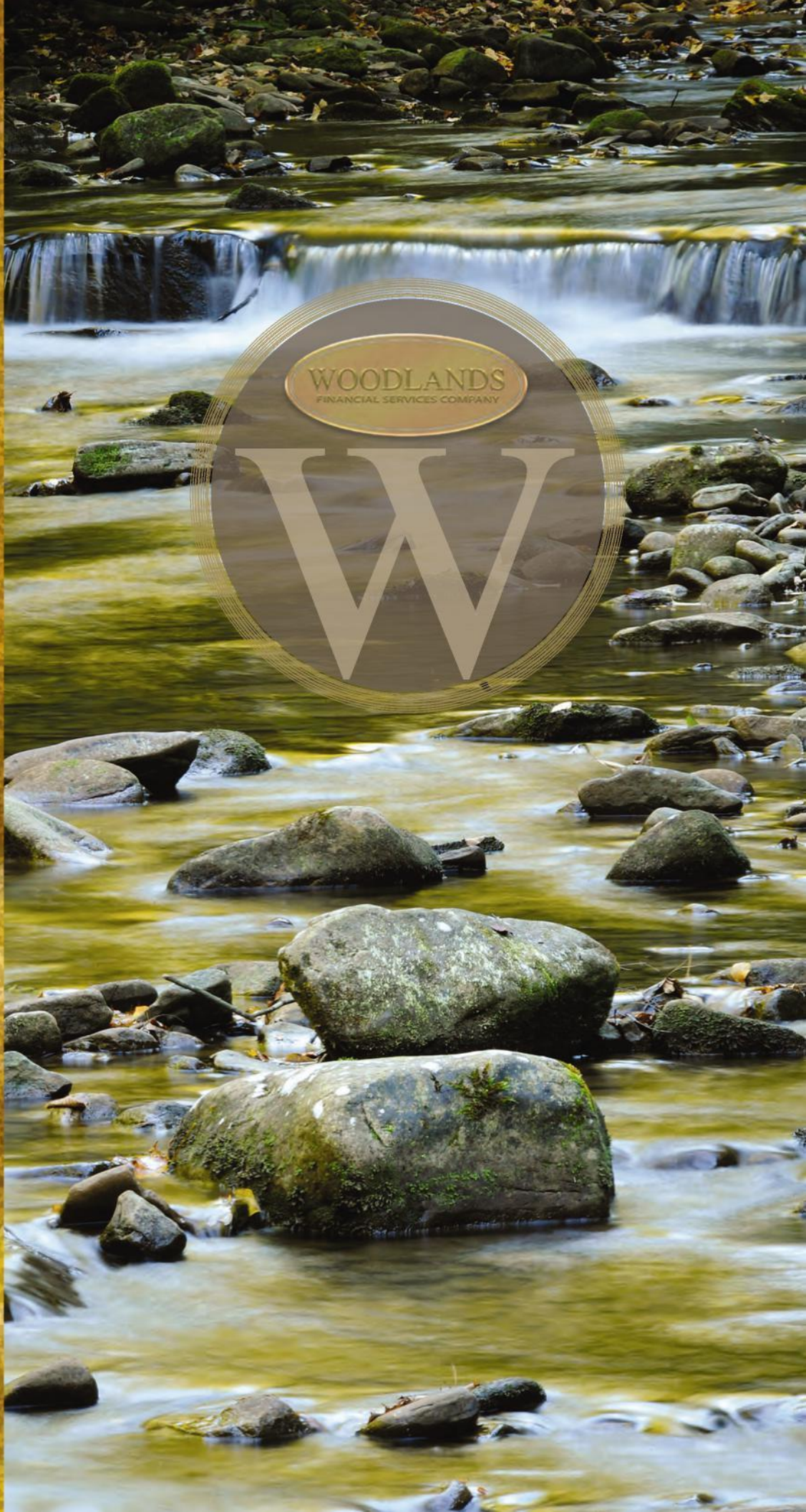
ANNUAL REPORT



2015



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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Board of Directors & Officers Woodlands Bank

and

Board of Directors & Officers Woodlands Financial Services Company *40*

Dear Friends:

We are pleased to announce the financial results of Woodlands Financial Services Company (Company) for 2015. As Woodlands Bank celebrated its 25th year of local community banking, the focus remained on continuing to grow quality earning assets that will provide both the solid earnings base for future growth and success as well as offset the pressures on margins in the current interest rate environment. Efforts throughout the year also included the upgrades and implementations of certain technologies with the goal in mind of ultimately providing a more convenient and mobile experience for all our customers while maintaining the same friendly, no pressure, face-to-face relationship banking for which Woodlands Bank has always been known and which should be expected from any local community bank.

Net income for the year of $3.28 million was up from $2.85 million in 2014, an increase of 14.9% driven primarily by an increase of $875 thousand, or 8.2%, in net interest income after provision for loan losses compared to the prior year. This increase continues to reflect the efforts of management in growing the Company's market share and earning assets while maintaining strong asset quality in the process. All increases in total other expenses for the year, $453 thousand, relate directly to the growth of the bank and also to the implementation of the technology upgrades already mentioned as part of the bank's long-term strategic plan. For 2015, the Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 0.90% and 9.72%, respectively, which were both increases over the prior year. Earnings per share in 2015 increased to $2.14 from $1.87 in 2014 reflecting the adjustment of the average outstanding shares amount following the 100% stock dividend that was paid to all shareholders of record in December.

Total assets ended the year at $375.2 million which was a 3.0% increase from the end of 2014. As part of this overall asset growth, net loans increased $22.2 million, or 9.0%, during the year to end at $269.9 million, the third consecutive year of similar loan growth. While maintaining a diligent and disciplined asset/liability management strategy in the process of achieving this growth, management also continued to emphasize the same strong credit underwriting standards, both of which continue to reflect in the credit quality metrics and internal projections of future earnings and equity under various interest rate scenarios. The overall asset growth achieved during the year was funded by an increase in total deposits of 1.8%, which includes a 13.6% increase in non-interest bearing deposits, and an increase in core capital of 6.1% during 2015.

These are exciting times for Woodlands Financial Services Company. We feel like we're looking at a plethora of opportunities being presented to us, both internally and externally, that will allow us to continue to grow our market share and to promote "the Woodlands Way" to a broader audience than ever before. Our objectives beyond just the asset and earnings growth will be to differentiate ourselves as a true community partner to local consumers, businesses, and civic organizations alike. Thank you all for your continued support of Woodlands Financial Services Company and Woodlands Bank.

Sincerely,



Jon P. Conklin President and CEO

WOODLANDS
FINANCIAL SERVICES COMPANY

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, 2015 and 2014, 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.

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, 2015 and 2014, 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 24, 2016

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

(in thousands except per share amounts)

	2015	2014
ASSETS		
Cash and due from banks	$ 6,067	$ 6,042
Interest-bearing deposits with banks	117	8,700
Government money market funds	474	2,432
Federal funds sold	80	500
Cash and cash equivalents	6,738	17,674
Available-for-sale securities	77,179	78,306
Held-to-maturity securities	125	125
Loans and leases, net	269,939	247,697
Bank premises and equipment, net	9,481	9,666
Accrued interest receivable	1,092	1,003
Deferred tax assets, net	809	673
Cash surrender value of life insurance	7,129	6,930
Restricted stock	1,345	968
Other assets	1,395	1,160
Total assets	$ 375,232	$ 364,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Non-interest bearing	$ 73,186	$ 64,416
Interest bearing	244,445	247,459
Total deposits	317,631	311,875
Repurchase agreements	-	6,837
Long-term debt	20,591	10,602
Accrued interest payable	126	136
Other liabilities	2,108	1,973
Total liabilities	340,456	331,423
Stockholders' equity		
Common stock, $5.00 par value, 10,000,000 shares authorized; 1,537,010 and 766,389 shares issued and outstanding in 2015 and 2014, respectively	7,685	3,832
Preferred stock, $5.00 par value, 4,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	8,113	8,044
Retained earnings	17,913	19,651
Accumulated other comprehensive income	1,066	1,252
	34,777	32,779
Less: Cost of treasury stock	1	-
Total stockholders' equity	34,776	32,779
Total liabilities and stockholders' equity	$ 375,232	$ 364,202

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, 2015 AND 2014

(in thousands except per share amounts)

	2015	2014
Interest income		
Interest and fees on loans and leases	$ 11,586	$ 10,931
Interest and dividends on cash and cash equivalents	7	19
Interest and dividends on investment securities:		
Taxable	1,044	984
Tax-exempt	716	730
Dividends	120	96
Interest on Federal funds sold	1	1
Total interest income	13,474	12,761
Interest expense		
Interest on deposits	1,199	1,361
Interest on borrowed funds	469	385
Total interest expense	1,668	1,746
Net interest income	11,806	11,015
Provision for loan losses	216	300
Net interest income, after provision for loan losses	11,590	10,715
Other income		
Service charges and other fees	798	822
Other operating income	1,071	968
Trust department income	998	1,048
Gain on sale of loans and other assets, net	114	13
Gain on investment securities, net	172	86
Total other income	3,153	2,937
Other expenses		
Salaries and employee benefits	5,989	5,654
Occupancy expense	696	684
Furniture and equipment expense	464	444
FDIC insurance premiums	240	240
Data processing expense	632	556
Professional fees	269	275
Other operating expenses	2,114	2,098
Total other expenses	10,404	9,951
Income before income taxes	4,339	3,701
Provision for income taxes	1,061	849
Net income	$ 3,278	$ 2,852
Net income per common share	$ 2.14	$ 1.87

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, 2015 AND 2014

(in thousands except per share amounts)

	2015	2014
Net income	$ 3,278	$ 2,852
Other comprehensive income, net of tax:		
Unrealized holding (losses) gains arising during the year	(72)	1,230
Less: Reclassification adjustment for gains included in net income	114	57
Other comprehensive income	(186)	1,173
Comprehensive income	$ 3,092	$ 4,025

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, 2015 AND 2014

(in thousands except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	$ 3,806	$ 7,874	$ 17,960	$ 79	$ -	$ 29,719
Net income			2,852			2,852
Other comprehensive income				1,173		1,173
Issuance of 2,954 shares under dividend reinvestment plan	23	148				171
Issuance of 660 shares under employee stock purchase plan	3	22				25
Cash dividends declared ($.76 per share)			(1,161)			(1,161)
Balance, December 31, 2014	3,832	8,044	19,651	1,252	-	32,779
Net income			3,278			3,278
Other comprehensive income				(186)		(186)
Issuance of 1,486 shares under dividend reinvestment plan	8	49				57
Issuance of 630 shares under employee stock purchase plan	3	20				23
Purchase of 58 shares of common stock for treasury					(1)	(1)
100% stock dividend declared	3,842		(3,842)			-
Cash dividends declared ($.77 per share)			(1,174)			(1,174)
Balance, December 31, 2015	$ 7,685	$ 8,113	$ 17,913	$ 1,066	$ (1)	$ 34,776

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, 2015 AND 2014

(in thousands except per share amounts)

	2015	2014
Operating activities		
Net income	$ 3,278	$ 2,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	216	300
Depreciation	434	372
Amortization of securities (net of accretion)	539	669
Gain on sale of investment securities, loans and other assets, net	(286)	(99)
Increase in cash surrender value of life insurance	(199)	(186)
Sale of mortgage loans originated for sale	6,794	2,779
Mortgage loans originated for sale	(6,807)	(2,538)
Deferred taxes	(40)	(147)
Increase in accrued interest receivable	(89)	(32)
Decrease (increase) in other assets	4	(351)
Decrease in accrued interest payable	(10)	(16)
Increase in other liabilities	135	266
Net cash provided by operating activities	3,969	3,869
Investing activities		
Purchase of available-for-sale securities	(21,052)	(18,172)
Purchase of held-to-maturity securities	-	(75)
Proceeds from sales and repayments of available-for-sale securities	21,531	20,487
Proceeds from maturities of held-to-maturity securities	-	75
Net increase in loans and leases	(22,571)	(17,746)
Proceeds from sale of other real estate	-	330
Purchase of restricted stock	(377)	-
Proceeds from restricted stock	-	424
Purchase of bank premises and equipment	(249)	(5,327)
Purchase of bank owned life insurance	-	(1,500)
Net cash used by investing activities	(22,718)	(21,504)
Financing activities		
Net increase in deposits	5,756	35,749
Decrease in short-term borrowings	(6,837)	(6,983)
Proceeds from long-term debt	10,000	-
Repayments on long-term borrowings	(11)	(10)
Dividends paid to stockholders of common stock	(1,174)	(1,161)
Payments to acquire treasury stock	(1)	-
Proceeds from issuance of common stock	80	196
Net cash provided by financing activities	7,813	27,791
Net (decrease) increase in cash and cash equivalents	(10,936)	10,156
Cash and cash equivalents at January 1	17,674	7,518
Cash and cash equivalents at December 31	$ 6,738	$ 17,674

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 and Clinton Counties 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 24, 2016, 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 1,535,579 in 2015 and 1,528,227 in 2014, after adjusting for the 100% stock dividend declared and paid during the 2015 year.

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 less costs to sell. 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. Other real estate owned as of December 31, 2015 was $239. There was no other real estate owned as of December 31, 2014.

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, 2015 and 2014, amounted to $226 and $249, 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 2012.

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,	
	2015	2014
Interest paid	$ 1,678	$ 1,762
Income taxes paid	$ 1,200	$ 1,200

Non-cash transactions during the years ended December 31, 2015 and 2014 included the change in unrealized gains on available-for-sale securities of ($282) and $1,776, respectively, and the acquisition of real estate in the settlement of loans of $239 and $369, 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 January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 was effective for the Company on January 1, 2015 and did not have a material impact on the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The ASU provides a robust framework for addressing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The standard requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 was originally to become effective for the Company on January 1, 2017. During August, 2015, the FASB delayed the effective date by one year. We are currently evaluating the impact the standard will have on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* The ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The ASU requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates accounting guidance on linked repurchase financing transactions, and expands disclosure requirements related to certain transfers of financial assets. ASU 2014-04 was effective for the Company on January 1, 2015 and did not have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40)*. The ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. ASU 2014-14 was effective for the Company on January 1, 2015 and did not have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. The ASU is intended to improve the recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company on January 1, 2018. We are currently evaluating the impact the standard will have 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, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies and corporations	$ 10,208	$ 97	$ 49	$ 10,256
State and political subdivisions	32,794	1,135	28	33,901
Corporate securities	4,988	11	-	4,999
Mortgage-backed securities	26,614	160	189	26,585
Subtotal	74,604	1,403	266	75,741
Equity securities	959	479	-	1,438
Total available-for-sale	$ 75,563	$ 1,882	$ 266	$ 77,179
Held-to-maturity:				
Other securities	$ 125	$ -	$ -	$ 125

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies and corporations	$ 13,988	$ 128	$ 90	$ 14,026
State and political subdivisions	27,510	1,114	13	28,611
Corporate securities	3,994	4	-	3,998
Mortgage-backed securities	29,974	353	99	30,228
Subtotal	75,466	1,599	202	76,863
Equity securities	945	500	2	1,443
Total available-for-sale	$ 76,411	$ 2,099	$ 204	$ 78,306
Held-to-maturity:				
Other securities	$ 125	$ -	$ 1	$ 124

The amortized cost and estimated fair value of debt securities at December 31, 2015, 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	$ 1,998	$ 1,999	$ 75	$ 75
Due after one year through five years	14,329	14,663	50	50
Due after five years through ten years	18,031	18,552	-	-
Due after ten years	13,632	13,942	-	-
Subtotal	47,990	49,156	125	125
Mortgage-backed securities	26,614	26,585	-	-
Total debt securities	$ 74,604	$ 75,741	$ 125	$ 125

Proceeds from sales of available-for-sale debt securities during 2015 and 2014 were $6,565 and $10,269, respectively. Gross gains and gross losses realized on these sales were $212 and $39 during 2015 and $154 and $68 during 2014, respectively.

Investment securities with a carrying value of $69,569 at December 31, 2015 and $75,844 at December 31, 2014, 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, 2015					
	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	$ 1,473	$ 22	$ 1,971	$ 27	$ 3,444	$ 49
State and political subdivisions	2,439	28	-	-	2,439	28
Mortgage-backed securities	19,109	189	-	-	19,109	189
Totals	$ 23,021	$ 239	$ 1,971	$ 27	$ 24,992	$ 266

	December 31, 2014					
	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	$ 1,487	$ 13	$ 3,928	$ 77	$ 5,415	$ 90
State and political subdivisions	1,475	1	1,182	12	2,657	13
Mortgage-backed securities	4,759	37	5,113	62	9,872	99
Equity securities	17	2	-	-	17	2
Other securities	-	-	49	1	49	1
Totals	$ 7,738	$ 53	$ 10,272	$ 152	$ 18,010	$ 205

The table at December 31, 2015 includes thirty (30) 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. The table at December 31, 2014 includes eleven (11) securities that have unrealized losses for less than twelve months and twelve (12) securities that have 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, 2015.

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, 2015.

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, 2015.

Note 4 – Loans and Leases

Major classifications of loans and leases are as follows:

	December 31,	
	2015	2014
Commercial	$ 47,023	$ 46,542
Consumer	1,480	1,448
Real estate:		
Construction	5,914	5,235
Farmland	7,131	4,724
Residential	114,942	103,416
Home equity lines of credit	19,542	16,650
Multi-family	10,616	10,418
Commercial	66,195	62,088
Gross loans and leases	272,843	250,521
Less: Allowance for loan losses	2,904	2,824
Loans and leases, net	$ 269,939	$ 247,697

Net unamortized loan and lease costs of $34 at December 31, 2015 and $84 at December 31, 2014 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
2015							
Commercial	$ 43	$ -	$ 3	$ 46	$ 46,977	$ 47,023	$ -
Commercial real estate	295	-	897	1,192	88,664	89,856	-
Consumer	4	-	7	11	1,469	1,480	-
Residential	923	222	574	1,719	132,765	134,484	
Total	$ 1,265	$ 222	$ 1,481	$ 2,968	$269,875	$272,843	$ -
2014							
Commercial	$ 77	$ -	$ -	$ 77	$ 46,465	$ 46,542	$ -
Commercial real estate	341	-	-	341	78,124	78,465	-
Consumer	-	-	3	3	1,445	1,448	-
Residential	524	672	148	1,344	122,722	124,066	
Total	$ 942	$ 672	$ 151	$ 1,765	$248,756	$250,521	$ -

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	
	2015	2014
Performing	$ 1,473	$ 1,445
Nonperforming	7	3
Total	$ 1,480	$ 1,448

Credit Quality Indicators as of December 31, 2015 and 2014

Commercial Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Commercial		Commercial Real Estate	
	2015	2014	2015	2014
Pass	$ 44,594	$ 44,858	$ 75,641	$ 69,445
Watch	1,809	1,226	7,318	2,473
Special mention	336	-	4,045	3,513
Substandard	250	397	2,852	3,009
Doubtful	34	61	-	25
Loss	-	-	-	-
Total	$ 47,023	$ 46,542	$ 89,856	$ 78,465

Residential Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Residential	
	2015	2014
Pass	$ 131,848	$ 121,757
Watch	379	158
Special mention	277	76
Substandard	1,980	2,075
	$ 134,484	$ 124,066

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.

Note 4 – Loans and Leases – (Continued)

Impaired Loans
For the Year Ended December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ 1,181	$ 1,228	$ -	$ 1,210	$ 58
Commercial	72	1,056	-	77	6
Consumer	-	-	-	-	-
Residential Real Estate	869	1,141	-	957	24
With an allowance recorded:					
Commercial Real Estate	739	892	137	751	18
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Residential Real Estate	807	807	228	822	44
Total:	$ 3,668	$ 5,124	$ 365	$ 3,817	$ 150
Commercial Real Estate	$ 1,920	$ 2,120	$ 137	$ 1,961	$ 76
Commercial	$ 72	$ 1,056	$ -	$ 77	$ 6
Consumer	$ -	$ -	$ -	$ -	$ -
Residential Real Estate	$ 1,676	$ 1,948	$ 228	$ 1,779	$ 68

Impaired Loans
For the Year Ended December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	$ 719	$ 773	$ -	$ 743	$ 29
Commercial	196	1,103	-	179	3
Consumer	-	-	-	-	-
Residential Real Estate	838	965	-	848	28
With an allowance recorded:					
Commercial Real Estate	813	966	146	823	23
Commercial	128	128	128	139	8
Consumer	-	-	-	-	-
Residential Real Estate	167	187	55	170	6
Total:	$ 2,861	$ 4,122	$ 329	$ 2,902	$ 97
Commercial Real Estate	$ 1,532	$ 1,739	$ 146	$ 1,566	$ 52
Commercial	$ 324	$ 1,231	$ 128	$ 318	$ 11
Consumer	$ -	$ -	$ -	$ -	$ -
Residential Real Estate	$ 1,005	$ 1,152	$ 55	$ 1,018	$ 34

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, 2015 and 2014, segregated by class of loans, were as follows:

	2015	2014
Commercial	$ 107	$ 121
Commercial real estate	2,181	1,623
Consumer	7	3
Residential real estate	1,677	977
	$ 3,972	$ 2,724

Allowance for Credit Losses and Recorded Investment in Loans For The Year Ended December 31, 2015

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 1,087	$ 747	$ 7	$ 859	$ 124	$ 2,824
Provision	(332)	135	13	452	(52)	216
Loans charged off	(156)	(101)	(24)	(130)	-	(411)
Recoveries	208	29	19	19	-	275
Ending balance	$ 807	$ 810	$ 15	$ 1,200	$ 72	$ 2,904
Ending balance: Individually evaluated for impairment	-	137	-	227	-	364
Ending balance: Collectively evaluated for impairment	$ 807	$ 673	$ 15	$ 973	$ 72	$ 2,540
Loans:						
Ending balance	$ 47,023	$ 89,856	$ 1,480	$ 134,484		$272,843
Ending balance: Individually evaluated for impairment	72	1,920	-	1,676		3,668
Ending balance: Collectively evaluated for impairment	$ 46,951	$ 87,936	$ 1,480	$ 132,808		$269,175

Note 4 – Loans and Leases – (Continued)

Allowance for Credit Losses and Recorded Investment in Loans For The Year Ended December 31, 2014

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 999	$ 687	$ 15	$ 739	$ 73	$ 2,513
Provision	(9)	48	(4)	214	51	300
Loans charged off	-	(20)	(10)	(126)	-	(156)
Recoveries	97	32	6	32	-	167
Ending balance	$ 1,087	$ 747	$ 7	$ 859	$ 124	$ 2,824
Ending balance: Individually evaluated for impairment	91	179	-	60	-	330
Ending balance: Collectively evaluated for impairment	$ 996	$ 568	$ 7	$ 799	$ 124	$ 2,494
Loans:						
Ending balance	$ 46,542	$ 78,465	$ 1,448	$ 124,066		$250,521
Ending balance: Individually evaluated for impairment	324	1,532	-	1,005		2,861
Ending balance: Collectively evaluated for impairment	$ 46,218	$ 76,933	$ 1,448	$ 123,061		$ 247,660

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 and Clinton Counties, 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 and Clinton Counties.

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

	Years Ended December 31,	
	2015	2014
Beginning balance	$ 2,824	$ 2,513
Provision charged to operations	216	300
Loans charged off	(411)	(156)
Recoveries of loans previously charged off	275	167
Ending balance	$ 2,904	$ 2,824

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.

Note 4 – Loans and Leases – (Continued)

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, 2015 and December 31, 2014 was $1,614 ($291 of loans in accrual status and $1,323 of loans classified as non-accrual) and $1,742 ($337 of loans in accrual status and $1,405 of loans classified as non-accrual), respectively. Troubled debt restructurings during the years ending December 31, 2015 and 2014 are as follows:

2015

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31
Commercial	-	$ -	$ -
Commercial Real Estate	5	475	464
Residential	2	159	159
Consumer	-	-	-
Total	7	$ 634	$ 623

The Bank did not forgive debt with the modification of the loans. The Bank received $94 in recoveries and repayments and recognized a write down of $185 for potential collateral shortfall.

Troubled Debt Restructurings that Subsequently Defaulted During the 12 Months Ended December 31, 2015	Number of Contracts	Recorded Investment
Commercial	-	$ -
Commercial Real Estate	1	-
Residential Real Estate	2	49
Consumer	-	-
Total	3	$ 49

2014

Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Outstanding Recorded Investment at December 31
Commercial	1	$ 84	$ 79
Commercial Real Estate	2	568	538
Residential	3	594	482
Consumer	-	-	-
Total	6	$ 1,246	$ 1,099

Troubled Debt Restructurings that Subsequently Defaulted During the 12 Months Ended December 31, 2014	Number of Contracts	Recorded Investment
Commercial	-	$ -
Commercial Real Estate	-	-
Residential Real Estate	-	-
Consumer	-	-
Total	-	$ -

Note 5 – Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	December 31,	
	2015	2014
Land	$ 2,930	$ 2,930
Bank premises	8,481	8,429
Furniture and equipment	3,185	3,278
Capitalized software	290	-
Total	14,886	14,637
Less: accumulated depreciation	5,405	4,971
Bank premises and equipment, net	$ 9,481	$ 9,666

Depreciation of bank premises and equipment charged to operations amounted to $434 and $372 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 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,	
	2015	2014
Demand - non-interest bearing	$ 73,186	$ 64,416
Demand - interest bearing	56,964	53,915
Savings	115,384	108,250
Money markets	2,612	2,530
Time - over $100,000	24,664	25,466
Time - other	44,821	57,298
Total	$ 317,631	$ 311,875

The scheduled maturities of time deposits at December 31, 2015 are as follows:

2016	$ 28,223
2017	12,974
2018	11,069
2019	8,565
2020	7,601
Thereafter	1,053
Total	$ 69,485

Time deposits of $100,000 or more totaled $24,664 and $25,466 at December 31, 2015 and 2014, respectively. Interest expense related to these deposits was $352 and $366 in 2015 and 2014, 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,	
	2015	2014
Amount outstanding at year-end	$ -	$ 6,837
Average interest rate at year-end	-	0.15%
Maximum amount outstanding at any month-end	$ 6,111	$ 7,409
Average amount outstanding	$ 4,134	$ 6,077
Average interest rate	0.25%	0.16%

There were no investment securities pledged to secure repurchase agreements at December 31, 2015. Investment securities with amortized costs and fair values of $7,670 and $7,780, respectively, at December 31, 2014 were pledged to secure repurchase agreements.

The Bank has the availability of Federal funds credit lines of $5,500. There was no outstanding balance on the line at December 31, 2015 or 2014.

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 $143,839, 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 1.81% to 5.50% per annum and mature at various dates through the year 2020.

The following table summarizes the maturities of borrowed funds at December 31, 2015:

2016	$ 10,512
2017	79
2018	-
2019	-
2020	10,000
Total	$ 20,591

Note 11 – Income Taxes

The components of applicable income taxes are as following:

	Years Ended December 31,	
	2015	2014
Current payable	$ 1,101	$ 996
Deferred provision	(40)	(147)
Provision for income taxes	$ 1,061	$ 849

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,	
	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 1,023	$ 995
Deferred expenses	586	522
Deferred security losses	33	33
Total	1,642	1,550
Deferred tax liabilities:		
Premises and equipment	240	192
Securities discount accretion	26	20
Investment in limited partnership	18	20
Unrealized holding gain on available-for-sale securities	549	645
Total	833	877
Deferred tax asset, net	$ 809	$ 673

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

	Years Ended December 31,			
	2015		2014	
	Amount	%	Amount	%
Provision at statutory rate	$ 1,475	34.0	$ 1,259	34.0
Tax-exempt income	(399)	(9.2)	(398)	(10.7)
Nondeductible interest expense	9	0.2	9	0.2
Other items	(25)	(0.6)	(21)	(0.6)
Total	$ 1,060	24.4	$ 849	22.9

Note 12 – Commitments and Contingencies

The Bank leases facilities and office equipment under noncancellable operating leases which expire in various years through 2044. The minimum annual rental commitments under these leases at December 31, 2015 are as follows:

2016	$	59
2017		48
2018		18
2019		4
2020		3
Thereafter		114
Total	$	246

The total rental expense for these operating leases in 2015 and 2014 amounted to $65 and $128, 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, which are matched by the Company 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 $142 and $113 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the cash surrender value of these policies was $5,454 and $5,296, respectively.

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 2015 and 660 shares in 2014. At December 31, 2015, 17,274 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
2015	$ 14,838	$ 10,675	$ 7,767	$ 17,746
2014	$ 17,177	$ 6,431	$ 8,770	$ 14,838

The Company held related party deposits of $7,617 and $5,529 at December 31, 2015 and 2014, respectively.

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 leased the Williamsport community banking office building from a partnership owned by two members of the Company's Board of Directors. The Bank leased the Jersey Shore and Newberry community banking offices from a partnership owned by three members of the Company's Board of Directors. In April 2014, the Bank purchased its community banking office buildings in Williamsport, Jersey Shore and Newberry for a total of $3,375. Total rent expense under these lease agreements amounted to $45 and $108 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 is as follows:

	2015	2014
Components of other comprehensive income:		
Unrealized holding (losses) gains arising during the year	$ (110)	$ 1,863
Reclassification adjustment for investment securities:		
Gains included in net income during the year	(172)	(86)
Net unrealized (losses) gains	(282)	1,777
Tax effect	96	(604)
Other comprehensive income	$ (186)	$ 1,173

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, 2015 and 2014 are as follows:

	2015	2014
Commitments to extend credit	$ 9,285	$ 4,926
Unfunded commitments under lines of credit	$ 61,544	$ 58,687
Standby letters of credit	$ 1,819	$ 1,562

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 and Securities. 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, Common Equity 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, 2015 and 2014, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015 and 2014, the most recent notification from the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking and Securities, 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 ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categorization.

Note 18 – Regulatory Matters - (Continued)

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, 2015						
Total Capital (to Risk-Weighted Assets)						
Company	$ 36,935	13.4%	$ 21,988	8.0%	N/A	N/A
Bank	$ 35,266	13.1%	$ 21,477	8.0%	$26,846	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$ 33,710	12.3%	$ 16,491	6.0%	N/A	N/A
Bank	$ 32,257	12.0%	$ 16,108	6.0%	$21,477	8.0%
Common Equity Tier 1(to Risk-Weighted Assets)						
Company	$ 33,710	12.3%	$ 12,368	4.5%	N/A	N/A
Bank	$ 32,257	12.0%	$ 12,081	4.5%	$17,450	6.5%
Tier 1 Capital (to Average Assets)						
Company	$ 33,710	9.0%	$ 14,972	4.0%	N/A	N/A
Bank	$ 32,257	8.6%	$ 14,939	4.0%	$18,673	5.0%

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital (to Risk-Weighted Assets)						
Company	$ 34,679	14.0%	$ 19,753	8.0%	N/A	N/A
Bank	$ 33,063	13.5%	$ 19,650	8.0%	$24,562	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$ 31,527	12.8%	$ 9,877	4.0%	N/A	N/A
Bank	$ 30,136	12.3%	$ 9,825	4.0%	$14,737	6.0%
Tier 1 Capital (to Average Assets)						
Company	$ 31,527	8.7%	$ 14,552	4.0%	N/A	N/A
Bank	$ 30,136	8.3%	$ 14,520	4.0%	$18,150	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 2016 may not exceed Bank net income for 2016 plus $4,237. 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 $21,251 at December 31, 2015, 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, 2015, the regulatory lending limit amounted to approximately $5,290.

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, 2015 and 2014, 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, 2015 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	$ -	$ 10,256	$ -	$ 10,256
States and political subdivisions	-	33,901	-	33,901
Corporate securities	-	4,999	-	4,999
Mortgage-backed securities	-	26,585	-	26,585
Equity securities	1,438	-	-	1,438
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 3,303	$ 3,303
Restricted stock	-	-	1,345	1,345

	Fair Value Measurements at December 31, 2014 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	$ -	$ 14,026	$ -	$ 14,026
States and political subdivisions	-	28,611	-	28,611
Corporate securities	-	3,998	-	3,998
Mortgage-backed securities	-	30,228	-	30,228
Equity securities	1,443	-	-	1,443
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	$ -	$ -	$ 2,532	$ 2,532
Restricted stock	-	-	968	968

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 $3,668, with an allowance for loan and lease losses of approximately $365 for the year ended December 31, 2015 and approximately $2,861, with an allowance for loan and lease losses of approximately $329 for the year ended December 31, 2014.

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

	December 31, 2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	$ 6,738	$ 6,738	$ -	$ -	$ 6,738
Investment securities	77,304	1,438	75,866	-	77,304
Loans and leases, net	269,939	-	-	266,839	266,839
Accrued interest receivable	1,092	-	1,092	-	1,092
Cash surrender value of life insurance	7,129	-	7,129	-	7,129
Restricted stock	1,345	-	-	1,345	1,345
FINANCIAL LIABILITIES					
Deposits	$ 317,631	$ -	$ 317,846	$ -	$ 317,846
Borrowed funds	20,591	-	20,183	-	20,183
Accrued interest payable	126	-	126	-	126

	December 31, 2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	$ 17,674	$ 17,674	$ -	$ -	$ 17,674
Investment securities	78,431	1,443	76,987	-	78,430
Loans and leases, net	247,697	-	-	245,113	245,113
Accrued interest receivable	1,003	-	1,003	-	1,003
Cash surrender value of life insurance	6,930	-	6,930	-	6,930
Restricted stock	968	-	-	968	968
FINANCIAL LIABILITIES					
Deposits	$ 311,875	$ -	$ 312,597	$ -	$ 312,597
Borrowed funds	17,439	-	17,420	-	17,420
Accrued interest payable	136	-	136	-	136

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, 2015 and December 31, 2014 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, 2015 and 2014. 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, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 158	$ 126
Investment in subsidiaries	34,596	32,634
Other assets	22	19
Total Assets	$ 34,776	$ 32,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' Equity	$ 34,776	$ 32,779
Total Liabilities and Stockholders' Equity	$ 34,776	$ 32,779

STATEMENTS OF INCOME	Years Ended December 31, 2015	Years Ended December 31, 2014
Dividends from Subsidiaries	$ 1,174	$ 719
Equity in undistributed earnings of subsidiaries	2,149	2,170
Expenses	(45)	(37)
Net Income	$ 3,278	$ 2,852

STATEMENTS OF CASH FLOWS	Years Ended December 31, 2015	Years Ended December 31, 2014
Operating Activities:		
Net income	$ 3,278	$ 2,852
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiaries	(2,149)	(2,170)
(Increase) decrease in other assets	(3)	(5)
Net cash provided by operating activities	1,126	677
Investing Activities:		
Investment in subsidiary	-	-
Net cash used by investing activities	-	-
Financing Activities:		
Issuance of common stock	80	196
Dividends paid	(1,174)	(1,161)
Net cash used by financing activities	(1,094)	(965)
Increase (decrease) in cash and cash equivalents	32	(288)
Cash and cash equivalents at January 1	126	414
Cash and cash equivalents at December 31	$ 158	$ 126

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WOODLANDS
FINANCIAL SERVICES
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WOODLANDS FINANCIAL SERVICES COMPANY COMMON STOCK

is traded on the OTCQX market under the symbol of WDFN
The broker listed below is the designated corporate broker for
Woodlands Financial Services Company:

Boenning & Scattergood, Inc.

9922 Brewster Lane
Powell, OH 43065
(800) 326-8113

REGISTRAR AND TRANSFER AGENT:

Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
855-449-0975 or 720-378-5970
shareholder@broadridge.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

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

JERSEY SHORE
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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

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