION STATEMENT

Woodlands Bank recognizes that our customers are the reason for our existence.

Through our staff of professional employees we will consistently strive to deliver the best possible personalized service to individuals and local businesses while, at the same time, creating economic value for our shareholders. As an independent, locally owned community bank, we will endeavor to be an active partner in the communities we serve. In all that we do, it is our primary aim to make Woodlands Bank "easy to do business with."

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WOODLANDS
FINANCIAL SERVICES COMPANY

Dear Friends:

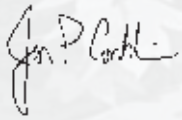
We are pleased to announce the financial results for 2013 of Woodlands Financial Services Company (Company). It was a challenging year on a lot of fronts, and some significant downward pricing of certain classes of earning assets as well as additional expenses related to key management overlap and the opening of a new branch location during the year had a negative impact on earnings. Other key financial results, however, show the positive results of management's efforts to combat the market pressures and to build a solid base for earnings going forward.

Net income for the year of $2.6 million is down from the historic high net income in 2012 of $3.2 million. This resulted in a reduction of earnings per share to $3.47 in 2013 from $4.21 in 2012. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 0.81% and 8.91%, respectively, for 2013. Non-interest income, excluding securities gains, remained relatively consistent with the exception of income on loan sales which decreased due to the overall reduction in loan originations experienced industry wide as well as a strategic decision internally to retain certain mortgages on the balance sheet of the Company due to market conditions which made it attractive to do so.

Despite the market pressures, however, net loans increased by nearly $17 million (7.9%) during the year to end the year at $230.8 million. This increase in loans was part of an overall increase in total assets of $10.6 million, ending the year at $332.1 million. While this quality loan growth is viewed as the main weapon in combatting the margin compression being experienced, it was achieved as part of an overall balance sheet strategy employed to reduce the amount of credit risk and also to maintain a balance sheet that will not only generate acceptable shareholder return but also be positioned to thrive in the eventual rates-up interest rate environment. Credit risk metrics continue to indicate the improvement being seen in reducing the Company's credit risk exposure. On the liability side of the balance sheet, total deposits increased $4.1 million (1.5%) despite the maturity of about $4 million of wholesale deposits during the year which were not replaced. Also, in spite of the negative impact to the accumulated other comprehensive income portion of the stockholders' equity section of the balance sheet due to the overall increases in market interest rates, the Company's core capital continued to grow at about 6.3% for the year.

With the October 2013 office opening in Hughesville and the planned office opening in Lock Haven during 2014, Woodlands Bank will have eight locations and will have made its first venture outside of Lycoming County. These newest locations are just a natural extension of Woodlands' current market and will serve as a source of the type of strategic growth necessary for the continued enhancement of long-term shareholder value. And even though there will be a temporary negative impact on earnings until these two new locations reach a level of profitability, the positive impacts to be seen from the foundation of quality earning asset growth generated as well as efficiencies gained during the year will more than offset that and will produce improved profitability metrics going forward. Thank you all for your support of Woodlands Bank as our past and continued success would not be possible without it.

Sincerely,



Jon P. Conklin President and CEO



Thanks to those who have retired

Alfred F. Barraco

After helping the bank to open its doors in 1990, and after being an integral part of the bank's senior management team as Vice President and Corporate Secretary since the bank's inception, Al Barraco retired on March 31, 2013. Al was always ready and able to handle tasks and responsibilities that covered most areas of the bank. He will certainly be missed by directors, officers, staff, and customers.

We wish him well in his retirement as he now has more time to spend with his children and grandchildren. He will also have more time to spend playing golf and with other hobbies.

We all thank Al for his dedication and his many contributions to Woodlands Bank.
Thanks too for the memories.

Robert E. Forse

As of December 31, 2013, Robert (Bob) Forse officially retired from Woodlands Bank. After serving as President and CEO of Woodlands Bank (Bank) and Woodlands Financial Services Company (Company) since their inceptions through October 2010 and from May 2011 through December 2012, Bob continued his service in 2013 as an inside Chairman of the Board of Directors, a position he has held continuously since the Bank's and Company's inception. Bob has shown a tireless dedication to the shareholders, customers, employees, and the communities the Bank serves during his tenure and will continue to do so as he serves as the outside Chairman of the Board of Directors of both the Bank and the Company.

We wish Bob nothing but the best in his retirement and owe him an enormous amount of gratitude for all he has done over the years. We are all extremely fortunate to be able to continue to benefit from his extensive expertise and wisdom as he continues to serve the Bank and the Company in a slightly different capacity.

MMQ

McGrail Merkel Quinn & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Francis J. Merkel, CPA
Joseph J. Quinn, CPA/ABV, CVA
Daniel J. Gerrity, CPA
Mary Ann E. Novak, CPA

Independent Auditor's Report

To the Board of Directors and Stockholders
Woodlands Financial Services Company and Subsidiaries
Williamsport, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Woodlands Financial Services Company and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An Independently Owned Member
McGLADREY ALLIANCE | McGladrey

Clay Avenue Professional Plaza, 1173 Clay Avenue, Scranton, PA 18510 570 961-0345 Fax: 570 961-8650
www.mmq.com

To the Board of Directors and Stockholders
Woodlands Financial Services Company and Subsidiaries

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Woodlands Financial Services Company and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGrail Merkel Quinn
+ Associates, P.C.

Scranton, Pennsylvania
February 26, 2014

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

(in thousands except per share amounts)

	2013	2012
ASSETS		
Cash and due from banks	$ 5,880	$ 5,586
Interest-bearing deposits with banks	36	3,281
Government money market funds	1,602	2,799
Federal funds sold	-	500
Cash and cash equivalents	7,518	12,166
Available-for-sale securities	79,427	82,001
Held-to-maturity securities	125	147
Loans and leases, net	230,809	213,858
Bank premises and equipment, net	4,711	4,301
Accrued interest receivable	971	981
Deferred tax assets, net	1,130	230
Cash surrender value of life insurance	5,244	5,075
Restricted stock	1,392	1,374
Other assets	809	1,432
Total assets	$ 332,136	$ 321,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Non-interest bearing	$ 53,232	$ 52,893
Interest bearing	222,894	219,153
Total deposits	276,126	272,046
Federal funds purchased	5,428	-
Repurchase agreements	8,392	7,361
Long-term debt	10,612	10,622
Accrued interest payable	152	154
Other liabilities	1,707	1,934
Total liabilities	302,417	292,117
Stockholders' equity		
Common stock, $5.00 par value, 10,000,000 shares authorized; 761,327 and 754,731 shares issued and outstanding in 2013 and 2012, respectively	3,806	3,773
Preferred stock, $5.00 par value, 4,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	7,874	7,654
Retained earnings	17,960	16,459
Accumulated other comprehensive income	79	1,562
Total stockholders' equity	29,719	29,448
Total liabilities and stockholders' equity	$ 332,136	$ 321,565

The accompanying Notes are an integral part of these Consolidated Financial Statements.

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2013 AND 2012

(in thousands except per share amounts)

	2013	2012
Interest income		
Interest and fees on loans and leases	$ 10,434	$ 10,827
Interest and dividends on cash and cash equivalents	18	24
Interest and dividends on investment securities:		
Taxable	879	1,121
Tax-exempt	752	682
Dividends	62	63
Interest on Federal funds sold	1	1
Total interest income	12,146	12,718
Interest expense		
Interest on deposits	1,475	1,762
Interest on borrowed funds	511	525
Total interest expense	1,986	2,287
Net interest income	10,160	10,431
Provision for loan losses	360	582
Net interest income, after provision for loan losses	9,800	9,849
Other income		
Service charges and other fees	1,035	1,032
Other operating income	863	850
Trust department income	959	968
Gain on sale of loans and other assets, net	134	331
Gain on investment securities, net	47	114
Total other income	3,038	3,295
Other expenses		
Salaries and employee benefits	5,371	5,103
Occupancy expense	739	718
Furniture and equipment expense	424	390
FDIC insurance premiums	232	216
Data processing expense	518	491
Professional fees	272	264
Other operating expenses	1,938	1,745
Total other expenses	9,494	8,927
Income before income taxes	3,344	4,217
Provision for income taxes	714	1,054
Net income	$ 2,630	$ 3,163
Net income per common share	$ 3.47	$ 4.21

The accompanying Notes are an integral part of these Consolidated Financial Statements.

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2013 AND 2012

(in thousands except per share amounts)

	2013	2012
Net income	$ 2,630	$ 3,163
Other comprehensive income, net of tax:		
Unrealized holding (losses) gains arising during the year	(1,436)	276
Less: Reclassification adjustment for gains included in net income	47	114
Other-than-temporary impairment loss	-	(38)
Other comprehensive income	(1,483)	200
Comprehensive income	$ 1,147	$ 3,363

The accompanying Notes are an integral part of these Consolidated Financial Statements.

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2013 AND 2012

(in thousands except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2011	$ 3,728	$ 7,408	$ 14,278	$ 1,362	$ 26,776
Net income			3,163		3,163
Other comprehensive income				200	200
Issuance of 8,079 shares under dividend reinvestment plan	40	224			264
Issuance of 960 shares under employee stock purchase plan	5	22			27
Cash dividends declared ($1.31 per share)			(982)		(982)
Balance, December 31, 2012	3,773	7,654	16,459	1,562	29,448
Net income			2,630		2,630
Other comprehensive income				(1,483)	(1,483)
Issuance of 5,966 shares under dividend reinvestment plan	30	203			233
Issuance of 630 shares under employee stock purchase plan	3	17			20
Cash dividends declared ($1.49 per share)			(1,129)		(1,129)
Balance, December 31, 2013	$ 3,806	$ 7,874	$ 17,960	$ 79	$ 29,719

The accompanying Notes are an integral part of these Consolidated Financial Statements.

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

(in thousands except per share amounts)

	2013	2012
Operating activities		
Net income	$ 2,630	$ 3,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	360	582
Depreciation	305	328
Amortization of securities (net of accretion)	905	880
Gain on sale of investment securities, loans and other assets, net	(181)	(503)
Other-than-temporary impairment charge	-	58
Increase in cash surrender value of life insurance	(169)	(173)
Sale of mortgage loans originated for sale	5,841	15,841
Mortgage loans originated for sale	(5,826)	(15,669)
Deferred taxes	(136)	415
Decrease (increase) in accrued interest receivable	10	(21)
Decrease in other assets	622	362
Decrease in accrued interest payable	(2)	(25)
(Decrease) increase in other liabilities	(227)	193
Net cash provided by operating activities	4,132	5,431
Investing activities		
Purchase of available-for-sale securities	(23,384)	(41,364)
Purchase of held-to-maturity securities	(50)	(75)
Proceeds from sales and repayments of available-for-sale securities	22,852	33,581
Proceeds from maturities of held-to-maturity securities	73	50
Net increase in loans and leases	(17,406)	(16,932)
Proceeds from sale of other real estate	215	-
Purchase of restricted stock	(18)	-
Proceeds from restricted stock	-	391
Purchase of bank premises and equipment	(715)	(231)
Proceeds from sale of equipment and other assets	-	74
Purchase of bank owned life insurance	-	(750)
Net cash used by investing activities	(18,433)	(25,256)
Financing activities		
Net increase in deposits	4,080	6,057
Increase (decrease) in short-term borrowings	6,459	(2,232)
Repayments on long-term borrowings	(10)	(10)
Dividends paid to stockholders of common stock	(1,129)	(982)
Proceeds from issuance of common stock	253	291
Net cash provided by financing activities	9,653	3,124
Net decrease in cash and cash equivalents	(4,648)	(16,701)
Cash and cash equivalents at January 1	12,166	28,867
Cash and cash equivalents at December 31	$ 7,518	$ 12,166

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Woodlands Financial Services Company (Company) is a Pennsylvania corporation organized as a financial services holding company of Woodlands Bank (Bank) and Woodlands Stock Corporation. The Bank is a state chartered commercial bank located in Williamsport, Pennsylvania and operates as a traditional community bank, providing commercial and consumer banking and trust services in Lycoming County and the surrounding market area.

Basis of Presentation

The Financial Statements of the Company have been consolidated with those of its wholly-owned subsidiaries, Woodlands Bank and Woodlands Stock Corporation, eliminating all intercompany items and transactions.

All information is presented in thousands of dollars, except per share amounts.

The Company has evaluated subsequent events through February 26, 2014, the date that these financial statements were available to be issued, and concluded no events or transactions occurred during that period requiring recognition or disclosure.

Segment Reporting

Public business enterprises are required to report financial and descriptive information about their reportable operating segments. The Company has determined that its only reportable segment is community banking.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of investment securities.

Per Share Data

Earnings per share of common stock have been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. The number of common shares used in computing basic and diluted earnings per share and dividends per share was 757,927 in 2013 and 750,452 in 2012.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Investments in securities are classified in two categories and accounted for as follows:

Securities Held-to-Maturity - Bonds, notes and other debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, computed by a method that approximates the effective interest method, over the remaining period to maturity.

Securities Available-for-Sale - Bonds, notes, other debt securities, mortgage-backed securities not classified as securities to be held-to-maturity and equity securities are carried at fair value with unrealized holding gains and losses, net of tax, reported as a net amount in a separate component of stockholders' equity until realized.

The amortization of premiums on mortgage-backed securities is based on the Espiel prepayment model which mirrors the dynamic nature of prepay speeds over the life of the securities. The model incorporates underlying factors such as changes in interest rates, details of origination, ages of loan, loan types, loan balances and credit ratings to more accurately project future prepayment activity. The four sources of prepayment incorporated into the model include U.S. home sales and activity, borrower refinancing activity, principal curtailment, and loan default.

Gains and losses on the sale of securities available-for-sale are determined using the specific identification method and are reported as a separate component of other income in the Statements of Income.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Company evaluates, among other factors, the magnitude and duration of the decline in fair value; the expected cash flows of the securities; the financial health of and business outlook for the issuer; the performance of the underlying assets for interests in securitized assets; and the Company’s intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

Loans and Leases

Loans are stated at unpaid principal balance, net of unamortized deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance of the loans. The Company recognizes nonrefundable loan origination fees and certain direct loan origination costs over the life of the related loans as an adjustment of the loan yield using the interest method.

Loans are placed on nonaccrual status when principal or interest is past due 90 days or more and the collection of interest is doubtful. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income. Interest income on the nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to the accrual status when factors indicating doubtful collectability cease to exist.

Allowance for Loan and Lease Losses

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

The allowance for loan and lease losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is evaluated on a regular basis by management and is based upon management's periodic review of their ability to collect loans and leases in light of historical experience, the nature and volume of the loan and lease portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans and leases that are classified as doubtful, substandard, or special mention. For such loans and leases that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan or lease is lower than the carrying value of that loan or lease. The general component covers non-classified loans and leases and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Company considers a loan to be impaired, based upon current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment. Factors considered by management in determining impairment include payment status and collateral value. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral - dependent loans are measured for impairment based on the fair value of the collateral. The Company does not accrue interest on impaired loans. While a loan is considered impaired, subsequent cash payments received either are applied to the outstanding principal balance or recorded as interest income, depending upon management's assessment of the ultimate collectability of principal and interest. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Mortgage Banking Activity

Loans held for sale consist of residential mortgage loans originated by the Company. They are recorded at the lower of cost or estimated fair value on an aggregate basis. Gains and losses are included in the consolidated statements of income.

Other Real Estate

Other real estate acquired through foreclosure or other means is recorded at the lower of its carrying value or fair value of the property at the transfer date, less estimated selling costs. Costs to maintain other real estate are expensed as incurred. Other real estate is included with other assets in the consolidated balance sheets. There was no other real estate owned as of December 31, 2013 or December 31, 2012.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Repair and maintenance are expensed as incurred. When premises or equipment are retired or sold, the remaining cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2013 and 2012, amounted to $233 and $210, respectively.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) as well as deferred taxes on temporary differences. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of temporary differences between book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for years before 2010.

Cash Flows

For purposes of the Statements of Cash Flows, cash and cash equivalents include cash on hand, due from banks, interest bearing balances with banks, government money market funds and Federal funds sold for a one-day period.

The Company paid interest and income taxes as follows:

	Years Ended December 31,	
	2013	2012
Interest paid	$ 1,988	$ 2,312
Income taxes paid	$ 575	$ 650

Non-cash transactions during the years ended December 31, 2013 and 2012 included the change in unrealized gains on available-for-sale securities of ($2,247) and $303, respectively, and the acquisition of real estate in the settlement of loans of $195 and $0, respectively.

Long-Lived Assets

The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that carrying amounts of the assets might not be recoverable.

Trust Assets and Income

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such items are not assets of the Company. Trust income is reported on a cash basis, which is not materially different from the accrual basis.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* The ASU gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts out of Accumulated Other Comprehensive Income.* The ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Topic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The ASU clarifies when an in-substance foreclosure occurs and requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective for the Company on January 1, 2015 and interim periods for years beginning after December 15, 2015 and is not expected to have a significant impact on the Company's financial statements.

Note 2 – Restrictions on Cash and Due from Banks

Banks are required to maintain reserves, in the form of cash balances with the Federal Reserve Bank, against their deposit liabilities. The Company may, from time to time, maintain balances with financial institutions in excess of federally insured limits.

Note 3 – Investment Securities

The amortized cost and fair value of investment securities are as follows:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies and corporations	$ 11,176	$ 1	$ 372	$ 10,805
State and political subdivisions	26,769	777	645	26,901
Corporate securities	3,487	8	-	3,495
Mortgage-backed securities	36,965	268	343	36,890
Subtotal	78,397	1,054	1,360	78,091
Equity securities	909	427	-	1,336
Total available-for-sale	$ 79,306	$ 1,481	$ 1,360	$ 79,427
Held-to-maturity:				
Other securities	$ 125	$ -	$ 1	124

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies and corporations	$ 11,093	$ 48	$ 7	$ 11,134
State and political subdivisions	27,010	1,780	-	28,790
Corporate securities	3,474	16	1	3,489
Mortgage-backed securities	37,229	452	88	37,593
Subtotal	78,806	2,296	96	81,006
Equity securities	828	179	12	995
Total available-for-sale	$ 79,634	$ 2,475	$ 108	$ 82,001
Held-to-maturity:				
Other securities	$ 147	$ -	$ -	$ 147

The amortized cost and estimated fair value of debt securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 998	$ 1,002	$ 75	$ 75
Due after one year through five years	8,130	8,386	50	49
Due after five years through ten years	19,241	19,213	-	-
Due after ten years	13,063	12,600	-	-
Subtotal	41,432	41,201	125	124
Mortgage-backed securities	36,965	36,890	-	-
Total debt securities	$ 78,397	$ 78,091	$ 125	$ 124

Proceeds from sales of available-for-sale debt securities during 2013 and 2012 were $1,546 and $2,382, respectively. Gross gains and gross losses realized on these sales were $26 and $0 during 2013 and $77 and $0 during 2012, respectively.

Investment securities with a carrying value of $61,745 at December 31, 2013 and $62,293 at December 31, 2012, were pledged as collateral for public deposits, securities sold under agreements to repurchase and other items as provided by law.

Note 3 – Investment Securities – (Continued)

Gross unrealized losses and fair values, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position are shown below.

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S.Government agencies and corporations	$ 8,863	$ 310	$ 937	$ 62	$ 9,800	$ 372
State and political subdivisions	12,444	645	-	-	12,444	645
Mortgage-backed securities	18,927	315	3,175	28	22,102	343
Other securities	49	1	-	-	49	1
Totals	$ 40,283	$ 1,271	$ 4,112	$ 90	$ 44,395	$ 1,361

	December 31, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S.Government agencies and corporations	$ 1,997	$ 7	$ -	$ -	$ 1,997	$ 7
State and political subdivisions	734	1	-	-	734	1
Mortgage-backed securities	10,516	88	-	-	10,516	88
Equity securities	92	5	77	7	169	12
Totals	$ 13,339	$ 101	$ 77	$ 7	$ 13,416	$ 108

The table at December 31, 2013 includes fifty-five (55) securities that have unrealized losses for less than twelve months and six (6) securities that have been in an unrealized loss position for twelve or more months. The table at December 31, 2012 includes fifteen (15) securities that have unrealized losses for less than twelve months and one (1) security that has been in an unrealized loss position for twelve or more months.

U.S. Government agencies and corporations - The unrealized losses on the Company's investments in U.S. Government agencies and corporations' obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

State and political subdivisions - The unrealized losses on the Company's investment in state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

Mortgage-backed securities - The unrealized losses on the Company's investment in Mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

Other securities - The unrealized losses on the Company's investment in other securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2013.

Note 4 – Loans and Leases

Major classifications of loans and leases are as follows:

	December 31,	
	2013	2012
Commercial	$ 43,177	$ 39,893
Consumer	1,443	1,273
Real estate:		
Construction	4,892	6,397
Farmland	3,255	2,769
Residential	92,315	80,912
Home equity lines of credit	14,517	12,606
Multi-family	11,229	11,244
Commercial	62,494	61,044
Gross loans and leases	233,322	216,138
Less: Allowance for loan losses	2,513	2,280
Loans and leases, net	$ 230,809	$ 213,858

Net unamortized loan and lease costs of $59 at December 31, 2013 and $84 at December 31, 2012 are included in the carrying value of loans and leases shown above.

Age Analysis of Past Due Loans
As of December 31

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
2013							
Commercial	$ -	$ 112	$ -	$ 112	$ 43,065	$ 43,177	$ -
Commercial real estate	288	373	32	693	78,799	79,492	-
Consumer	13	-	-	13	1,430	1,443	-
Residential	1,520	411	124	2,055	107,155	109,210	
Total	$ 1,821	$ 896	$ 156	$ 2,873	$230,449	$233,322	$ -
2012							
Commercial	$ 2	$ 1	$ 991	$ 994	$ 38,899	$ 39,893	$ -
Commercial real estate	-	29	234	263	82,135	82,398	-
Consumer	5	-	-	5	1,268	1,273	-
Residential	651	89	28	768	91,806	92,574	
Total	$ 658	$ 119	$ 1,253	$ 2,030	$214,108	$216,138	$ -

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Corporation's loan portfolio, management tracks certain credit quality indicators including trends related to (i) loan delinquency, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans (see details above) and (v) the general economic conditions in the State of Pennsylvania.

The Corporation utilizes a risk grading matrix to assign a risk grade to each of its commercial and residential loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the 10 risk grades is as follows:

Pass Credits (Rating 1 through 5): Loans that are adequately protected by the current sound worth and debt service capacity of the borrower, guarantor, or the underlying collateral generally are considered pass credits. Similarly, loans to sound borrowers that are renewed or restructured in accordance with prudent underwriting standards are considered pass credits.

Watch (Rating 6): Watch credits are current and performing, but certain credit characteristics may have become impaired. Watch credits are those that require additional monitoring but do not fall into the problem asset grade.

Special Mention (Rating 7): A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification

Substandard Assets (Rating 8): A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Assets (Rating 9): An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets (Rating 10): Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Credit Risk Profile by Payment Activity

	Consumer	
	2013	2012
Performing	$ 1,443	$ 1,255
Nonperforming	-	18
Total	$ 1,443	$ 1,273

Credit Quality Indicators as of December 31, 2013 and 2012

Commercial Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Commercial		Commercial Real Estate	
	2013	2012	2013	2012
Pass	$ 43,022	$ 39,041	$ 69,472	$ 69,109
Watch	-	127	3,459	5,105
Special mention	99	-	3,228	4,159
Substandard	56	707	3,306	3,996
Doubtful	-	18	27	29
Loss	-	-	-	-
Total	$ 43,177	$ 39,893	$ 79,492	$ 82,398

Residential Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Residential	
	2013	2012
Pass	$ 106,972	$ 90,844
Watch	756	110
Special mention	556	138
Substandard	926	1,482
Total	$ 109,210	$ 92,574

Impaired Loans. Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired Loans
For the Year Ended December 31, 2013

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ 1,349	$ 1,397	$ -	$ 1,417	$ 74
Commercial	111	1,527	-	132	1
Consumer	-	-	-	-	-
Residential Real Estate	482	482	-	491	31
With an allowance recorded:					
Commercial Real Estate	551	703	66	556	10
Commercial	53	53	75	56	2
Consumer	-	-	-	-	-
Residential Real Estate	182	204	51	186	10
Total:	$ 2,728	$ 4,366	$ 192	$ 2,838	$ 128
Commercial Real Estate	$ 1,900	$ 2,100	$ 66	$ 1,973	$ 84
Commercial	$ 164	$ 1,580	$ 75	$ 188	$ 3
Consumer	$ -	$ -	$ -	$ -	$ -
Residential Real Estate	$ 664	$ 686	$ 51	$ 677	$ 41

Impaired Loans
For the Year Ended December 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ 1,534	$ 2,006	$ -	$ 1,693	$ 75
Commercial	991	2,205	-	1,751	54
Consumer	12	12	-	13	1
Residential Real Estate	1,009	1,613	-	1,483	96
With an allowance recorded:					
Commercial Real Estate	805	805	145	841	61
Commercial	87	87	110	103	7
Consumer	7	7	7	8	-
Residential Real Estate	100	100	43	101	7
Total:	$ 4,545	$ 6,835	$ 305	$ 5,993	$ 301
Commercial Real Estate	$ 2,339	$ 2,811	$ 145	$ 2,534	$ 136
Commercial	$ 1,078	$ 2,292	$ 110	$ 1,854	$ 61
Consumer	$ 19	$ 19	$ 7	$ 21	$ 1
Residential Real Estate	$ 1,109	$ 1,713	$ 43	$ 1,584	$ 103

Non-Accrual and Past Due Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured with the minimum of a six month positive payment history.

Non-accrual loans at December 31, 2013 and 2012, segregated by class of loans, were as follows:

	2013	2012
Commercial	$ -	$ 1,041
Commercial real estate	1,888	1,658
Consumer	-	12
Residential real estate	627	1,111
	$ 2,515	$ 3,822

Allowance for Credit Losses and Recorded Investment in Loans For The Year Ended December 31, 2013

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 700	$ 789	$ 19	$ 705	$ 67	$ 2,280
Provision	388	(66)	3	29	6	360
Loans charged off	(270)	(52)	(8)	-	-	(330)
Recoveries	181	16	1	5	-	203
Ending balance	$ 999	$ 687	$ 15	$ 739	$ 73	$ 2,513
Ending balance: Individually evaluated for impairment	75	66	-	51	-	192
Ending balance: Collectively evaluated for impairment	$ 924	$ 621	$ 15	$ 688	$ 73	$ 2,321
Loans:						
Ending balance	$ 43,177	$ 79,492	$ 1,443	$ 109,210		$233,322
Ending balance: Individually evaluated for impairment	164	1,900	-	665		2,729
Ending balance: Collectively evaluated for impairment	$ 43,013	$ 77,592	$ 1,443	$ 108,545		$230,593

Allowance for Credit Losses and Recorded Investment in Loans For The Year Ended December 31, 2012

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 1,646	$ 1,040	$ 26	$ 1,016	$ 184	$ 3,912
Provision	397	22	(6)	289	(117)	585
Loans charged off	(1,366)	(296)	(1)	(605)	-	(2,268)
Recoveries	23	23	-	5	-	51
Ending balance	$ 700	$ 789	$ 19	$ 705	$ 67	$ 2,280
Ending balance: Individually evaluated for impairment	110	145	7	43		305
Ending balance: Collectively evaluated for impairment	$ 590	$ 644	$ 12	$ 662	$ 67	$ 1,975
Loans:						
Ending balance	$ 39,893	$ 82,398	$ 1,273	$ 92,574		$216,138
Ending balance: Individually evaluated for impairment	1,078	2,312	18	1,136		4,544
Ending balance: Collectively evaluated for impairment	$ 38,815	$ 80,086	$ 1,255	$ 91,438		$211,594

The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Corporation's allowance for possible loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The Corporation's process for determining the appropriate level of the allowance for possible loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. The provision for possible loan losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for possible loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The Company has no commitments to loan additional funds to borrowers whose loans have been modified.

The Company grants commercial and consumer loans to customers primarily in Lycoming County, Pennsylvania. The Company has a concentration of loans secured by real estate. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on, among other things, the economic conditions within Lycoming County.

Transactions in the allowance for loan and lease losses are summarized as follows:

	Years Ended December 31,	
	2013	2012
Beginning balance	$ 2,280	$ 3,912
Provision charged to operations	360	582
Loans charged off	(330)	(2,268)
Recoveries of loans previously charged off	203	54
Ending balance	$ 2,513	$ 2,280

The Company considers a loan to be a troubled debt restructuring when for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. The Company may consider granting a concession in an attempt to protect as much of its investment as possible.

The restructuring of a loan may include, but is not necessarily limited to (1) the transfer from the borrower to the Bank of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (2) the issuance or other granting of an equity interest to the Company by the borrower to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting the debt in to an equity interest (3) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (4) a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement and (5) a reduction of accrued interest.

The outstanding balance of troubled debt restructurings at December 31, 2013 and December 31, 2012 was $1,222 ($9 of loans in accrual status and $1,213 of loans classified as non-accrual) and $1,624 ($583 of loans in accrual status and $1,041 of loans classified as non-accrual), respectively. Troubled debt restructurings during the years ending December 31, 2013 and 2012 are as follows:

2013

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31
Commercial	2	$ 511	$ 111
Commercial Real Estate	1	84	31
Residential	1	63	61
Consumer	-	-	-
Total	4	$ 658	$ 203

The Bank did not forgive debt with the modification of the loans. The Bank received $390 in recoveries and repayments and recognized a write down of $69 for potential collateral shortfall.

Troubled Debt Restructurings that Subsequently Defaulted During the 12 Months Ended December 31, 2013	Number of Contracts	Recorded Investment
Commercial	2	$ -
Commercial Real Estate	2	573
Residential Real Estate	-	-
Consumer	-	-
Total	4	$ 573

2012

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31
Commercial	4	$ 109	$ 109
Commercial Real Estate	2	573	573
Residential	-	-	-
Consumer	1	15	15
Total	7	$ 697	$ 697

Troubled Debt Restructurings that Subsequently Defaulted During the 12 Months Ended December 31, 2012	Number of Contracts	Recorded Investment
Commercial	1	$ 34
Commercial Real Estate	1	410
Residential Real Estate	2	511
Consumer	-	-
Total	4	$ 955

Note 5 – Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	December 31,	
	2013	2012
Land	$ 1,342	$ 1,302
Bank premises	4,901	4,399
Furniture and equipment	3,067	2,894
Total	9,310	8,595
Less: accumulated depreciation	4,599	4,294
Bank premises and equipment, net	$ 4,711	$ 4,301

Depreciation of bank premises and equipment charged to operations amounted to $305 and $328 for the years ended December 31, 2013 and 2012, respectively.

Note 6 – Cash Surrender Value of Life Insurance

The Company has purchased Bank Owned Life Insurance (BOLI) policies on certain officers. The policies are split-dollar life insurance policies which provide for the Company to receive the cash value of the policy and to split the residual proceeds with the officer's designated beneficiary upon the death of the insured, while the officer is employed at the Company. The majority of the residual proceeds are retained by the Company per the individual agreements with the insured officers.

Note 7 – Restricted Stock

Restricted stock at December 31, 2013 and 2012 consisted of Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB) and Atlantic Central Bankers Bank (ACBB) stock, which are required investments in order to participate in various programs including an available line of credit program. All restricted stock is stated at par value as they are restricted to purchases and sales with the various institutions.

Note 8 – Deposits

The composition of deposits is as follows:

	December 31,	
	2013	2012
Demand - non-interest bearing	$ 53,232	$ 52,893
Demand - interest bearing	52,401	54,249
Savings	90,705	80,011
Money markets	1,787	1,912
Time - over $100,000	26,900	27,836
Time - other	51,101	55,145
Total	$ 276,126	$ 272,046

The scheduled maturities of time deposits at December 31, 2013 are as follows:

2014	$ 33,549
2015	11,940
2016	13,659
2017	7,289
2018	10,594
Thereafter	970
Total	$ 78,001

Time deposits of $100,000 or more totaled $26,900 and $27,836 at December 31, 2013 and 2012, respectively. Interest expense related to these deposits was $391 and $439 in 2013 and 2012, respectively.

Note 9 – Short-Term Borrowings

Securities sold under agreements to repurchase and Federal funds purchased generally mature within 1 to 30 days. Federal Home Loan Bank advances mature within one year of issuance date.

A summary of short-term borrowings is as follows:

	Years Ended December 31,	
	2013	2012
Amount outstanding at year-end	$ 13,820	$ 7,361
Average interest rate at year-end	0.35%	0.20%
Maximum amount outstanding at any month-end	$ 14,912	$ 10,691
Average amount outstanding	$ 7,572	$ 9,194
Average interest rate	0.21%	0.25%

Investment securities with amortized costs and fair values of $10,264 and $10,259, respectively, at December 31, 2013 and $11,054 and $11,246, respectively, at December 31, 2012, were pledged to secure repurchase agreements.

The Bank has the availability of Federal funds credit lines of $5,500. There was a balance of $5,428 outstanding on the line at December 31, 2013 and no balance outstanding on the lines at December 31, 2012.

The Bank has available three types of borrowings with the Federal Home Loan Bank (FHLB). Advances under the FHLB "Open RepoPlus" are short-term borrowings maturing within one year and bear interest at a variable rate based on a requested interest payment frequency. Advances under the FHLB "RepoPlus" and "Mid-Term Repo" are borrowings maturing from 1 day to 3 years and bear interest at a fixed rate or an adjustable rate set at the time of funding. The Bank has a borrowing limit under this arrangement of approximately $113,417, exclusive of any outstanding advances. All advances are collateralized by the Bank's FHLB stock and certain permitted bank loans and securities under a floating-lien agreement.

Note 10 – Long-Term Debt

Long-term debt consists of separate loans with the FHLB. These loans bear interest at rates which range from 3.349% to 5.50% per annum and mature at various dates through the year 2017.

The following table summarizes the maturities of borrowed funds at December 31, 2013:

2014	$ 10
2015	11
2016	10,522
2017	69
Total	$ 10,612

Note 11 – Income Taxes

The components of applicable income taxes are as following:

	Years Ended December 31,	
	2013	2012
Current payable	$ 850	$ 639
Deferred provision	(136)	415
Provision for income taxes	$ 714	$ 1,054

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 890	$ 811
Deferred expenses	441	371
Deferred security losses	33	33
Total	1,364	1,215
Deferred tax liabilities:		
Premises and equipment	152	147
Securities discount accretion	21	13
Investment in limited partnership	20	20
Unrealized holding gain on available-for-sale securities	41	805
Total	234	985
Deferred tax asset, net	$ 1,130	$ 230

The reconciliation between the expected statutory income tax rate and the effective income tax rate is as follows:

	Years Ended December 31,			
	2013		2012	
	Amount	%	Amount	%
Provision at statutory rate	$ 1,137	34.0	$ 1,433	34.0
Tax-exempt income	(398)	(11.9)	(345)	(8.2)
Nondeductible interest expense	3	0.1	11	0.3
Other items	(28)	(0.8)	(45)	(1.1)
Total	$ 714	21.4	$ 1,054	25.0

Note 12 – Commitments and Contingencies

The Bank leases facilities and office equipment under noncancellable operating leases which expire in various years through 2021. The minimum annual rental commitments under these leases at December 31, 2013 are as follows:

2014	$ 317
2015	316
2016	315
2017	301
2018	272
Thereafter	1,288
Total	$ 2,809

The total rental expense for these operating leases in 2013 and 2012 amounted to $319 and $315, respectively.

Note 13 – Employee Benefit Plans

The Company maintains a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code, which covers substantially all eligible employees. This plan permits employees to make contributions. The Company contributes an amount to all eligible employees based on a percentage of the employee's compensation, subject to certain restrictions. The cost of this plan is charged to operating expense annually as benefit costs are incurred. The Company's contribution to the plan was $116 and $121 for the years ended December 31, 2013 and 2012, respectively.

The Company has a supplemental non-qualified, non-funded retirement plan, for which the Company has purchased cost recovery life insurance on the lives of the participants. The Company is the owner and beneficiary of such policies. The amount of the coverage is designed to provide sufficient revenues to cover all costs of the plan if assumptions made as to mortality experience, policy earnings and other factors are realized. As of December 31, 2013 and 2012, the cash surrender value of these policies was $3,648 and $3,528, respectively.

The Company has an employee incentive plan which covers substantially all eligible employees. Under this plan, eligible employees earn additional compensation to be paid within 60 days of year end based upon achievement of certain annual performance targets as determined by the Board of Directors. The Company's obligation under the plan was $0 and $99 for the years ended December 31, 2013 and 2012, respectively, and are included in other liabilities on the balance sheet.

Note 14 – Employee Stock Purchase Plan

The Company has an employee stock purchase plan that allows participating employees to purchase, through payroll deductions, shares of the Company's common stock at 90% of the fair market value at specified dates. Under the plan, employees purchased 630 shares in 2013 and 960 shares in 2012. At December 31, 2013, 9,927 common shares are available for issuance under this plan.

Note 15 – Related Party Transactions

In the normal course of business, loans are extended to directors, executive officers and their associates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness. A summary of loan activity for those directors, executive officers, and their associates is as follows:

Years Ended December 31,	Beginning Balance	Additions	Collected Amounts	Ending Balance
2013	$ 15,352	$ 8,405	$ 6,580	$ 17,177
2012	$ 17,861	$ 14,880	$ 17,389	$ 15,352

The Company held related party deposits of $4,769 and $3,060 at December 31, 2013 and 2012, respectively.

The Bank leases the Williamsport community banking office building from a partnership owned by two members of the Company's Board of Directors. The Bank leases the Halls Station community banking office building from a partnership, which includes a member of the Company's Board of Directors. The Bank leases the Jersey Shore and Newberry community banking offices from a partnership owned by three members of the Company's Board of Directors. Total rent expense under these lease agreements amounted to $299 and $297 for the years ended December 31, 2013 and 2012, respectively.

Note 16 – Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheets, such items, along with net income, are components of comprehensive income. A summary of other comprehensive income for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Components of other comprehensive income:		
Unrealized holding gains arising during the year	$ (2,200)	$ 417
Reclassification adjustment for investment securities:		
Other-than-temporary impairment losses	-	58
Gains included in net income during the year	(47)	(172)
Net unrealized gains	(2,247)	303
Tax effect	764	(103)
Other comprehensive income	$ (1,483)	$ 200

Note 17 – Off-Balance Sheet Risk

In the normal course of business, there are outstanding commitments and contingent liabilities, created under prevailing terms and collateral requirements such as commitments to extend credit, financial guarantees and letters of credit, which are not reflected in the accompanying Financial Statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Balance Sheets.

Note 17 – Off-Balance Sheet Risk – (Continued)

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2013 and 2012 are as follows:

	2013	2012
Commitments to extend credit	$ 6,709	$ 7,482
Unfunded commitments under lines of credit	$ 57,882	$ 52,365
Standby letters of credit	$ 1,548	$ 1,630

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have expiration dates of one year or less or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Various actions and proceedings are presently pending to which the Company is a party. Management is of the opinion that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the financial position of the Company.

Note 18 – Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Reserve Bank (FRB) and the Commonwealth of Pennsylvania Department of Banking. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following Capital Adequacy table) of Tier I and Total Capital to risk-weighted assets and of Tier I Capital to average assets (Leverage ratio). The table also presents the Company's actual capital amounts and ratios. Management believes, as of December 31, 2013 and 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2013, the most recent notification from the Federal Reserve Bank of Philadelphia, the Bank was categorized as well capitalized under the regulatory framework for prompt correction action. To be categorized as "well capitalized", the Bank must maintain minimum Tier I Capital, Total Capital and Leverage ratios as set forth in the Capital Adequacy table. There are no conditions or events since that notification that management believes have changed the Bank's categorization by the Federal Reserve Bank of Philadelphia.

The following table reflects the Company's and Bank's actual regulatory capital and ratios as well as the ratios required for the Company and Bank to be considered adequately capitalized under the regulatory framework for prompt corrective action.

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013						
Total Capital (to Risk-Weighted Assets)						
Company	$ 32,450	14.0%	$ 18,558	8.0%	$23,197	10.0%
Bank	$ 30,606	13.3%	$ 18,455	8.0%	$23,069	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$ 29,640	12.8%	$ 9,279	4.0%	$13,918	6.0%
Bank	$ 27,988	12.1%	$ 9,228	4.0%	$13,841	6.0%
Tier 1 Capital (to Average Assets)						
Company	$ 29,640	8.9%	$ 13,374	4.0%	$16,717	5.0%
Bank	$ 27,988	8.4%	$ 13,318	4.0%	$16,648	5.0%

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012						
Total Capital (to Risk-Weighted Assets)						
Company	$ 30,346	13.8%	$ 17,542	8.0%	$21,928	10.0%
Bank	$ 28,875	13.2%	$ 17,460	8.0%	$21,825	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$ 27,886	12.7%	$ 8,771	4.0%	$12,235	6.0%
Bank	$ 26,491	12.1%	$ 8,730	4.0%	$13,095	6.0%
Tier 1 Capital (to Average Assets)						
Company	$ 27,886	8.7%	$ 12,896	4.0%	$15,639	5.0%
Bank	$ 26,491	8.2%	$ 12,853	4.0%	$16,066	5.0%

Note 18 – Regulatory Matters - (Continued)

Restrictions imposed by Federal Reserve Regulation H limit dividend payments in any year to the current year's net income plus the retained net income of the prior two years without the approval of the Federal Reserve Bank. Accordingly, Bank dividends in 2014 may not exceed Bank net income for 2014 plus $3,673. Additionally, banking regulations limit the amount of dividends that may be paid to the Company by the Bank without prior approval of the Bank's regulatory agency. Retained earnings against which dividends may be paid without prior approval of the banking regulators amounted to approximately $16,981 at December 31, 2013, subject to the minimum capital ratio requirements noted above.

The Bank is subject to regulatory restrictions that limit its ability to loan or advance funds to the Company. At December 31, 2013, the regulatory lending limit amounted to approximately $4,591.

This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Note 19 –Fair Value of Financial Instruments

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize information other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement, in its entirety, falls has been determined based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

	Fair Value Measurements at December 31, 2013 Using			
	Quoted Prices in Active Markets for Identical Instrument (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)	Total
Assets Measured at Fair Value on a Recurring Basis:				
Available-for-sale securities:				
U.S. Government agencies and corporations	$ -	$ 10,805	$ -	$ 10,805
States and political subdivisions	-	26,901	-	26,901
Corporate securities	-	3,495	-	3,495
Mortgage-backed securities	-	36,890	-	36,890
Equity securities	1,336	-	-	1,336
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 2,537	$ 2,537
Restricted stock	-	-	1,392	1,392

	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Instrument (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)	Total
Assets Measured at Fair Value on a Recurring Basis:				
Available-for-sale securities:				
U.S. Government agencies and corporations	$ -	$ 11,134	$ -	$ 11,134
States and political subdivisions	-	28,790	-	28,790
Corporate securities	-	3,489	-	3,489
Mortgage-backed securities	-	37,593	-	37,593
Equity securities	995	-	-	995
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 4,240	$ 4,240
Restricted stock	-	-	1,374	1,374

Note 19 –Fair Value of Financial Instruments – (Continued)

Impaired loans, which are measured for impairment primarily using the fair value of the collateral for collateral dependent loans, were approximately $2,537, with an allowance for loan and lease losses of approximately $192 for the year ended December 31, 2013 and approximately $4,545, with an allowance for loan and lease losses of approximately $305 for the year ended December 31, 2012.

The carrying values and estimated fair values of financial instruments of the Company are as follows:

	December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	$ 7,518	$ 7,518	$ -	$ -	$ 7,518
Investment securities	79,552	1,336	78,215	-	79,551
Loans and leases, net	230,809	-	-	230,379	230,379
Accrued interest receivable	971	-	971	-	971
Cash surrender value of life insurance	5,244	-	5,244	-	5,244
Restricted stock	1,392	-	-	1,392	1,392
FINANCIAL LIABILITIES					
Deposits	$ 272,126	$ -	$ 276,994	$ -	$ 276,994
Borrowed funds	24,432	-	24,421	-	24,421
Accrued interest payable	152	-	152	-	152

	December 31, 2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	$ 12,166	$ 12,166	$ -	$ -	$ 12,166
Investment securities	82,148	995	81,153	-	82,148
Loans and leases, net	213,858	-	-	214,831	214,831
Accrued interest receivable	981	-	981	-	981
Cash surrender value of life insurance	5,075	-	5,075	-	5,075
Restricted stock	1,374	-	-	1,374	1,374
FINANCIAL LIABILITIES					
Deposits	$ 272,046	$ -	$ 271,372	$ -	$ 271,372
Borrowed funds	17,983	-	18,076	-	18,076
Accrued interest payable	154	-	154	-	154

Generally Accepted Accounting Principles (GAAP) require disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans and investments. Therefore, the Company had to use significant estimates and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used at December 31, 2013 and December 31, 2012 are outlined below. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed in the fair value measurements section above. The estimated fair value approximates carrying value for cash and cash equivalents, accrued interest and the cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below:

Investment securities - The fair value of investment securities is based on quoted market prices, where available. If quoted market prices are not available, external pricing services that approximate fair value are used.

Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Restricted stock - All restricted stock is stated at par value as they are restricted to purchases and sales with the various institutions.

Deposits - The fair value of deposits with no stated maturity is the amount payable on demand as of December 31, 2013 and 2012. For time deposits, fair value is estimated by discounting the contractual cash flows using a discount rate equal to the rate currently offered for similar deposits of similar maturities.

Borrowed Funds – Rates available to the Company for borrowed funds with similar terms and remaining maturities are used to estimate the fair value of borrowed funds.

Note 20 – Condensed Financial Statements of Parent Company

The condensed financial statements for Woodlands Financial Services Company are as follows:

BALANCE SHEETS	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 414	$ 184
Investment in subsidiaries	29,289	29,241
Other asset	16	23
Total Assets	$ 29,719	$ 29,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' Equity	$ 29,719	$ 29,448
Total Liabilities and Stockholders' Equity	$ 29,719	$ 29,448

STATEMENTS OF INCOME	Years Ended December 31, 2013	Years Ended December 31, 2012
Dividends from Subsidiaries	$ 1,128	$ 982
Equity in undistributed earnings of subsidiaries	1,532	2,224
Expenses	(30)	(43)
Net Income	$ 2,630	$ 3,163

STATEMENTS OF CASH FLOWS	Years Ended December 31, 2013	Years Ended December 31, 2012
Operating Activities:		
Net income	$ 2,630	$ 3,163
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiaries	(1,532)	(2,224)
Decrease (increase) in other assets	7	(3)
Net cash provided by operating activities	1,105	936
Investing Activities:		
Investment in subsidiary	-	(525)
Net cash used by investing activities	-	(525)
Financing Activities:		
Issuance of common stock	253	291
Dividends paid	(1,128)	(982)
Net cash used by financing activities	(875)	(691)
Increase (decrease) in cash and cash equivalents	230	(280)
Cash and cash equivalents at January 1	184	464
Cash and cash equivalents at December 31	$ 414	$ 184

WOODLANDS
FINANCIAL SERVICES
COMPANY

WOODLANDS BANK

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Robert E. Forse, Chairman
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Melvin W. Lewis
George E. Logue, Jr.
David L. Shollenberger
Thomas G. Stubler
Peter Went

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WOODLANDS FINANCIAL SERVICES COMPANY COMMON STOCK

is traded over-the-counter under the symbol of WDFN
The following brokers make a market in the Common Stock:

Janney Montgomery Scott, Inc.
1801 Market Street
Philadelphia, PA 19103-1675
(800) 526-6397

Boenning & Scattergood, Inc.
4 Tower Bridge
200 Barr Harbor Dr., Suite 300
West Conshohocken, PA 19428
(800) 883-1212

Stifel, Nicolaus & Co. Inc.
2000 Oxford Dr. Suite 605
Bethel Park, PA 15102
(866) 253-0500

Monroe Securities, Inc.
100 North Riverside Plaza, Suite 1620
Chicago, IL 60606
(800) 766-5560

REGISTRAR AND TRANSFER AGENT:

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
1-800-368-5948
info@rtco.com

Woodlands Bank is a Pennsylvania State Chartered Bank
and a member of the Federal Reserve System and the
Federal Deposit Insurance Corporation.
Deposits are insured up to $250,000.
Member FDIC – Equal Housing Lender

OFFICES LOCATED AT:

HALLS STATION
973 Lycoming Mall Drive
Pennsdale, PA 17756
570-546-5001

JERSEY SHORE
1146 Allegheny Street
Jersey Shore, PA 17740
570-398-2850

WILLIAMSPORT
213 West Fourth Street
Williamsport, PA 17701
570-321-1600

LOYALSOCK
2450 East Third Street
Williamsport, PA 17701
570-327-5263

NEWBERRY
1980 West Fourth Street
Williamsport, PA 17701
570-327-1550

SOUTH WILLIAMSPORT
618 West Southern Ave.
So. Williamsport, PA 17702
570-323-5263

HUGHESVILLE
2 South Main Street
Hughesville, PA 17737
570-584-2385

Visit our website at
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