PENNS WOODS BANCORP INC
Form 10-K
March 13, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from to

Commission file number 0-17077

PENNS WOODS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	**Name of each exchange which registered**
Common Stock, par value $8.33 per share	The NASDAQ Stock Market LLC

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

None

(Title of Class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant **$152,782,420 at June 30, 2012.**

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

Class	**Outstanding at March 1, 2013**
Common Stock, $8.33 Par Value	3,838,807 Shares

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement prepared in connection with its annual meeting of shareholders to be held on May 23, 2013 are incorporated by reference in Part III hereof.

INDEX

Table of Contents

PART I

ITEM 1 BUSINESS

A. General Development of Business and History

On January 7, 1983, Penns Woods Bancorp, Inc. (the Company) was incorporated under the laws of the Commonwealth of Pennsylvania as a bank holding company. The Jersey Shore State Bank, a Pennsylvania state-charted bank, (the Bank) became a wholly owned subsidiary of the Company and each outstanding share of Bank common stock was converted into one share of Company common stock. This transaction was approved by the shareholders of the Bank on April 11, 1983 and was effective on July 12, 1983. The Company s two other wholly-owned subsidiaries are Woods Real Estate Development Company, Inc. and Woods Investment Company, Inc. The Company s business has consisted primarily of managing and supervising the Bank, and its principal source of income has been dividends paid by the Bank and Woods Investment Company, Inc.

The Bank is engaged in commercial and retail banking which includes the acceptance of time, savings, and demand deposits, the funding of commercial, consumer, and mortgage loans, and safe deposit services. Utilizing a branch office network, ATMs, internet, and telephone banking delivery channels, the Bank delivers its products and services to the communities it resides in.

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

Neither the Company nor the Bank anticipates that compliance with environmental laws and regulations will have any material effect on capital expenditures, earnings, or on its competitive position. The Bank is not dependent on a single customer or a few customers, the loss of whom would have a material effect on the business of the Bank.

The Bank employed 194 persons as of December 31, 2012 in either a full-time or part-time capacity. The Company does not have any employees. The principal officers of the Bank also serve as officers of the Company.

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

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

B. Regulation and Supervision

The Company is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the BHCA) and to supervision and examination by the Board of Governors of the Federal Reserve System (the FRB). The Bank is also subject to the supervision and examination by the Federal Deposit Insurance Corporation (the FDIC), as its primary federal regulator and as the insurer of the Bank s deposits. The Bank is also regulated and examined by the Pennsylvania Department of Banking (the Department).

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

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

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

Table of Contents

Bank holding companies are required to comply with the FRB s risk-based capital guidelines. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets. Currently, the required minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders equity, less certain intangible assets. The remainder (Tier 2 capital) may consist of certain preferred stock, a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, 45% of net unrealized gains on marketable equity securities, and a limited amount of the general loan loss allowance. The risk-based capital guidelines are required to take adequate account of interest rate risk, concentration of credit risk, and risks of nontraditional activities.

In addition to the risk-based capital guidelines, the FRB requires each bank holding company to comply with the leverage ratio, under which the bank holding company must maintain a minimum level of Tier 1 capital to average total consolidated assets of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are expected to maintain a leverage ratio of at least 4% to 5%. The Bank is subject to similar capital requirements adopted by the FDIC.

Dividends

Federal and state laws impose limitations on the payment of dividends by the Bank. The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by the Bank to its additional paid-in capital.

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

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

It is also the policy of the FRB that a bank holding company generally only pay dividends on common stock out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with a bank holding company s capital needs, asset quality, and overall financial condition. In the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios at the 100% level unless both asset quality and capital are very strong. A bank holding company also should not maintain a dividend level that places undue pressure on the capital of such institution s subsidiaries, or that may undermine the bank holding company s ability to serve as a source of strength for such subsidiaries.

C. Regulation of the Bank

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

Prompt Corrective Action

The FDIC has specified the levels at which an insured institution will be considered well-capitalized, adequately capitalized, undercapitalized, and critically undercapitalized. In the event an institution s capital deteriorates to the undercapitalized category or below, the Federal Deposit Insurance Act (the FDIA) and FDIC regulations prescribe an increasing amount of regulatory intervention, including: (1) the institution of a capital restoration plan by a bank and a guarantee of the plan by a parent institution and liability for civil money damages for failure to fulfill its commitment on that guarantee; and (2) the placement of a hold on increases in assets, number of branches, or lines of business. If capital has reached the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management and (in critically undercapitalized situations) appointment of a

Table of Contents

receiver. For well-capitalized institutions, the FDIA provides authority for regulatory intervention where the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity.

Deposit Insurance

The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution was assessed is based upon a variety of factors that included the balance of insured deposits as well as the degree of risk the institution possessed to the insurance fund. As a result of the enactment of the Emergency Economic Stabilization Act of 2008, the FDIC temporarily increased the amount of deposits it insures from $100,000 to $250,000. This increase has been made permanent. The Bank paid an insurance premium into the DIF based on the quarterly average daily deposit liabilities net of certain exclusions. The FDIC used a risk-based premium system that assessed higher rates on those institutions that posed a greater risk to the DIF. The FDIC placed each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Subsequently, the rate for each institution within a risk category was adjusted depending upon different factors that either enhance or reduce the risk the institution poses to the DIF, including the unsecured debt, secured liabilities and brokered deposits related to each institution. Finally, certain risk multipliers were applied to the adjusted assessment.

Beginning with the second quarter of 2011, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the assessment base that the FDIC uses to calculate assessment premiums became a bank s average assets minus average tangible equity. As the asset base of the banking industry is larger than the deposit base, the range of assessment rates will change to a low or 2.5 basis points to a high of 45 basis points, per $100 of assets; however, the dollar amount of the actual premiums is expected to be roughly the same.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the Deposit Insurance Fund to achieve a reserve ratio of 1.35% of Insurance Fund insured deposits by September 2020. In addition, the FDIC has established a designated reserve ratio of 2.0%, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35% ratio, the FDIC is required to implement assessment formulas that charge banks over $10 billion in asset size more than banks under that size. Those new formulas began in the second quarter of 2011, but did not affect the Bank. Under the Dodd-Frank Act, the FDIC is authorized to make reimbursements from the insurance fund to banks if the reserve ratio exceeds 1.50%, but the FDIC has adopted the designated reserve ratio of 2.0% and has announced that any reimbursements from the fund are indefinitely suspended.

On November 12, 2009, the FDIC approved a rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution s risk-based deposit insurance assessments will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Consequently, the Company s prepayment of DIF premiums made in December 2009 resulted in a prepaid asset of $812,000 at December 31, 2012.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (the FHLB), which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. At December 31, 2012, the Bank had $92,514,000 in FHLB advances.

As a member, the Bank is required to purchase and maintain stock in the FHLB in an amount equal to the greater of 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its outstanding advances from the FHLB. At December 31, 2012, the Bank had $5,251,000 in stock of the FHLB which was in compliance with this requirement.

Other Legislation

The Dodd-Frank Act was enacted on July 21, 2010. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time.

Table of Contents

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Under the Dodd-Frank Act, the assessment base will no longer be an institution s deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008.

Bank and thrift holding companies with assets of less than $15 billion as of December 31, 2009, such as the Company, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than $500 million) after May 19, 2010, will no longer count as Tier 1 capital. Trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act requires publicly traded companies to give shareholders a non-binding vote on executive compensation and so-called golden parachute arrangements, and may allow greater access by shareholders to the company s proxy material by authorizing the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company s proxy materials. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time the specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions operations is presently unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

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

Congress is often considering some financial industry legislation, and the federal banking agencies routinely propose new regulations. The Company cannot predict how any new legislation, or new rules adopted by federal or state banking agencies, may affect the business of the Company and its subsidiaries in the future. Given that the financial industry remains under stress and severe scrutiny, and given that the U.S. economy has not yet fully recovered to pre-crisis levels of activity, the Company expects that there will be significant legislation and regulatory actions that may materially affect the banking industry for the foreseeable future.

Table of Contents

Environmental Laws

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

Effect of Government Monetary Policies

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

DESCRIPTION OF BANK

History and Business

The Bank was incorporated under the laws of the Commonwealth of Pennsylvania as a state bank in 1934 and became a wholly owned subsidiary of the Company on July 12, 1983.

As of December 31, 2012, the Bank had total assets of $848,446,000; total shareholders equity of $79,653,000; and total deposits of $647,814,000. The Bank s deposits are insured by the FDIC for the maximum amount provided under current law.

The Bank engages in business as a commercial bank, doing business at locations in Lycoming, Clinton, Centre, and Montour Counties, Pennsylvania. The Bank offers insurance, securities brokerage services, annuity and mutual fund investment products, and financial planning through the M Group.

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

The Bank s loan portfolio mix can be classified into three principal categories. These are commercial and agricultural, real estate, and consumer. Real estate loans can be further segmented into residential, commercial, and construction. Qualified borrowers are defined by policy and our underwriting standards. Owner provided equity requirements range from 0% to 30% with a first lien status required. Terms are generally restricted to between 10 and 30 years with the exception of construction and land development, which are limited to one to five years. Real estate appraisals, property construction verifications, and site visitations comply with policy and industry regulatory standards.

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

Agricultural loans for the purchase or improvement of real estate must meet the Bank s real estate underwriting criteria. Agricultural loans made for the purchase of equipment are usually payable in five years, but never more than ten, depending upon the useful life of the purchased asset. Minimum borrower equity ranges from 0% to 20% depending on the purpose. Livestock financing criteria depends upon the nature of the operation. Agricultural loans are also made for crop production purposes. Such loans are structured to repay within the production cycle and not carried over into a subsequent year.

Commercial loans are made for the acquisition and improvement of real estate, purchase of equipment, and for working capital purposes on a seasonal or revolving basis. General purpose working capital loans are also available with repayment expected within one year. Equipment loans are generally amortized over three to ten years. Insurance coverage with the Bank as loss payee is required, especially in the case where the equipment is rolling stock. It is also a general policy to collateralize non-real

Table of Contents

estate loans with the asset purchased and, dependant upon loan terms, junior liens are filed on other available assets. Financial information required on all commercial mortgages includes the most current three years balance sheets and income statements and projections on income to be developed through the project. In the case of corporations and partnerships, the principals are often asked to personally guaranty the entity s debt.

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

Letter of Credit availability is usually limited to standbys where the customer is well known to the Bank. The credit criteria is the same as that utilized in making a direct loan. Collateral is obtained in most cases.

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

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

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

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

The Bank has a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors, excluding public entities that account for approximately 15% of total deposits. Although the Bank has regular opportunities to bid on pools of funds of $100,000 or more in the hands of municipalities, hospitals, and others, it does not rely on these monies to fund loans or intermediate or longer-term investments.

The Bank has not experienced any significant seasonal fluctuations in the amount of its deposits.

Supervision and Regulation

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

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

Table of Contents

ITEM 1A RISK FACTORS

The following sets forth several risk factors that are unique to the Company.

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

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

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

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

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance.

Despite our underwriting criteria, we may experience loan delinquencies and losses. In order to absorb losses associated with nonperforming loans, we maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Determination of the allowance inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We may be required to increase our allowance for loan losses for any of several reasons. Federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and may materially affect our results of operations in the period in which the allowance is increased.

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

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

Competition may decrease our growth or profits.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, leasing companies, insurance companies, and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Our competitors may have greater resources, higher lending limits, or larger

Table of Contents

branch systems than we do. Accordingly, they may be able to offer a broader range of products and services as well as better pricing for those products and services than we can.

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

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

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

We may be adversely affected by government regulation.

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

In response to the financial crisis that commenced in 2008, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the FDIC has taken actions to increase insurance coverage on deposit accounts. The Dodd-Frank Act provides for the creation of a consumer protection division at the Board of Governors of the Federal Reserve System that will have broad authority to issue regulations governing the services and products we provide consumers. This additional regulation could increase our compliance costs and otherwise adversely impact our operations. That legislation also contains provisions that, over time, could result in higher regulatory capital requirements (including through the implementation of the capital standards of Basel III) and loan loss provisions for the Bank, and may increase interest expense due to the ability granted in July 2011 to pay interest on all demand deposits. In addition, there have been proposals made by members of Congress and others that would reduce the amount delinquent borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution   s ability to foreclose on mortgage collateral. These proposals could result in credit losses or increased expense in pursuing our remedies as a creditor. Recent regulatory changes impose limits on our ability to charge overdraft fees, which may decrease our non-interest income as compared to more recent prior periods.

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

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

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

Environmental liability associated with lending activities could result in losses.

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

Table of Contents

of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

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

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

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

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

The merger agreement with Luzerne National Bank Corporation may be terminated in accordance with its terms and the merger may be terminated, or we may fail to realize all of the anticipated benefits of the merger.

The merger agreement with respect to the pending merger with Luzerne National Bank Corporation is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include the approval of the merger agreement by shareholders of both the Company and Luzerne, regulatory approvals, absence of orders prohibiting the completion of the merger, and the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements as of the closing date, and completion of the merger by July 31, 2013. The conditions to closing of the merger may not be fulfilled and the merger may not be completed. If completed, the success of the merger will depend, in part, on the Company s ability to realize the anticipated benefits and cost savings from combining the businesses of the Company and Luzerne. To realize these anticipated benefits and cost savings, however, the businesses of the Company and Luzerne must be successfully combined. If the Company is not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all, or may take longer to realize than expected. If the merger is not completed or if the Company fails to realize the anticipated benefits of the merger, the Company s results of operations could be adversely affected.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 **PROPERTIES**

The Company owns and leases its properties. Listed herewith are the locations of properties owned or leased as of December 31, 2012, in which the banking offices are located; all properties are in good condition and adequate for the Bank s purposes:

Office		Address		Ownership
Main		115 South Main Street		Owned
		P.O. Box 5098		
		Jersey Shore, Pennsylvania 17740		
Bridge Street		112 Bridge Street		Owned
		Jersey Shore, Pennsylvania 17740		
DuBoistown		2675 Euclid Avenue		Owned
		Williamsport, Pennsylvania 17702		
Williamsport		300 Market Street		Owned
		P.O. Box 967		
		Williamsport, Pennsylvania 17703-0967		
Montgomery		9094 Rt. 405 Highway		Owned
		Montgomery, Pennsylvania 17752		
Lock Haven		4 West Main Street		Owned
		Lock Haven, Pennsylvania 17745		

Table of Contents

Mill Hall	(Inside Wal-Mart), 173 Hogan Boulevard Mill Hall, Pennsylvania 17751	Under Lease
Spring Mills	3635 Penns Valley Road, P.O. Box 66 Spring Mills, Pennsylvania 16875	Owned
Centre Hall	2842 Earlystown Road Centre Hall, Pennsylvania 16828	Land Under Lease
Zion	100 Cobblestone Road Bellefonte, Pennsylvania 16823	Under Lease
State College	2050 North Atherton Street State College, Pennsylvania 16803	Land Under Lease
Montoursville	820 Broad Street Montoursville, Pennsylvania 17754	Under Lease
Danville	606 Continental Boulevard Danville, Pennsylvania 17821	Under Lease
The M Group, Inc. D/B/A The Comprehensive Financial Group	705 Washington Boulevard Williamsport, Pennsylvania 17701	Under Lease

ITEM 3 LEGAL PROCEEDINGS

The Company is subject to lawsuits and claims arising out of its business. In the opinion of management, after review and consultation with counsel, any proceedings that may be assessed will not have a material adverse effect on the consolidated financial position of the Company.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The Company s common stock is listed on the NASDAQ Global Select Market under the symbol PWOD . The following table sets forth (1) the quarterly high and low close prices for a share of the Company s Common Stock during the periods indicated, and (2) quarterly dividends on a share of the common stock with respect to each quarter since January 1, 2010. The following quotations represent prices between buyers and sellers and do not include retail markup, markdown or commission. They may not necessarily represent actual transactions.

Table of Contents

	Price Range				Dividends
	High		Low		Declared
2012					
First quarter	$	41.67	$	36.20	$ 0.47
Second quarter		39.90		36.72	0.47
Third quarter		44.60		37.78	0.47
Fourth quarter		45.27		37.16	0.47
2011					
First quarter	$	40.08	$	35.46	$ 0.46
Second quarter		39.30		33.33	0.46
Third quarter		36.56		31.07	0.46
Fourth quarter		39.30		32.01	0.46
2010					
First quarter	$	34.03	$	30.04	$ 0.46
Second quarter		34.50		26.76	0.46
Third quarter		33.15		29.41	0.46
Fourth quarter		41.26		31.97	0.46

The Bank has paid cash dividends since 1941. The Company has paid dividends since the effective date of its formation as a bank holding company. It is the present intention of the Company s Board of Directors to continue the dividend payment policy; however, further dividends must necessarily depend upon earnings, financial condition, appropriate legal restrictions, and other factors relevant at the time the Board of Directors of the Company considers dividend policy. Cash available for dividend distributions to shareholders of the Company primarily comes from dividends paid by the Bank to the Company. Therefore, the restrictions on the Bank s dividend payments are directly applicable to the Company. See also the information appearing in Note 19 to Notes to Consolidated Financial Statements for additional information related to dividend restrictions.

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

As of March 1, 2013, the Company had approximately 1,247 shareholders of record.

Following is a schedule of the shares of the Company s common stock purchased by the Company during the fourth quarter of 2012.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1 - October 31, 2012)		$		76,776
Month #2 (November 1 - November 30, 2012)				76,776

Month #3 (December 1 - December 31, 2012)	76,776

Set forth below is a line graph comparing the yearly dollar changes in the cumulative shareholder return on the Company s common stock against the cumulative total return of the S&P 500 Stock Index, NASDAQ Bank Index, and NASDAQ Composite for the period of five fiscal years assuming the investment of $100.00 on December 31, 2007 and assuming the reinvestment of dividends. The shareholder return shown on the graph below is not necessarily indicative of future performance.

Table of Contents

	Period Ending					
Index	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**
Penns Woods Bancorp, Inc.	100.00	75.37	113.04	146.59	150.26	152.18
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
NASDAQ Bank	100.00	78.46	65.67	74.97	67.10	79.64

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth certain financial data for each of the years in the five-year period ended December 31, 2012:

Table of Contents

(In Thousands, Except Per Share Data Amounts)	2012	2011	2010	2009	2008
Consolidated Statement of Income Data:					
Interest income	$ 37,107	$ 36,376	$ 36,362	$ 36,191	$ 36,108
Interest expense	6,211	7,656	9,868	12,398	14,832
Net interest income	30,896	28,720	26,494	23,793	21,276
Provision for loan losses	2,525	2,700	2,150	917	375
Net interest income after provision for loan losses	28,371	26,020	24,344	22,876	20,901
Noninterest income	10,100	8,219	7,459	2,287	5,456
Noninterest expense	22,023	19,964	19,492	19,812	17,949
Income before income tax provision (benefit)	16,448	14,275	12,311	5,351	8,408
Income tax provision (benefit)	2,598	1,913	1,382	(742)	405
Net income	$ 13,850	$ 12,362	$ 10,929	$ 6,093	$ 8,003
Consolidated Balance Sheet at End of Period:					
Total assets	$ 856,535	$ 763,953	$ 691,688	$ 676,204	$ 652,803
Loans	512,232	435,959	415,557	405,529	381,478
Allowance for loan losses	(7,617)	(7,154)	(6,035)	(4,657)	(4,356)
Deposits	642,026	581,664	517,508	497,287	421,368
Long-term debt	76,278	61,278	71,778	86,778	86,778
Shareholders equity	93,726	80,460	66,620	66,916	61,027
Per Share Data:					
Earnings per share - basic	$ 3.61	$ 3.22	$ 2.85	$ 1.59	$ 2.07
Earnings per share - diluted	3.61	3.22	2.85	1.59	2.07
Cash dividends declared	1.88	1.84	1.84	1.84	1.84
Book value	24.42	20.97	17.37	17.45	15.93
Number of shares outstanding, at end of period	3,838,516	3,837,081	3,835,157	3,834,114	3,831,500
Average number of shares outstanding - basic	3,837,751	3,836,036	3,834,255	3,832,789	3,859,724
Selected Financial Ratios:					
Return on average shareholders equity	15.36%	16.60%	15.30%	9.66%	12.02%
Return on average total assets	1.70%	1.69%	1.56%	0.92%	1.27%
Net interest margin	4.45%	4.70%	4.57%	4.40%	4.14%
Dividend payout ratio	52.08%	57.10%	64.56%	115.74%	88.67%
Average shareholders equity to average total assets	11.04%	10.18%	10.19%	9.50%	10.53%
Loans to deposits, at end of period	79.78%	74.95%	80.30%	81.55%	90.53%

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

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is determined by calculating the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to taxable equivalents based on the marginal corporate federal tax rate of 34%. The tax equivalent adjustments to net interest income for 2012, 2011, and 2010 were $3,203,000,

$3,122,000, and $3,018,000, respectively.

2012 vs. 2011

Reported net interest income increased $2,176,000 or 7.58% to $30,896,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011, although the yield on earning assets decreased to 5.25% from 5.82%. On a tax equivalent basis, the change in net interest income was an increase of $2,257,000 or 7.09% to $34,099,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011. Total interest income increased $731,000 as the impact of growth in the average balance of the loan and investment portfolios was offset by a decline in the portfolio yields caused by the prolonged low interest rate cycle enacted by the Federal Open Markets Committee (FOMC). Interest income recognized on the loan portfolio increased $185,000 due to a $44,768,000 increase in the average balance in the loan portfolio which was partially offset by interest rates repricing downward. Interest and dividend income generated from the investment portfolio and interest bearing cash deposits increased $546,000. The increase was driven by portfolio growth, which more than compensated for a decrease in yield of 70 basis points (bp).

Interest expense decreased $1,445,000 to $6,211,000 for the year ended December 31, 2012 compared to 2011. Leading the decrease in interest expense was a decline of 20.17% or $921,000 related to deposits. The FOMC actions noted previously together with a strategic focus on core deposits led to a 28 bp decline in the rate paid on interest-bearing deposits from 0.99% for the year ended December 31, 2011 to 0.71% for the year ended December 31, 2012. Leading the significant decline in interest-bearing deposit expense was a decline in the cost of time deposits of 33 bp s and a decline in the cost of money market deposits of 37 bp s. The overall growth in average deposit balances of $69,838,000 allowed for a reduction in average long-term borrowings of $4,885,000 while funding the growth in the average loans of $44,768,000.

2011 vs. 2010

Reported net interest income increased $2,226,000 or 8.40% to $28,720,000 for the year ended December 31, 2011 compared to the year ended December 31, 2010, although the yield on earning assets decreased to 5.82% from 6.08% respectively. On a tax equivalent basis, the change in net interest income was an increase of $2,330,000 or 7.90% to $31,842,000 for the year ended December 31, 2011 compared to the year ended December 31, 2010. Total interest income remained steady as the impact of growth in the average balance of the loan and investment portfolios was offset by a decline in the portfolio yields caused by the prolonged low interest rate cycle enacted by the Federal Open Markets Committee (FOMC). Interest income recognized on the loan portfolio decreased $326,000 as a portion of the portfolio repriced downward due to the FOMC actions that have maintained the prime rate at 3.25% dictating that new loan generation occurred at lower rates than the existing portfolio. Interest and dividend income generated from the investment portfolio and interest bearing cash deposits increased $340,000. The increase was driven by portfolio growth, which more than compensated for a decrease in yield of 35 basis points (bp).

Interest expense decreased $2,212,000 to $7,656,000 for the year ended December 31, 2011 compared to 2010. Leading the decrease in interest expense was a decline of 24.59% or $1,489,000 related to deposits. The FOMC actions noted previously together with a strategic focus on core deposits led to a 39 bp decline in the rate paid on interest-bearing deposits from 1.38% for the year ended December 31, 2010 to 0.99% for the year ended December 31, 2011. Leading the significant decline in interest-bearing deposit expense was a decline in the cost of time deposits of 45 bp s. The overall growth in average deposit balances of $37,344,000 allowed for a reduction in average long-term borrowings of $14,022,000 leading to a reduction in borrowed funds interest expense of $723,000.

AVERAGE BALANCES AND INTEREST RATES

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

Table of Contents

(In Thousands)	2012 Average Balance	2012 Interest	2012 Average Rate	2011 Average Balance	2011 Interest	2011 Average Rate	2010 Average Balance	2010 Interest	2010 Average Rate
Assets:									
Tax-exempt loans	$ 23,857	$ 1,195	5.01%	$ 20,267	$ 1,213	5.99%	$ 18,287	$ 1,212	6.63%
All other loans	446,569	24,583	5.50%	405,391	24,386	6.02%	397,766	24,713	6.21%
Total loans	470,426	25,778	5.48%	425,658	25,599	6.01%	416,053	25,925	6.23%
Taxable securities	158,765	6,298	3.97%	130,647	5,926	4.54%	113,714	5,784	5.09%
Tax-exempt securities	131,637	8,226	6.25%	113,184	7,970	7.04%	108,658	7,665	7.05%
Total securities	290,402	14,524	5.00%	243,831	13,896	5.70%	222,372	13,449	6.05%
Interest-bearing deposits	6,621	8	0.12%	9,074	3	0.03%	8,782	6	0.07%
Total interest-earning assets	767,449	40,310	5.25%	678,563	39,498	5.82%	647,207	39,380	6.08%
Other assets	49,070			53,207			53,734		
Total assets	$ 816,519			$ 731,770			$ 700,941		
Liabilities and shareholders equity:									
Savings	$ 78,724	65	0.08%	$ 70,178	121	0.17%	$ 64,477	183	0.28%
Super Now deposits	118,515	610	0.51%	88,556	473	0.53%	65,080	385	0.59%
Money market deposits	145,339	734	0.51%	121,458	1,063	0.88%	100,112	1,167	1.17%
Time deposits	173,274	2,236	1.29%	179,336	2,909	1.62%	208,274	4,320	2.07%
Total interest-bearing deposits	515,852	3,645	0.71%	459,528	4,566	0.99%	437,943	6,055	1.38%
Short-term borrowings	20,961	137	0.65%	18,117	202	1.11%	15,371	265	1.72%
Long-term borrowings, FHLB	64,994	2,429	3.68%	69,879	2,888	4.08%	83,901	3,548	4.17%
Total borrowings	85,955	2,566	2.94%	87,996	3,090	3.47%	99,272	3,813	3.79%
Total interest-bearing liabilities	601,807	6,211	1.03%	547,524	7,656	1.39%	537,215	9,868	1.83%
Demand deposits	113,431			99,917			84,158		
Other liabilities	11,126			9,852			8,118		
Shareholders equity	90,155			74,477			71,450		
Total liabilities and shareholders equity	$ 816,519			$ 731,770			$ 700,941		
Interest rate spread			4.22%			4.43%			4.25%
Net interest income/margin		$ 34,099	4.45%		$ 31,842	4.70%		$ 29,512	4.57%

- Fees on loans are included with interest on loans as follows: 2012 - $356,000; 2011 - $306,000; 2010 - $439,000.

- Information on this table has been calculated using average daily balance sheets to obtain average balances.

- Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

- Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 34% tax rate.

Reconcilement of Taxable Equivalent Net Interest Income

(In Thousands)	2012	2011	2010
Total interest income	$ 37,107	$ 36,376	$ 36,362
Total interest expense	6,211	7,656	9,868
Net interest income	30,896	28,720	26,494
Tax equivalent adjustment	3,203	3,122	3,018
Net interest income (fully taxable equivalent)	$ 34,099	$ 31,842	$ 29,512

Table of Contents

Rate/Volume Analysis

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

	Year Ended December 31,					
	2012 vs. 2011 Increase (Decrease) Due To			2011 vs. 2010 Increase (Decrease) Due To		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$ 93	$ (111)	$ (18)	$ 124	$ (123)	$ 1
Loans	1,236	(1,039)	197	457	(784)	(327)
Taxable investment securities	701	(329)	372	807	(665)	142
Tax-exempt investment securities	677	(421)	256	318	(13)	305
Interest-bearing deposits		5	5		(3)	(3)
Total interest-earning assets	2,707	(1,895)	812	1,706	(1,588)	118
Interest expense:						
Savings deposits	1	(57)	(56)	15	(77)	(62)
Super Now deposits	139	(2)	137	127	(39)	88
Money market deposits	138	(467)	(329)	221	(325)	(104)
Time deposits	(95)	(578)	(673)	(369)	(1,042)	(1,411)
Short-term borrowings	2	(67)	(65)	39	(102)	(63)
Long-term borrowings, FHLB	(100)	(359)	(459)	(592)	(68)	(660)
Total interest-bearing liabilities	85	(1,530)	(1,445)	(559)	(1,653)	(2,212)
Change in net interest income	$ 2,622	$ (365)	$ 2,257	$ 2,265	$ 65	$ 2,330

PROVISION FOR LOAN LOSSES

2012 vs 2011

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

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

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2012, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review the Bank s loan loss allowance adequacy. The banking regulators could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

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

The allowance for loan losses increased from $7,154,000 at December 31, 2011 to $7,617,000 at December 31, 2012. At December 31, 2012, the allowance for loan losses was 1.49% of total loans compared to 1.64% of total loans at December 31, 2011.

The provision for loan losses totaled $2,525,000 for the year ended December 31, 2012 compared to $2,700,000 for the year ended December 31, 2011. The decrease in the provision was appropriate when considering the gross loan growth of $76,273,000 was concentrated in well collateralized real estate backed loans with the borrowers having strong underlying financial positions. In addition, many of our loan customers are being positively impacted by the economic stimulus being provided by the Marcellus Shale natural gas exploration. Net

Table of Contents

charge-offs of $2,062,000 represented 0.44% of average loans for the year ended December 31, 2012 compared to $1,581,000 and 0.37% for the year ended December 31, 2011. In addition, nonperforming loans decreased $303,000 to $11,706,000 at December 31, 2012 as charge-offs outpaced an increase in construction nonperforming loans. The nonperforming loans are in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses. Internal loan review and analysis, coupled with the ratios noted previously, dictated a decrease in the provision for loan losses. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

2011 vs 2010

The allowance for loan losses increased from $6,035,000 at December 31, 2010 to $7,154,000 at December 31, 2011. At December 31, 2011, the allowance for loan losses was 1.64% of total loans compared to 1.45% of total loans at December 31, 2010.

The provision for loan losses totaled $2,700,000 for the year ended December 31, 2011 compared to $2,150,000 for the year ended December 31, 2010. The increase of the provision was appropriate when considering the gross loan growth experienced during 2011 of $20,402,000 coupled with net charge-offs of $1,581,000 to average loans for the year ended December 31, 2011 of 0.37% compared to $771,000 and 0.16% for the year ended December 31, 2010. In addition, nonperforming loans increased $5,794,000 to $12,009,000 at December 31, 2011 primarily due to several commercial real estate loans that continued to have or developed financial difficulties. The loans are in a secured position and have sureties with a strong underlying financial position. In addition, a specific allowance within the allowance for loan losses has been established for these loans. Continued uncertainty surrounding the economy, internal loan review and analysis, coupled with the ratios noted previously, dictated an increase in the provision for loan losses. The increase did not equate to the increase in charge-offs and nonperforming loans due to the collateral status of the nonperforming loans and overall loan portfolio in general, which limits the loan specific allocation of the allowance for loan losses. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

NON-INTEREST INCOME

2012 vs. 2011

Total non-interest income increased $1,881,000 from the year ended December 31, 2011 to December 31, 2012. Excluding net security gains, non-interest income increased $1,217,000 year over year. Service charges decreased as customers continued to migrate to checking accounts having reduced or no service charges, while overdraft income declined due to a decreased number of overdrafts and a change in the maximum number of overdrafts a customer could incur per day. Earnings on bank-owned life insurance increased due to a non-recurring gain on death benefit recognized in 2012. Insurance commissions increased as the distribution channel continued to expand. Management of The M Group continues to pursue new and build upon current relationships. However, the sales cycle for insurance and investment products can take typically from six months to one year or more to complete. The increase in other income was primarily due to increases in revenues from debit/credit card transactions and merchant card commissions as electronic payment methods continue to gain in popularity and an increasing number of merchants use our merchant card services.

	2012			2011			Change	
(In Thousands)		**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**%**
Service charges	$	1,894	18.75% $	2,021	24.59% $	(127)	(6.28)%
Securities gains, net		1,285	12.72	621	7.56	664	106.92
Bank owned life insurance		670	6.63	599	7.29	71	11.85
Gain on sale of loans		1,386	13.72	1,130	13.75	256	22.65
Insurance commissions		1,357	13.44	933	11.35	424	45.44
Brokerage commissions		912	9.03	997	12.13	(85)	(8.53)
Other		2,596	25.71	1,918	23.33	678	35.35
Total non-interest income	$	10,100	100.00% $	8,219	100.00% $	1,881	22.89%

2011 vs. 2010

Total non-interest income increased $760,000 from the year ended December 31, 2010 to December 31, 2011. Excluding net security gains, non-interest income increased $312,000 year over year. Service charges decreased as customers continued to migrate to checking accounts having reduced or no service charges, while overdraft income declined due to a decreased number of overdrafts. Earnings on bank-owned life insurance decreased due to a non-recurring gain on death benefit recognized in 2010. Insurance and brokerage commissions remained stable as the market for these products begins to rebound. Management of The M Group continues to pursue new and build upon current relationships. However, the sales cycle for insurance and investment products can take typically from six months to one year or more to complete. The increase in other income was primarily due to increases in revenues from debit/credit card transactions and merchant card commissions as electronic payment methods continue to gain in popularity.

Table of Contents

	2011		2010		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$ 2,021	24.59%	$ 2,177	29.19%	$ (156)	(7.17)%
Securities gains, net	621	7.56	173	2.32	448	258.96
Bank owned life insurance	599	7.29	636	8.53	(37)	(5.82)
Gain on sale of loans	1,130	13.75	949	12.72	181	19.07
Insurance commissions	933	11.35	970	13.00	(37)	(3.81)
Brokerage commissions	997	12.13	965	12.94	32	3.32
Other	1,918	23.33	1,589	21.30	329	20.70
Total non-interest income	$ 8,219	100.00%	$ 7,459	100.00%	$ 760	10.19%

NON-INTEREST EXPENSE

2012 vs. 2011

Total non-interest expenses increased $2,059,000 from the year ended December 31, 2011 to December 31, 2012. The increase in salaries and employee benefits was attributable to increases in health insurance, bonus accrual, routine annual salary increases, and the addition of our Danville branch. Increased furniture and equipment expense was driven by the additional branch and improvements to existing branches. Other expenses increased primarily due to expenses, such as advertising, associated with the opening of a branch during 2012 and expenses incurred related to the announced plan to acquire Luzerne.

	2012		2011		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$ 11,762	53.41%	$ 10,479	52.49%	$ 1,283	12.24%
Occupancy	1,270	5.77	1,262	6.32	8	0.63
Furniture and equipment	1,452	6.59	1,379	6.91	73	5.29
Pennsylvania shares tax	674	3.06	689	3.45	(15)	(2.18)
Amortization of investment in limited partnerships	661	3.00	661	3.31		
FDIC deposit insurance	468	2.13	525	2.63	(57)	(10.86)
Other	5,736	26.04	4,969	24.89	767	15.44
Total non-interest expense	$ 22,023	100.00%	$ 19,964	100.00%	$ 2,059	10.31%

2011 vs. 2010

Total non-interest expenses increased $472,000 from the year ended December 31, 2010 to December 31, 2011. Salaries and employee benefits remained stable as a decrease in pension expense and an increase in deferred costs relating to loan generations limited the impact of several factors including standard cost of living wage adjustments for employees and increased benefit costs. Furniture and equipment expense increased due to an increase in general maintenance costs of technology related systems. FDIC deposit insurance expense decreased due to a change in the FDIC assessment from a deposit to asset based calculation. Other expenses increased primarily due to increases in other real estate expenses, donations, and training.

	2011			2010			Change	
(In Thousands)		Amount	% Total		Amount	% Total	Amount	%
Salaries and employee benefits	$	10,479	52.49%	$	10,214	52.41%	$ 265	2.59%
Occupancy		1,262	6.32		1,240	6.36	22	1.77
Furniture and equipment		1,379	6.91		1,264	6.48	115	9.10
Pennsylvania shares tax		689	3.45		677	3.47	12	1.77
Amortization of investment in limited partnerships		661	3.31		693	3.56	(32)	(4.62)
FDIC deposit insurance		525	2.63		737	3.78	(212)	(28.77)
Other		4,969	24.89		4,667	23.94	302	6.47
Total non-interest expense	$	19,964	100.00%	$	19,492	100.00%	$ 472	2.42%

INCOME TAXES

2012 vs. 2011

The provision for income taxes for the year ended December 31, 2012 resulted in an effective income tax rate of 15.8% compared to 13.4% for 2011. This increase is primarily the result of increased net income.

Table of Contents

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

2011 vs. 2010

The provision for income taxes for the year ended December 31, 2011 resulted in an effective income tax rate of 13.4% compared to 11.2% for 2010. This increase is primarily the result of increased revenue from net interest income and net securities gains that outpaced the increase in non-interest expense.

FINANCIAL CONDITION

INVESTMENTS

2012

The fair value of the investment portfolio increased $19,164,000 from December 31, 2011 to December 31, 2012. The increase was split between an increase in unrealized gain and additions to the portfolio during 2012. The increase in amortized cost was primarily the result of purchasing shorter-term other debt securities or corporate bonds. These bonds were purchased due to their shorter maturity and ability to reduce the duration of the total investment portfolio during the continued period of low interest rates. The municipal portfolio had the largest change in unrealized gains as the portfolio moved from an unrealized gain of $3,511,000 at December 31, 2011 to an unrealized gain of $11,381,000 at December 31, 2012 as municipal defaults remained low and the supply of new issues also remained low.

2011

The fair value of the investment portfolio increased $54,504,000 from December 31, 2010 to December 31, 2011. The increase was split between an increase in unrealized gain and additions to the amortized cost from purchases during 2011. The increase in amortized cost was primarily the result of purchasing shorter-term other debt securities or corporate bonds. These bonds were purchased due to their shorter maturity and ability to reduce the duration of the total investment portfolio during the continued period of low interest rates. In addition, the growth in the other debt securities segment of the portfolio allowed for the implementation of a barbell strategy with the current municipal portfolio serving as the other end of the barbell or long-term maturity portion of the total investment portfolio. The municipal portfolio had the largest change in unrealized gains as the portfolio moved from an unrealized loss of $15,057,000 at December 31, 2010 to an unrealized gain of $3,511,000 at December 31, 2011 as fewer defaults than predicted occurred and the supply of new issues decreased.

The carrying amounts of investment securities are summarized as follows for the years ended December 31, 2012, 2011, and 2010:

	2012		2011		2010	
(In Thousands)	**Balance**	**% Portfolio**	**Balance**	**% Portfolio**	**Balance**	**% Portfolio**
U.S. Government agencies:						
Held to maturity	$	%	$	%	$ 5	%
Available for sale	25,840	8.93	28,671	10.61	26,613	12.34
State and political subdivisions (tax-exempt):						
Available for sale	128,804	44.52	127,678	47.26	101,492	47.06
State and political subdivisions (taxable):						
Available for sale	51,420	17.77	50,623	18.74	53,295	24.71
Other bonds, notes and debentures:						
Held to maturity			54	0.02	78	0.04
Available for sale	71,599	24.75	49,514	18.33	20,608	9.56
Total bonds, notes and debentures	277,663	95.97	256,540	94.96	202,091	93.71
Financial institution equity securities - available for sale	9,548	3.30	10,802	4.00	13,191	6.12
Other equity securities - available for sale	2,105	0.73	2,809	1.04	366	0.17
Total equity securities	11,653	4.03	13,611	5.04	13,557	6.29
Total	$ 289,316	100.00%	$ 270,151	100.00%	$ 215,648	100.00%

Table of Contents

The following table shows the maturities and repricing of investment securities, at amortized cost and the weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 34% tax rate) at December 31, 2012:

(In Thousands)	Within One Year	After One But Within Five Years	After Five But Within Ten Years	After Ten Years	Amortized Cost Total
U.S. Government agencies:					
AFS Amount	$	$	$ 5,836	$ 18,639	$ 24,475
Yield			2.43%	4.53%	4.03%
State and political subdivisions (tax-exempt):					
AFS Amount	241	975	5,211	115,988	122,415
Yield	1.98%	4.34%	5.71%	9.51%	9.29%
State and political subdivisions (taxable):					
AFS Amount		940	5,580	39,908	46,428
Yield		3.04%	5.48%	6.03%	5.90%
Other bonds, notes and debentures:					
AFS Amount	6,183	41,709	19,010	3,206	70,108
Yield	1.97%	2.52%	3.86%	5.04%	2.95%
Total Amount	$ 6,424	$ 43,624	$ 35,637	$ 177,741	263,426
Total Yield	1.97%	2.58%	4.15%	8.12%	6.52%
Equity Securities					10,490
Total Investment Portfolio Value					$ 273,916
Total Investment Portfolio Yield					6.27%

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

The distribution of credit ratings by amortized cost and estimated fair value for the debt security portfolio at December 31, 2012 follows:

	A- to AAA		B- to BBB+		C to CCC+		Not Rated		Total	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale (AFS)										
U.S. Government and agency securities	$ 24,475	$ 25,840	$	$	$	$	$	$	$ 24,475	$ 25,840
State and political securities	155,749	167,594	6,008	5,589			7,086	7,041	168,843	180,224
Other debt securities	68,472	69,962	639	646			997	991	70,108	71,599
Total debt securities AFS	$ 248,696	$ 263,396	$ 6,647	$ 6,235	$	$	$ 8,083	$ 8,032	$ 263,426	$ 277,663

LOAN PORTFOLIO

2012

Gross loans of $512,232,000 at December 31, 2012 represented an increase of $76,273,000 from December 31, 2011. The continued emphasis on well collateralized real estate loans accounted for the majority of the overall increase in loans outstanding with home equity loan and lines leading the way. The success in carrying out this long term strategy played a significant role in limiting net charge-offs for 2012 to 0.44% of average loans. Successful campaigns to increase home equity, multifamily residential, and auto loans were undertaken during 2012 with the increase in residential and commercial being directly correlated to the campaigns.

2011

Gross loans of $435,959,000 at December 31, 2011 represented an increase of $20,402,000 from December 31, 2010. The continued emphasis on well collateralized real estate loans accounted for the majority of the overall increase in loans outstanding. The success in carrying out this long term strategy played a significant role in limiting net charge-offs for 2011 to 0.37% of average loans. Successful campaigns to increase home equity and auto loans were undertaken during 2011 with the increase in residential and installment loans to individuals being directly correlated to the campaigns.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan at December 31, 2012, 2011, 2010, 2009, and 2008:

Table of Contents

	2012		2011		2010		2009		2008	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**
Commercial and agricultural	$ 48,455	9.46%	$ 53,129	12.19%	$ 50,853	12.23%	$ 46,647	11.50%	$ 40,602	10.64%
Real estate mortgage:										
Residential	252,142	49.22	179,383	41.15	173,578	41.77	174,346	43.00	177,406	46.51
Commercial	182,031	35.54	164,288	37.68	160,189	38.55	152,209	37.53	136,158	35.69
Construction	20,067	3.92	29,457	6.76	22,545	5.43	21,795	5.37	15,838	4.16
Installment loans to individuals	10,659	2.08	11,297	2.59	9,432	2.27	11,549	2.85	12,487	3.27
Net deferred loan fees and discounts	(1,122)	(0.22)	(1,595)	(0.37)	(1,040)	(0.25)	(1,017)	(0.25)	(1,013)	(0.27)
Gross loans	$ 512,232	100.00%	$ 435,959	100.00%	$ 415,557	100.00%	$ 405,529	100.00%	$ 381,478	100.0%

The amounts of domestic loans at December 31, 2012 are presented below by category and maturity:

(In Thousands)	**Commercial and Agricultural**	**Residential**	**Real Estate Commercial**	**Construction**	**Installment Loans to Individuals**	**Total**
Loans with floating interest rates:						
1 year or less	$ 6,957	$ 9,236	$ 13,679	$ 5,746	$ 1,564	$ 37,182
1 through 5 years	1,623	2,014	5,240	1,960	26	10,863
5 through 10 years	1,190	10,035	18,371	344	25	29,965
After 10 years	16,606	193,466	130,316	6,900	1,220	348,508
Total floating interest rate loans	26,376	214,751	167,606	14,950	2,835	426,518
Loans with predetermined interest rates:						
1 year or less	970	2,219	308	1,259	622	5,378
1 through 5 years	15,114	9,265	1,038	3,469	6,610	35,496
5 through 10 years	3,442	12,938	4,591		373	21,344
After 10 years	2,553	12,969	8,488	389	219	24,618
Total predetermined interest rate loans	22,079	37,391	14,425	5,117	7,824	86,836
Total	$ 48,455	$ 252,142	$ 182,031	$ 20,067	$ 10,659	513,354
Net deferred loan fees and discounts						(1,122)
						$ 512,232

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

- Scheduled repayments are reported in maturity categories in which the payment is due.

The Bank does not make loans that provide for negative amortization nor do any loans contain conversion features. The Bank does not have any foreign loans outstanding at December 31, 2012.

The following table shows the amount of accrual and nonaccrual TDRs at December 31, 2012 and 2011:

	2012			2011		
(In Thousands)	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial and agricultural	$ 485	$	$ 485	$	$	$
Real estate mortgage:						