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Annual Report 2020

Our Mission

***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.

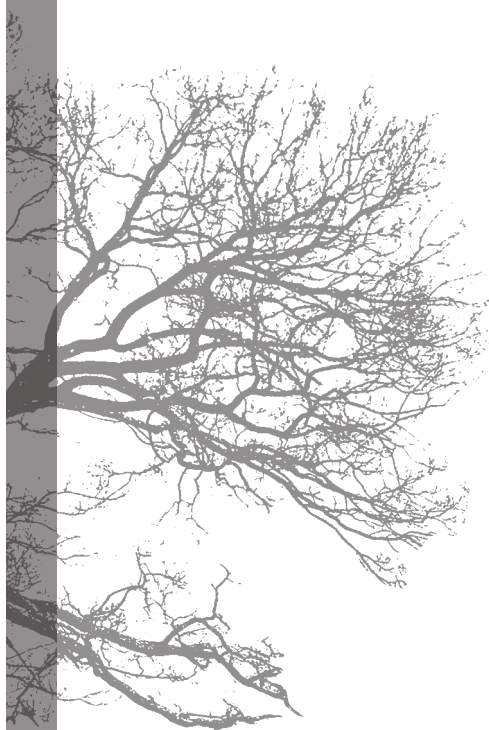
As an independent,
locally owned
community bank,
we will endeavor
to be an
active partner
in the
communities
we serve.

In all that we do,
it is our primary aim
to make Woodlands Bank
"easy to do business with."



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Dear Friends:

We are pleased to announce the financial results of Woodlands Financial Services Company (Company) for 2020. In what was a highly unusual and challenging year, the Company was able to achieve financial results that continue to reflect the strength that has been at the core of what we do since the founding of the bank over 30 years ago. While we have always strived since day one to invest in the physical and technological infrastructure necessary to meet the expectations of our customers, our primary focus has always been on the quality of the people that populate our ranks and the relationships fostered between them, their customers, and their communities. This past year provided unique opportunities for us to demonstrate that deep commitment to our customers and our communities, and I truly believe that those efforts resonated and made an impact in providing aid and reassurance as we all navigated through the economic and social impacts of the COVID-19 pandemic.

Net income for the year was \$4.76 million which is a 10% decrease from the prior year's net income. In contrast to the one-time recovery recognized in the prior year which positively impacted interest income and the provision for loan losses, the current year net income was negatively impacted by the margin compression experienced due to the Federal Reserve's rapid rate decrease at the onset of the pandemic. Despite these significant margin pressures, the Company was able to increase its non-interest income, primarily due to robust secondary market mortgage activity given the ultra-low interest rate environment that has existed since the Fed's actions in response to the pandemic. Additionally, the Company was able to reduce its overall non-interest expenses, most notably salaries and benefits expense. For years ended December 31, 2020 and 2019, the Company achieved a Return on Average Assets (ROAA) of 1.01% and 1.26%, respectively, as well as a Return on Average Equity (ROAE) of 10.10% and 12.08%, respectively. This profitability, while a reduction from the previous year, continues to be solid and primarily driven by a steady growth in quality earning assets and an expansion of the Company's core deposit base.

Total assets ended the year at \$502.4 million, which represents a 21% increase over the prior year's ending balance. This significant increase, driven by a 27% increase in core deposits, is partly attributable to the overall growth in liquidity resulting from accommodative monetary and fiscal policy initiatives at the federal level but also a result of our efforts to grow our core customer base within our markets. Net loans continued to grow steadily with a year-over-year increase of 7.5%, ending at \$338 million. Balance sheet management strategies and a focus on completing a successful share buyback program will continue to be of importance in achieving our objectives regarding overall shareholder return, particularly given the economic and interest-rate outlooks both short and long-term.

While 2020 was a year that was both unexpected and unforgettable (for all the wrong reasons), it is with an optimistic eye that we look back and recognize that the lessons learned and the efforts put forth will only serve to make us stronger as individuals and as a Company. As we move forward toward that light at the end of the tunnel, we remain resolute in the confidence that our path is the right one and continued success will follow. Thank you all for support over these past 30 years.

Sincerely,

Jon P. Conklin
President and CEO



■ *Retirement of Richard H. Baker*

Richard H. Baker was one of 16 organizers of Woodlands Bank. He, along with his fellow organizers, was instrumental in the formation of Woodlands Bank in 1989 and 1990. Richard has been a valued Board member of Woodlands Bank since its opening in 1990 and Woodlands Financial Services Company since its inception in 2001.

Richard has served as the Vice Chairman of both the bank and the holding company boards in recent years until his retirement as of December 31, 2020. He has been and continues to be a major player in the bank's progress and solid performance during the last 30 plus years.

While Richard will be missed as a board member, we welcome him as the latest Director Emeritus. We wish him well as he retires from the board.

Thank You!



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

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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, 2020 and 2019, 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 consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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 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, 2020 and 2019, 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.

*McGuire Meekel Quinn
& Associates, P.C.*

Scranton, Pennsylvania
February 24, 2021

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

(in thousands except per share amounts)

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and due from banks	\$ 7,445	\$ 6,183
Interest-bearing deposits with banks	40,472	1,743
Government money market funds	2,235	2,108
Federal funds sold	500	-
Cash and cash equivalents	<u>50,652</u>	<u>10,034</u>
Available-for-sale securities	87,936	67,940
Held-to-maturity securities	500	450
Loans and leases, net	337,956	314,429
Bank premises and equipment, net	11,021	9,625
Accrued interest receivable	1,478	1,193
Deferred tax assets, net	742	945
Cash surrender value of life insurance	8,693	8,485
Restricted stock	640	1,081
Other assets	2,845	1,736
Total assets	<u>\$ 502,463</u>	<u>\$ 415,918</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Liabilities		
Non-interest bearing	\$ 137,587	\$ 93,485
Interest bearing	308,252	258,515
Total deposits	<u>445,839</u>	<u>352,000</u>
Federal funds purchased	-	2,832
Long-term debt	4,915	12,000
Accrued interest payable	147	183
Other liabilities	3,093	3,099
Total liabilities	<u>453,994</u>	<u>370,114</u>
Stockholders' equity		
Common stock, \$5.00 par value, 10,000,000 shares authorized; 1,544,079 and 1,542,963 shares issued and 1,486,631 and 1,542,963 outstanding	7,720	7,715
Preferred stock, \$5.00 par value, 4,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	8,236	8,216
Retained earnings	32,356	29,168
Accumulated other comprehensive income	1,661	705
Total	<u>49,973</u>	<u>45,804</u>
Less: Treasury stock, 57,448 shares as of December 2020 and 0 shares as of December 2019, at cost	<u>(1,504)</u>	<u>-</u>
Total stockholders' equity	<u>48,469</u>	<u>45,804</u>
Total liabilities and stockholders' equity	<u>\$ 502,463</u>	<u>\$ 415,918</u>

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

(in thousands except per share amounts)

	<u>2020</u>	<u>2019</u>
Interest income		
Interest and fees on loans and leases	\$ 15,113	\$ 15,644
Interest on cash and cash equivalents	70	24
Interest and dividends on investments:		
Taxable	1,136	1,330
Tax-exempt	555	645
Dividends	68	189
Interest on Federal funds sold	8	240
Total interest income	<u>16,950</u>	<u>18,072</u>
Interest expense		
Interest on deposits	1,802	2,742
Interest on borrowed funds	347	243
Total interest expense	<u>2,149</u>	<u>2,985</u>
Net interest income	14,801	15,087
Provision for loan losses	240	(400)
Net interest income, after provision for loan losses	<u>14,561</u>	<u>15,487</u>
Other income		
Service charges and other fees	828	859
Other operating income	1,557	1,719
Trust department income	1,179	1,073
Gain on sale of loans and other assets, net	654	157
Gain on investment securities, net	8	73
Total other income	<u>4,226</u>	<u>3,881</u>
Other expenses		
Salaries and employee benefits	7,286	7,375
Occupancy expense	630	643
Furniture and equipment expense	556	539
FDIC insurance premiums	106	104
Data processing expense	1,064	962
Professional fees	330	263
Other operating expenses	2,941	3,052
Total other expenses	<u>12,913</u>	<u>12,938</u>
Income before income taxes	5,874	6,430
Provision for income taxes	1,110	1,132
Net income	<u>\$ 4,764</u>	<u>\$ 5,298</u>
Net income per common share	<u>\$ 3.15</u>	<u>\$ 3.44</u>

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, 2020 AND 2019

(in thousands except per share amounts)

	<u>2020</u>	<u>2019</u>
Net income	<u>\$ 4,764</u>	<u>\$ 5,298</u>
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the year	962	1,185
Less: Reclassification adjustment for gains included in net income	<u>6</u>	<u>58</u>
Other comprehensive income	<u>956</u>	<u>1,127</u>
Comprehensive income	<u><u>\$ 5,720</u></u>	<u><u>\$ 6,425</u></u>

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

(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, 2018	\$ 7,709	\$ 8,189	\$ 25,448	\$ (422)	\$ -	\$ 40,924
Net income			5,298			5,298
Lease accounting adjustment			(5)			(5)
Other comprehensive income				1,127		1,127
Issuance of 1,238 shares under employee stock purchase plan	6	27				33
Cash dividends declared (\$1.02 per share)			(1,573)			(1,573)
Balance, December 31, 2019	7,715	8,216	29,168	705	-	45,804
Net income			4,764			4,764
Other comprehensive income				956		956
Issuance of 1,116 shares under employee stock purchase plan	5	20				25
Purchase of 57,448 shares of common stock for treasury					(1,504)	(1,504)
Cash dividends declared (\$1.04 per share)			(1,576)			(1,576)
Balance, December 31, 2020	<u>\$ 7,720</u>	<u>\$ 8,236</u>	<u>\$ 32,356</u>	<u>\$ 1,661</u>	<u>\$ (1,504)</u>	<u>\$ 48,469</u>

WOODLANDS FINANCIAL SERVICES COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

(in thousands except per share amounts)

	<u>2020</u>	<u>2019</u>
Operating activities		
Net income	\$ 4,764	\$ 5,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	240	(400)
Depreciation	370	389
Amortization of securities (net of accretion)	430	265
Gain on sale of investment securities, loans and other assets, net	(662)	(230)
Gain on proceeds from bank owned life insurance	-	(177)
Increase in cash surrender value of life insurance	(208)	(211)
Sale of mortgage loans originated for sale	24,466	8,088
Mortgage loans originated for sale	(23,809)	(7,947)
Deferred taxes	(50)	31
Increase in accrued interest receivable	(285)	(3)
Increase in other assets	(1,388)	(154)
Decrease in accrued interest payable	(36)	(13)
(Decrease) increase in other liabilities	(6)	175
Net cash provided by operating activities	<u>3,826</u>	<u>5,111</u>
Investing activities		
Purchase of available-for-sale securities	(36,747)	(14,789)
Purchase of held-to-maturity securities	(100)	(100)
Proceeds from sales and repayments of available-for-sale securities	17,539	20,793
Proceeds from repayments of held-to-maturity securities	50	75
Net increase in loans and leases	(23,767)	(19,454)
Proceeds from sale of other real estate	282	164
Proceeds from bank owned life insurance	-	533
Purchase of restricted stock	(240)	(16)
Proceeds from restricted stock	681	40
Purchase of bank premises and equipment	(1,773)	(316)
Net cash used in investing activities	<u>(44,075)</u>	<u>(13,070)</u>
Financing activities		
Net increase (decrease) in deposits	93,839	(5,331)
(Decrease) increase in short-term borrowings	(2,832)	2,832
Proceeds from long-term borrowings	3,915	-
Repayments on long-term borrowings	(11,000)	(1,000)
Dividends paid to stockholders of common stock	(1,576)	(1,573)
Payments to acquire treasury stock	(1,504)	-
Proceeds from issuance of common stock	25	33
Net cash provided by (used in) financing activities	<u>80,867</u>	<u>(5,039)</u>
Net increase (decrease) in cash and cash equivalents	40,618	(12,998)
Cash and cash equivalents at January 1	<u>10,034</u>	<u>23,032</u>
Cash and cash equivalents at December 31	<u>\$ 50,652</u>	<u>\$ 10,034</u>

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, 2021, 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 of America (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 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 1,514,824 in 2020 and 1,542,349 in 2019.

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:

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

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.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

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 are either 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 statements of income.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

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.

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 balance sheets. Other real estate owned as of December 31, 2020 and 2019 was \$0 and \$282, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2020 and 2019, amounted to \$220 and \$277, 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 2017.

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 of \$2,185 and \$1,100 during the year ended December 31, 2020 and \$2,998 and \$1,200 during the year ended December 31, 2019, respectively.

Non-cash transactions during the years ended December 31, 2020 and 2019 included the change in unrealized gains on available-for-sale securities of \$1,209 and \$1,427, respectively, and the acquisition of real estate in the settlement of loans of \$0 and \$383, respectively.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

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 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 June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. ASU 2016-13 will be effective for the Company on January 1, 2023. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company does not intend to early adopt. The Company is currently evaluating the impact of adopting this new guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments related to ASU 2018-13 were effective for the Company as of January 1, 2020 and had no significant effect on the consolidated financial statements.

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which addressed issues lessors sometimes encounter. Specifically the ASU addresses issues related to determining the fair value of the underlying leased assets and presentation issues in the cash flow statement for sales-type and direct financing leases. The ASU also exempts both lessees and lessors from having to provide the interim disclosures required by ASC 250-10-50-3 in the fiscal year in which a company adopts the new leases standard. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, which delays the effective date of ASU 2019-01 for certain entities. This ASU is effective for the Company beginning on January 1, 2022. The adoption of ASU 2019-01 is not expected to have a significant impact on the Company's consolidated financial statements.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU No. 2019-04 was issued as part of the FASB’s ongoing project to improve upon its Accounting Standards Codification (“ASC”), and to clarify and improve areas of guidance related to recently issued standards on credit losses, hedging, and recognition and measurement. This guidance contains several effective dates. The amendments related to ASC 326 are effective for the Company as of January 1, 2023. The Company is currently evaluating the impact of the new guidance for Topic 326 on its financial statements. The amendments related to ASC 815 and ASC 825 were effective for the Company as of January 1, 2020 and had no significant effect on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2021. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company’s consolidated 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, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies and corporations	\$ 3,004	\$ 66	\$ -	\$ 3,070
State and political subdivisions	34,577	1,349	12	35,914
Corporate securities	8,714	80	2	8,792
Mortgage-backed securities	39,539	662	41	40,160
Total available-for-sale	<u>\$ 85,834</u>	<u>\$ 2,157</u>	<u>\$ 55</u>	<u>\$ 87,936</u>
Held-to-maturity:				
Other securities	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>

Note 3 – Investment Securities – (Continued)

	December 31, 2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Government agencies and corporations	\$ 3,507	\$ 48	\$ -	\$ 3,555
State and political subdivisions	24,004	536	64	24,476
Corporate securities	7,704	48	-	7,752
Mortgage-backed securities	31,832	384	59	32,157
Total available-for-sale	<u>\$ 67,047</u>	<u>\$ 1,016</u>	<u>\$ 123</u>	<u>\$ 67,940</u>
Held-to-maturity:				
Other securities	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450</u>

The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturity, are presented in the following table. 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	\$ 6,129	\$ 6,185	\$ 150	\$ 150
Due after one year through five years	9,010	9,275	350	350
Due after five years through ten years	4,951	5,115	-	-
Due after ten years	26,205	27,201	-	-
Subtotal	<u>46,295</u>	<u>47,776</u>	<u>500</u>	<u>500</u>
Mortgage-backed securities	<u>39,539</u>	<u>40,160</u>	<u>-</u>	<u>-</u>
Total debt securities	<u>\$ 85,834</u>	<u>\$ 87,936</u>	<u>\$ 500</u>	<u>\$ 500</u>

There were no sales of available-for-sale debt securities during 2020.

Proceeds from sales of available-for-sale debt securities during 2019 were \$4,925. Gross gains and gross losses realized on these sales were \$65 and \$19 during 2019.

Investment securities with a carrying value of \$67,046 at December 31, 2020 and \$38,770 at December 31, 2019, were pledged as collateral for public deposits 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, 2020						
	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
State and political subdivisions	\$ 2,935	\$ 12	\$ -	\$ -	\$ 2,935	\$ 12
Corporate securities	505	2	-	-	505	2
Mortgage-backed securities	6,987	41	-	-	6,987	41
Totals	<u>\$ 10,427</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,427</u>	<u>\$ 55</u>

December 31, 2019						
	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
State and political subdivisions	\$ 3,688	\$ 64	\$ -	\$ -	\$ 3,688	\$ 64
Mortgage-backed securities	7,590	40	4,201	19	11,791	59
Totals	<u>\$ 11,278</u>	<u>\$ 104</u>	<u>\$ 4,201</u>	<u>\$ 19</u>	<u>\$ 15,479</u>	<u>\$ 123</u>

The table at December 31, 2020 includes thirteen (13) securities that have unrealized losses for less than twelve months and zero (0) securities that have been in an unrealized loss position for twelve or more months. The table at December 31, 2019 includes sixteen (16) securities that have unrealized losses for less than twelve months and seven (7) securities that have been in an unrealized loss position for twelve or more months.

Investment securities, other than mortgage-backed securities - The unrealized losses on the Company's investments in investment securities, other than mortgage-backed securities, were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

Note 3 – Investment Securities – (Continued)

Mortgage-backed securities - The unrealized losses on the Company's investments 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, 2020.

Note 4 – Loans and Leases

Major classifications of loans and leases are as follows:

	December 31,	
	2020	2019
Commercial	\$ 60,543	\$ 47,966
Consumer	1,006	1,217
Real estate:		
Construction	9,852	11,849
Farmland	3,973	5,392
Residential	101,545	108,501
Home equity lines of credit	43,186	32,595
Multi-family	11,888	11,565
Commercial	110,053	99,175
Gross loans and leases	<u>342,046</u>	<u>318,260</u>
Less: Allowance for loan losses	<u>4,090</u>	<u>3,831</u>
Loans and leases, net	<u>\$ 337,956</u>	<u>\$ 314,429</u>

Net unamortized loan and lease costs of \$7 at December 31, 2020 and \$9 at December 31, 2019 are included in the carrying value of loans and leases shown above.

Note 4 – Loans and Leases – (Continued)

	<u>Age Analysis of Past Due Loans</u>						Recorded Investment > 90 Days and Accruing
	<u>As of December 31</u>						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	
<u>2020</u>							
Commercial	\$ 425	\$ -	\$ -	\$ 425	\$ 60,118	\$ 60,543	\$ -
Commercial real estate	80	-	1,362	1,442	134,324	135,766	-
Consumer	2	-	3	5	1,001	1,006	-
Residential	1,152	142	515	1,809	142,922	144,731	-
Total	<u>\$ 1,659</u>	<u>\$ 142</u>	<u>\$ 1,880</u>	<u>\$ 3,681</u>	<u>\$338,365</u>	<u>\$342,046</u>	<u>\$ -</u>
<u>2019</u>							
Commercial	\$ 60	\$ 9	\$ 31	\$ 100	\$ 47,866	\$ 47,966	\$ -
Commercial real estate	525	-	1,362	1,887	126,094	127,981	-
Consumer	7	11	-	18	1,199	1,217	-
Residential	534	-	781	1,315	139,781	141,096	-
Total	<u>\$ 1,126</u>	<u>\$ 20</u>	<u>\$ 2,174</u>	<u>\$ 3,320</u>	<u>\$314,940</u>	<u>\$318,260</u>	<u>\$ -</u>

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.

Note 4 – Loans and Leases – (Continued)

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	
	2020	2019
Performing	\$ 1,003	\$ 1,215
Nonperforming	3	2
Total	<u>\$ 1,006</u>	<u>\$ 1,217</u>

Credit Quality Indicators as of December 31, 2020 and 2019

Commercial Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Commercial		Commercial Real Estate	
	2020	2019	2020	2019
Pass	\$ 49,928	\$ 42,393	\$ 120,094	\$ 108,153
Watch	6,721	124	2,683	3,344
Special mention	-	3,197	-	-
Substandard	3,894	2,252	12,989	16,484
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>\$ 60,543</u>	<u>\$ 47,966</u>	<u>\$ 135,766</u>	<u>\$ 127,981</u>

Residential Credit Exposure Credit Risk Profile by Credit Worthiness Category

	Residential	
	2020	2019
Pass	\$ 143,222	\$ 138,997
Watch	-	2
Special mention	-	-
Substandard	1,509	2,097
	<u>\$ 144,731</u>	<u>\$ 141,096</u>

Note 4 – Loans and Leases – (Continued)

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

Impaired Loans

For the Year Ended December 31, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	\$ 8,529	\$ 8,651	\$ -	\$ 8,716	\$ 354
Commercial	2,346	2,346	-	2,553	123
Consumer	-	-	-	-	-
Residential Real Estate	873	966	-	889	28
With an allowance recorded:					
Commercial Real Estate	1,187	1,187	63	1,207	44
Commercial	967	967	19	1,032	39
Consumer	6	6	6	7	-
Residential Real Estate	754	754	154	766	39
Total:	<u>\$ 14,662</u>	<u>\$ 14,877</u>	<u>\$ 242</u>	<u>\$ 15,170</u>	<u>\$ 627</u>
Commercial Real Estate	\$ 9,716	\$ 9,838	\$ 63	\$ 9,923	\$ 398
Commercial	\$ 3,313	\$ 3,313	\$ 19	\$ 3,585	\$ 162
Consumer	\$ 6	\$ 6	\$ 6	\$ 7	\$ -
Residential Real Estate	\$ 1,627	\$ 1,720	\$ 154	\$ 1,655	\$ 67

For the Year Ended December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Real Estate	\$ 9,451	\$ 9,572	\$ -	\$ 9,813	\$ 417
Commercial	3,886	3,886	-	3,682	190
Consumer	-	-	-	-	-
Residential Real Estate	1,211	1,319	-	1,326	37
With an allowance recorded:					
Commercial Real Estate	255	255	58	260	14
Commercial	104	104	38	112	7
Consumer	2	2	2	3	-
Residential Real Estate	545	545	147	553	37
Total:	<u>\$ 15,454</u>	<u>\$ 15,683</u>	<u>\$ 245</u>	<u>\$ 15,749</u>	<u>\$ 702</u>
Commercial Real Estate	\$ 9,706	\$ 9,827	\$ 58	\$ 10,073	\$ 431
Commercial	\$ 3,990	\$ 3,990	\$ 38	\$ 3,794	\$ 197
Consumer	\$ 2	\$ 2	\$ 2	\$ 3	\$ -
Residential Real Estate	\$ 1,756	\$ 1,864	\$ 147	\$ 1,879	\$ 74

Note 4 – Loans and Leases – (Continued)

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, 2020 and 2019, segregated by class of loans, were as follows:

	2020	2019
Commercial	\$ 101	\$ 196
Commercial real estate	3,545	3,417
Consumer	6	2
Residential real estate	1,307	1,756
	<u>\$ 4,959</u>	<u>\$ 5,371</u>

Allowance for Credit Losses and Recorded Investment in Loans For The
Year Ended December 31, 2020

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Residential</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for credit losses:						
Beginning balance	\$ 774	\$ 1,553	\$ 16	\$ 1,293	\$ 195	\$ 3,831
Provision	(85)	308	(4)	153	(132)	240
Loans charged off	(13)	-	(7)	-	-	(20)
Recoveries	-	12	12	15	-	39
Ending balance	<u>\$ 676</u>	<u>\$ 1,873</u>	<u>\$ 17</u>	<u>\$ 1,461</u>	<u>\$ 63</u>	<u>\$ 4,090</u>
Ending balance: Individually evaluated for impairment	<u>19</u>	<u>63</u>	<u>6</u>	<u>154</u>	<u>-</u>	<u>242</u>
Ending balance: Collectively evaluated for impairment	<u>\$ 657</u>	<u>\$ 1,810</u>	<u>\$ 11</u>	<u>\$ 1,307</u>	<u>\$ 63</u>	<u>\$ 3,848</u>
Loans:						
Ending balance	\$ 60,543	\$ 135,766	\$ 1,006	\$ 144,731		\$342,046
Ending balance: Individually evaluated for impairment	<u>3,313</u>	<u>9,716</u>	<u>6</u>	<u>1,627</u>		<u>14,662</u>
Ending balance: Collectively evaluated for impairment	<u>\$ 57,230</u>	<u>\$ 126,050</u>	<u>\$ 1,000</u>	<u>\$ 143,104</u>		<u>\$327,384</u>

Note 4 – Loans and Leases – (Continued)

Allowance for Credit Losses and Recorded Investment in Loans For The
Year Ended December 31, 2019

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for credit losses:						
Beginning balance	\$ 1,317	\$ 1,371	\$ 16	\$ 1,184	\$ 35	\$ 3,923
Provision	(1,113)	304	28	221	160	(400)
Loans charged off	(70)	(122)	(29)	(116)	-	(337)
Recoveries	640	-	1	4	-	645
Ending balance	\$ 774	\$ 1,553	\$ 16	\$ 1,293	\$ 195	\$ 3,831
Ending balance: Individually evaluated for impairment	38	58	2	147	-	245
Ending balance: Collectively evaluated for impairment	\$ 736	\$ 1,495	\$ 14	\$ 1,146	\$ 195	\$ 3,586
Loans:						
Ending balance	\$ 47,966	\$ 127,981	\$ 1,217	\$ 141,096		\$318,260
Ending balance: Individually evaluated for impairment	3,990	9,706	2	1,756		15,454
Ending balance: Collectively evaluated for impairment	\$ 43,976	\$ 118,275	\$ 1,215	\$ 139,340		\$302,806

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 Company'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 Company'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.

Note 4 – Loans and Leases – (Continued)

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,	
	2020	2019
Beginning balance	\$ 3,831	\$ 3,923
Provision charged to operations	240	(400)
Loans charged off	(20)	(337)
Recoveries of loans previously charged off	39	645
Ending balance	<u>\$ 4,090</u>	<u>\$ 3,831</u>

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

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

Note 4 – Loans and Leases – (Continued)

The outstanding balance of troubled debt restructurings at December 31, 2020 and December 31, 2019 was \$2,740 (\$0 of loans in accrual status and \$2,740 of loans classified as non-accrual) and \$4,358 (\$1,599 of loans in accrual status and \$2,759 of loans classified as non-accrual), respectively. There were no troubled debt restructurings during the year ended December 31, 2020. Troubled debt restructurings during the year ended December 31, 2019 are as follows:

2019

<u>Troubled Debt Restructurings</u>	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Outstanding Recorded Investment at December 31</u>
Commercial	-	\$ -	\$ -
Commercial Real Estate	4	1,612	1,599
Residential	1	58	58
Consumer	-	-	-
Total	<u>5</u>	<u>\$ 1,670</u>	<u>\$ 1,657</u>

The Bank did not forgive debt with the any modification of loans. The Bank received \$1,634 in recoveries and did not recognize a write down for potential collateral shortfall during 2020.

There was one Residential Real Estate loan, with a recorded investment of \$62, which subsequently defaulted during the 12 months ended December 31, 2020.

There were no Troubled Debt Restructuring that subsequently defaulted during the 12 months ended December 31, 2019.

Note 5 – Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 3,009	\$ 3,009
Bank premises	10,908	9,617
Furniture and equipment	2,659	2,190
Capitalized software	386	380
Total	<u>16,962</u>	<u>15,196</u>
Less: accumulated depreciation	<u>5,941</u>	<u>5,571</u>
Bank premises and equipment, net	<u>\$ 11,021</u>	<u>\$ 9,625</u>

Depreciation of bank premises and equipment charged to operations amounted to \$370 and \$389 for the years ended December 31, 2020 and 2019, respectively.

The Company currently has outstanding commitments of \$583 related to construction in progress.

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, 2020 and 2019 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,	
	2020	2019
Demand - non-interest bearing	\$ 137,587	\$ 93,485
Demand - interest bearing	117,845	84,344
Savings	133,278	107,527
Money markets	1,412	1,689
Time - over \$250,000	3,617	7,569
Time - other	52,100	57,386
Total	<u>\$ 445,839</u>	<u>\$ 352,000</u>

The scheduled maturities of time deposits at December 31, 2020 are as follows:

2021	\$ 31,410
2022	7,489
2023	7,474
2024	5,471
2025	3,444
Thereafter	429
Total	<u>\$ 55,717</u>

Time deposits of \$250,000 or more totaled \$3,617 and \$7,569 at December 31, 2020 and 2019, respectively. Interest expense related to these deposits was \$103 and \$166 in 2020 and 2019, 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,	
	2020	2019
Amount outstanding at year-end	\$ -	\$ 2,832
Average interest rate at year-end	0.00%	2.00%
Maximum amount outstanding at any month-end	\$ 6,000	\$ 2,832
Average amount outstanding	\$ 250	\$ 8
Average interest rate	1.94%	2.75%

There were no investment securities pledged to secure repurchase agreements at December 31, 2020 or 2019.

The Bank has the availability of Federal funds credit lines of \$5,500. There was no outstanding balance on the line at December 31, 2020 and an outstanding balance of \$2,832 at December 31, 2019.

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 \$124,270, 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 one loan with the FHLB and two issuances of subordinated debt, net of related fees. These loans bear interest at rates which range from 1.66% to 5.75% per annum and mature at various dates through the year 2030.

The following table summarizes the maturities of borrowed funds at December 31, 2020:

2021	\$ 1,000
2030	4,000
Total	<u>\$ 5,000</u>

Note 11 – Income Taxes

The components of applicable income taxes are as following:

	Years Ended December 31,	
	2020	2019
Current payable	\$ 1,160	\$ 1,101
Deferred (benefit) provision	(50)	31
Provision for income taxes	<u>\$ 1,110</u>	<u>\$ 1,132</u>

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,	
	2020	2019
Deferred tax assets:		
Allowance for loan losses	\$ 881	\$ 826
Deferred expenses	440	433
Total	<u>1,321</u>	<u>1,259</u>
Deferred tax liabilities:		
Premises and equipment	127	115
Securities discount accretion	11	11
Investment in limited partnership	-	1
Unrealized holding gain on available-for-sale securities	441	187
Total	<u>579</u>	<u>314</u>
Deferred tax asset, net	<u>\$ 742</u>	<u>\$ 945</u>

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

	Years Ended December 31,			
	2020		2019	
	Amount	%	Amount	%
Provision at statutory rate	\$ 1,274	21.0	\$ 1,350	21.0
Tax-exempt income	(194)	(3.2)	(252)	(3.9)
Nondeductible interest expense	4	0.1	8	0.1
Other items	26	0.4	26	0.4
Total	<u>\$ 1,110</u>	<u>18.3</u>	<u>\$ 1,132</u>	<u>17.6</u>

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, 2020 are as follows:

2021	\$	12
2022		5
2023		5
2024		6
2025		6
Thereafter		<u>94</u>
Total	\$	<u>128</u>

The total rental expense for these operating leases in 2020 and 2019 amounted to \$15 and \$22, 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 \$203 and \$188 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the cash surrender value of these policies was \$6,379 and \$6,227, 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 1,116 shares in 2020 and 1,238 shares in 2019. At December 31, 2020, 10,205 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:

<u>Years Ended December 31,</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2020	\$ 13,774	\$ 5,220	\$ 7,155	\$ 11,839
2019	\$ 13,266	\$ 6,852	\$ 6,344	\$ 13,774

The Company held related party deposits of \$11,161 and \$5,879 at December 31, 2020 and 2019, 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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Components of other comprehensive income:		
Unrealized holding gains (losses) arising during the year	\$ 1,218	\$ 1,500
Reclassification adjustment for investment securities:		
Gains included in net income during the year	<u>(8)</u>	<u>(73)</u>
Net unrealized gains (losses)	1,210	1,427
Tax effect	<u>254</u>	<u>300</u>
Other comprehensive income	<u>\$ 956</u>	<u>\$ 1,127</u>

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.

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

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

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

	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 15,234	\$ 1,799
Unfunded commitments under lines of credit	\$ 94,649	\$ 81,771
Standby letters of credit	\$ 1,104	\$ 1,787

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 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, 2020 and 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2020 and 2019, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective 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 December 31, 2020 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
<u>December 31, 2020</u>						
Total Capital (to Risk-Weighted Assets)						
Company	\$ 55,002	15.6%	\$ 28,259	8.0%	N/A	N/A
Bank	\$ 52,364	14.8%	\$ 28,253	8.0%	\$35,316	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$ 46,808	13.3%	\$ 21,195	6.0%	N/A	N/A
Bank	\$ 48,170	13.6%	\$ 21,190	6.0%	\$28,253	8.0%
Common Equity Tier 1 (to Risk-Weighted Assets)						
Company	\$ 46,808	13.3%	\$ 15,896	4.5%	N/A	N/A
Bank	\$ 48,170	13.6%	\$ 15,892	4.5%	\$22,955	6.5%
Tier 1 Capital (to Average Assets)						
Company	\$ 46,808	9.3%	\$ 20,128	4.0%	N/A	N/A
Bank	\$ 48,170	9.6%	\$ 19,983	4.0%	\$24,979	5.0%
	Actual		For Capital Adequacy Purposes		To Be “Well Capitalized”	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2019</u>						
Total Capital (to Risk-Weighted Assets)						
Company	\$ 49,034	14.8%	\$ 26,573	8.0%	N/A	N/A
Bank	\$ 48,663	14.7%	\$ 26,565	8.0%	\$33,206	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$ 45,099	13.6%	\$ 19,929	6.0%	N/A	N/A
Bank	\$ 44,728	13.5%	\$ 19,924	6.0%	\$26,565	8.0%
Common Equity Tier 1 (to Risk-Weighted Assets)						
Company	\$ 45,099	13.6%	\$ 14,947	4.5%	N/A	N/A
Bank	\$ 44,728	13.5%	\$ 14,943	4.5%	\$21,584	6.5%
Tier 1 Capital (to Average Assets)						
Company	\$ 45,099	10.6%	\$ 17,039	4.0%	N/A	N/A
Bank	\$ 44,728	10.5%	\$ 16,970	4.0%	\$21,213	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 2021 may not exceed Bank net income for 2021 plus \$6,913. 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 \$35,162 at December 31, 2020, 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, 2020, the regulatory lending limit amounted to approximately \$7,855.

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, 2020 and 2019, 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.

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

	Fair Value Measurements at December 31, 2020 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	\$ -	\$ 3,070	\$ -	\$ 3,070
States and political subdivisions	-	35,914	-	35,914
Corporate securities	-	8,792	-	8,792
Mortgage-backed securities	-	40,160	-	40,160
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	\$ -	\$ -	\$ 14,420	\$ 14,420
Restricted stock	-	-	640	640

	Fair Value Measurements at December 31, 2019 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	\$ -	\$ 3,555	\$ -	\$ 3,555
States and political subdivisions	-	24,476	-	24,476
Corporate securities	-	7,752	-	7,752
Mortgage-backed securities	-	32,157	-	32,157
Assets Measured at Fair Value on a Nonrecurring Basis:				
Impaired loans	\$ -	\$ -	\$ 15,209	\$ 15,209
Restricted stock	-	-	1,081	1,081

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 \$14,662, with an allowance for loan and lease losses of approximately \$242 for the year ended December 31, 2020 and approximately \$15,454, with an allowance for loan and lease losses of approximately \$245 for the year ended December 31, 2019.

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

December 31, 2020					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 50,652	\$ 50,652	\$ -	\$ -	\$ 50,652
Investment securities	88,436	-	88,436	-	88,436
Loans and leases, net	337,956	-	-	341,425	341,425
Accrued interest receivable	1,478	-	1,478	-	1,478
Cash surrender value of life insurance	8,693	-	8,693	-	8,693
Restricted stock	640	-	-	640	640
FINANCIAL LIABILITIES					
Deposits	\$ 445,839	\$ -	\$ 446,887	\$ -	\$ 446,887
Borrowed funds	4,915	-	5,357	-	5,357
Accrued interest payable	147	-	147	-	147
December 31, 2019					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 10,034	\$ 10,034	\$ -	\$ -	\$ 10,034
Investment securities	68,390	-	68,390	-	68,390
Loans and leases, net	314,429	-	-	319,401	319,401
Accrued interest receivable	1,193	-	1,193	-	1,193
Cash surrender value of life insurance	8,485	-	8,485	-	8,485
Restricted stock	1,081	-	-	1,081	1,081
FINANCIAL LIABILITIES					
Deposits	\$ 352,000	\$ -	\$ 352,331	\$ -	\$ 352,331
Borrowed funds	14,832	-	14,723	-	14,723
Accrued interest payable	183	-	183	-	183

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.

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

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, 2020 and December 31, 2019 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, 2020 and 2019. 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,	
	2020	2019
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,537	\$ 337
Investment in subsidiaries	49,830	45,458
Other assets	17	9
Total Assets	<u>\$ 52,384</u>	<u>\$ 45,804</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Borrowed Funds	\$ 3,915	\$ -
Stockholders' Equity	48,469	45,804
Total Liabilities and Stockholders' Equity	<u>\$ 52,384</u>	<u>\$ 45,804</u>
STATEMENTS OF INCOME	Years Ended December 31,	
	2020	2019
Dividends from subsidiaries	\$ 1,576	\$ 1,738
Equity in undistributed earnings of subsidiaries	3,441	3,593
Other income	1	12
Expenses	(254)	(45)
Net Income	<u>\$ 4,764</u>	<u>\$ 5,298</u>
STATEMENTS OF CASH FLOWS	Years Ended December 31,	
	2020	2019
Operating Activities:		
Net income	\$ 4,764	\$ 5,298
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiaries	(3,441)	(3,593)
Increase in other assets	(8)	-
Net cash provided by operating activities	<u>1,315</u>	<u>1,705</u>
Investing Activities:		
Investment in subsidiaries	25	(2,000)
Net cash provided (used) by investing activities	<u>25</u>	<u>(2,000)</u>
Financing Activities:		
Issuance of subordinated debt	3,915	-
Issuance of common stock	25	33
Purchase of treasury stock	(1,504)	-
Dividends paid	(1,576)	(1,573)
Net cash provided (used) by financing activities	<u>860</u>	<u>(1,540)</u>
Increase (decrease) in cash and cash equivalents	2,200	(1,835)
Cash and cash equivalents at January 1	337	2,172
Cash and cash equivalents at December 31	<u>\$ 2,537</u>	<u>\$ 337</u>

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

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

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

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

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

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

LOCK HAVEN
202 North Jay Street
Lock Haven, PA 17745
570-748-5166

**WOODLANDS FINANCIAL SERVICES COMPANY
COMMON STOCK**

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

Boenning & Scattergood, Inc.
4 Tower Bridge
200 Barr Harbor Drive, Suite 200
West Conshohocken, PA 19428
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